

# EIR

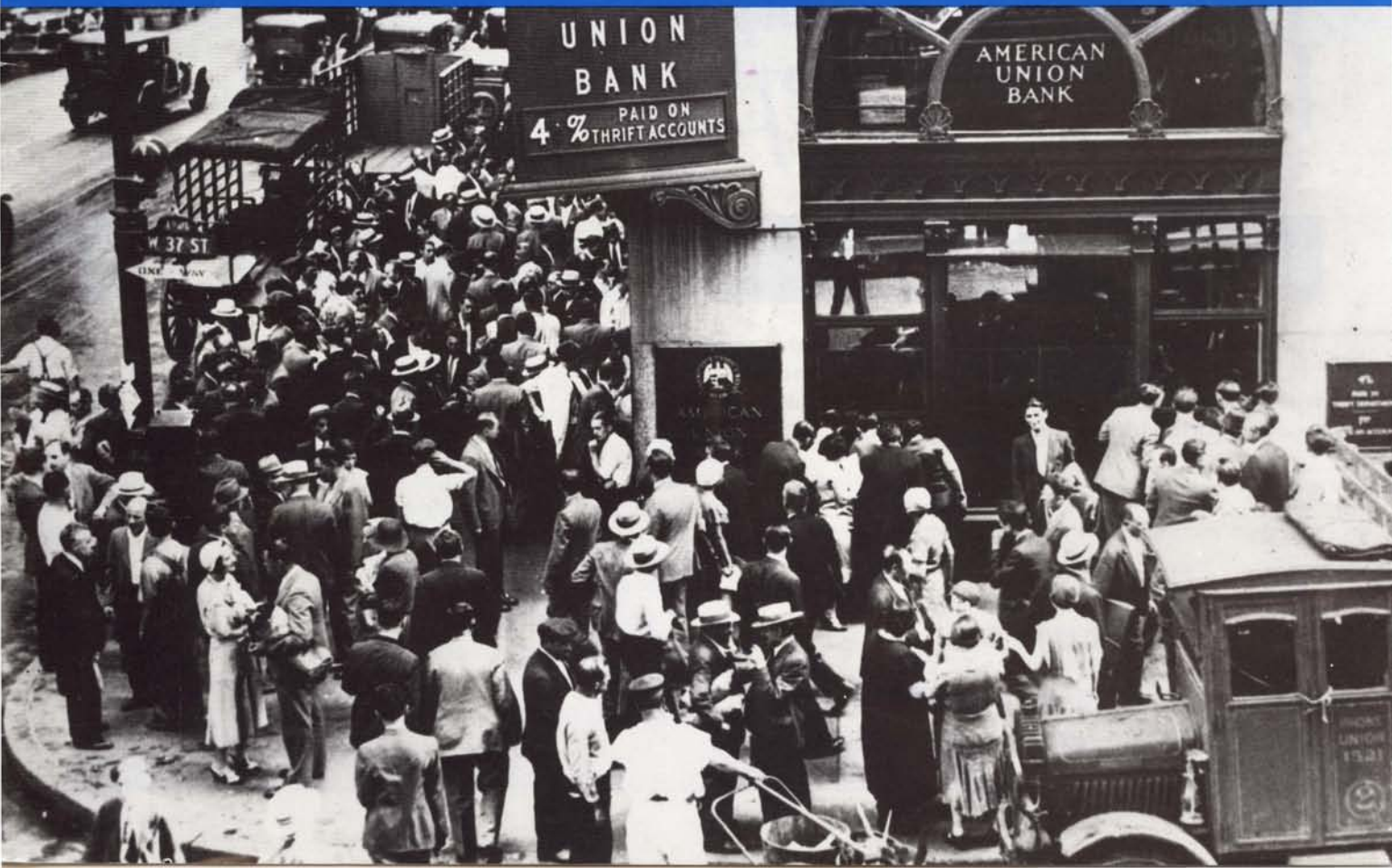
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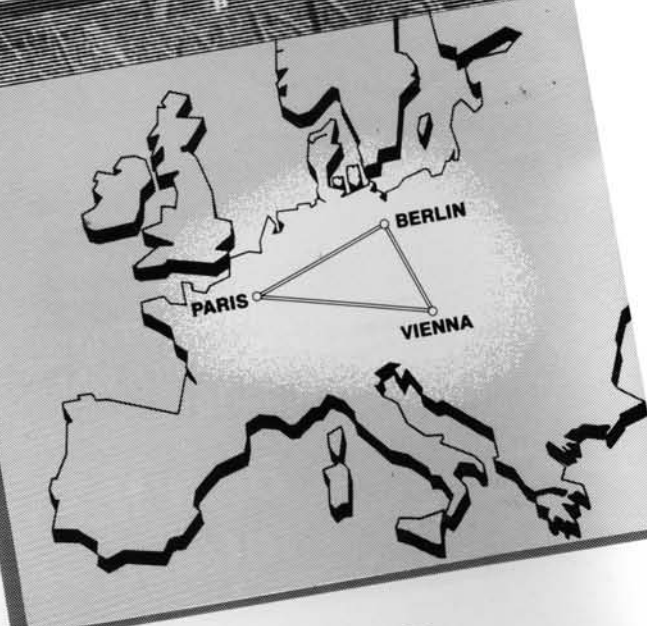
Moscow paper covers 'dissident' LaRouche  
Sachs addicted Bolivia's economy to cocaine  
Global warming; the rest of the story

**Why the panic over the  
U.S. banks is justified**





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—from the Berlin Declaration, March 1990

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## From the Editor

On the eve of the imposition of draconian “free market reforms” in the Russian republic, on Jan. 2, a Moscow newspaper ran major coverage of American political dissident Lyndon LaRouche, which we report on page 52. Thus, the battle has been joined between the cynical, atheistic conception of economics based on so-called exchange value—with the British “free market” version now replacing the Marxist variant—and the program of transformation of the physical economy, based on the Christian conception of the unique value of every individual human being. The leader of the ecumenical movement for Christian economics in the world today is LaRouche, whose trilogy of prison writings, *The Science of Christian Economy*, will be a new year’s present to the world for 1992.

In an interview reported on Jan. 2, Russian Deputy Prime Minister Yegor Gaidar, the main architect of the price liberalization, predicted that the Yeltsin government will fall as a result of the shock therapy. “Somebody has to pay a political price,” he announced, but “somebody has to begin.” The political price is far higher than Gaidar may calculate. The example of Poland’s sufferings at the hands of the Jeffrey Sachs maniacs is at their doorstep. However, on page 6 Dennis Small reports on a reality not well known in Europe: how Sachs’s reforms led to the dictatorship of the cocaine traffickers in Bolivia—a fact confirmed by Sachs, without remorse.

The fact that the alternative of “political dissident LaRouche” has begun to be publicized in Russian media cannot be underestimated. *EIR* takes seriously our responsibility to educate policymakers in the newly emerging nations struggling for sovereignty after the Soviet imperium collapsed, about both the history of the American System alternative and its application today. Frank Hahn’s speech to the recent Berlin conference of the Schiller Institute can be read as a continuation of the special issue *EIR* published last week, where we unfolded the historical panorama of the legacy of Alexander Hamilton against Adam Smith and Thomas Malthus. Hahn takes up the story of Friedrich List, the key figure who bridged the American System and the emergence of central European industrial nations in the 19th century, to explain the principles of credit creation for infrastructural and advanced-technology development today.

*Nora Hamerman*

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## Feature



U.S. National Archives

Run on the banks in New York in the early 1930s. U.S. Controller General Charles Bowsher, head of the General Accounting Office, told the House Banking Committee Jan. 3 that "Not since the '30s has the banking industry . . . been in as serious condition as now. . . . I think we have a very serious problem here with the banking industry and a serious problem with the recession because the banking industry has so many problems."

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# Russian economic debate needs LaRouche program

by Denise Henderson

On Dec. 25, the resignation of former Soviet President Mikhail Gorbachov *de jure* ended the 70-year existence of the Soviet Union which had been *de facto* declared extinct by the agreements signed in Minsk, Belarus, earlier in the month. Now that Gorbachov is gone, issues of economic policy have come to the fore, with pressure intensifying from the International Monetary Fund (IMF) and Harvard Prof. Jeffrey Sachs for complete adherence to free-market economics.

Although western media harp on the fears over "who controls the nuclear button," Lyndon LaRouche, a Democratic presidential candidate, stresses that "the only likely source of a nuclear crisis . . . aside from a special situation in the Transcaucasus region, is the danger that Boris Yeltsin, the President of the Russian Federation, might follow, to some degree or other, the pathway toward bankruptcy which the Polish government pursued for a while, up until most recently, at the instruction of Harvard's lunatic professor, Jeffrey Sachs." Should Yeltsin choose such a course, LaRouche warned, "the result in Russia would be chaos. In such a case, the overthrow of Yeltsin, or somebody, by a dictatorship and the restoration of a form of what is called totalitarianism would probably occur. In that case, we have a strategic threat."

## Price chaos

Even before price controls were lifted on Jan. 2, several violent incidents resulted in deaths: In Kemerovo, in Siberia, two shoppers were killed on a bread line. On Jan. 2, the Moscow police reportedly put 1,000 extra policemen on the streets for crowd control on food lines.

So far, Yeltsin has refused to learn the lesson of Poland, where Sachs's policies have left hundreds of thousands un-

employed, and the elderly and young are at near-starvation levels. In his year-end address to the Russian people, Yeltsin praised the "13 leading market specialists" who have been invited "to Russia for one year from several countries for consultations on the ongoing reforms. They have already begun to work. I have met them twice and it should be said that even the first advice is of great use for rectifying some of our decisions."

Earlier news reports identified these "market specialists" as Sachs and his associates, who told Yeltsin that "the most painful measure and the most unpopular measure," the liberalization of prices Jan. 2, must be the first step. Yeltsin told Russians in his Dec. 29 address, "We have been looking for an acceptable variant of the reform during two months, and we have understood that there was no alternative."

Thus, on Jan. 2, prices on most consumer items shot up. Although the Russian government has issued a decree that sets a ceiling for prices of certain basic commodities, prices for coal, oil and gas, electricity, medicine, milk, sugar, vodka, and bread have started to rise 200-300%. The official inflation rate in the republic is more than 100%.

The Republic of Ukraine tried to persuade Yeltsin and his advisers not to lift the lid on prices, and announced its own plans to issue coupons as a second form of currency inside Ukraine, pending adoption of its own currency. The Ukrainians fear that the Russian move will flood Ukraine with Russian consumers seeking cheaper goods. At a Christmas Day meeting of the prime ministers of the new Community member republics, Ukraine pressured Yeltsin adviser Yegor Gaidar, a cult follower of Sachs's "shock therapy," to delay the price reform until businesses had been privatized. Since Gaidar insisted, Ukraine had no choice but to go along.

"I do understand the position of the Russian Federation, but they are turning us into part of their economic structure," said a Ukrainian spokesman.

On Dec. 30, the Minsk summit of the leaders of the Community of Independent States (C.I.S.) continued the discussions, but failed to agree again on a coordinated price liberalization scheme. Consequently, Ukraine and Belarus both announced that they would proceed with price liberalization programs on Jan. 2 and Jan. 3, respectively. The republics only reached partial agreement over a military structure for the new C.I.S. and the constituent republics. The 11 leaders agreed to a unified command for strategic nuclear forces, but did not agree to the formula for overall conventional forces (army, navy, etc.) desired by Yeltsin and his military advisers. Ukraine, Azerbaïdzhân, and Moldova balked at the idea of a "unified status for all armed forces."

Yeltsin faces resistance in his own ranks, from Vice President Aleksandr Rutskoy, and from the Democratic Union. Rutskoy became more outspoken as the price liberalization approached. While stressing that he is not trying to create an opposition party, he warned, "We shall pay quite a price" for so-called conversion of the defense industry. "The Russian government is wrong when it thinks it will not be made responsible for the country's selling out and disintegration. It is dangerous to try people's patience endlessly."

Rutskoy challenged the free-market reformers around Yeltsin to debate. "I want to ask [Gaidar] questions, to debate things with him. Is it possible to free prices now, at a time when the economy has been thrown out of gear? Its stability is not being achieved through the freeing of prices. Ninety-eight percent of enterprises in our country are state-owned. What kind of market is this? . . . We have more than 600 exchanges, more than 1,500 commercial banks, but there is no ready money. Money is working for the sake of money. . . . Funds are not being invested in developing production. . . . Enterprise in production has been stalled."

Clearly, the opportunity exists for the debate for which Rutskoy called for, on the level of long-term policy which could create the infrastructural basis for Russia to become even more productive than it was in the late 1890s, when its industrial and agricultural output were higher than Britain's and on a par with Germany's. Lyndon LaRouche's program for high-technology infrastructural and industrial development has emerged in the midst of the debate over economic policy in Russia. On the eve of the Jan. 2 price "reform," the newspaper of Moscow's Democratic Union Party reprinted LaRouche's proposals at length, describing him as an "American dissident" and political prisoner (see article, page 52).

### **Currency reform first**

In a recent strategic assessment, LaRouche observed that "most of the money and assets are lodged in the black market. One might say, that for 70 years, the Communists said that capitalism is theft; then one day, Gorbachov said, 'We're all

going to become capitalists,' and therefore all the bureaucrats began stealing and engaging in criminal activities.

"The organized criminals seemed to have a heyday in the former Soviet Union; there are goods, but they won't sell them because they're waiting for a higher price. The best way to cure that in a state is not to bend over and legalize organized crime the way some people at Harvard and in the State Department propose; the best way is to have a currency reform. That is, all the currency comes in and gets exchanged for a new currency; and someone has to say, 'Well, did you get this currency legally?'" He predicts, "A lot of people might burn old rubles, just as a way of avoiding being indicted for criminal practices."

The Russians and Ukrainians in particular should each proceed, with some consultation, to call in the ruble, and to issue the new currency, he advised. "Ukraine is about to issue its own new currency in the foreseeable future in any case, and perhaps these measures could be coordinated." It would have to be not a gold-backed ruble or a gold-backed Ukrainian currency, but a gold-reserve-backed currency, "like that arrangement we had under Bretton Woods prior to 1967-68, and also 1931," the candidate stated. Then, "the Russians and Ukrainians and the community as a whole would have to throw up some tariff and trade barriers to back up the stability of the currency."

The ruble would be based, not on an exchange rate ("lunacy"), but on purchasing power. Two "baskets" of commodities in general circulation and production within the former Soviet Union would be required: a basket of consumer commodities, and a basket of producer commodities—or several baskets of producer commodities. "You set these baskets as a measure of purchasing power, and peg a value of the ruble to that price, and peg that to a gold price," he suggested.

"The United States and other nations, if they wanted to be sensible, would agree to let the price of gold float up to where it belongs, on the basis of using gold as a monetary reserve in an international gold reserve system." This would yield a gold reserve price of over \$800/oz. relative to the existing dollar." Thus, "if we peg currencies to baskets of commodities in general use within each country, then we can have cooperative regulation of trade internationally, which will ensure price stability of the type we saw, perhaps, prior to 1967-71 events under the Bretton Woods system."

This requires some re-thinking about international trade. The GATT proposal in the Uruguay Round is already doomed. The Congress can be induced to give up its "Super-301" and similar kinds of insane trade-war packages, and commit to sensible international trade agreements, aimed at stabilizing prices of currencies in order to keep interest rates down and to keep long-term international investment and trade agreements up. "Under those circumstances, we can assist in stabilizing the world behind the former so-called Iron Curtain. And if the Russians and Ukrainians agree, I'm sure the other republics will tend to go along."

# How the economy of Bolivia became addicted to cocaine

by Dennis Small

The nations of Eurasia which have recently freed themselves from communism, are today threatened by a new, more perverse form of enslavement. They are being told by the Anglo-American establishment that if they want to solve their economic problems, they have to become part of the West's "free" economic system, and this means adopting the austerity conditionalities of the International Monetary Fund, and the "free-market reforms" associated with Harvard University's *enfant terrible*, economist Jeffrey Sachs.

So far, the Sachs program has been applied in Poland. He is a consultant to the government of Slovenia. His ideas are being funneled into the government of Hungary via the Budapest offices of private consulting companies such as Arthur D. Little and Arthur Anderson. Sachs has traveled and lectured extensively in various republics of the former Soviet Union. He is, furthermore, according to his official *curriculum vitae*, an "economic adviser to several governments in Latin America and Eastern Europe"—although his office refuses to say which.

The promotional "sales pitch" on Jeffrey Sachs is that he proved his genius by wiping out inflation in Bolivia between 1985 and 1987—his first "success story." Inflation there dropped from an annual rate of over 20,000% in 1985, to about 11% in 1987.

That much is true, as **Figure 1** indicates.

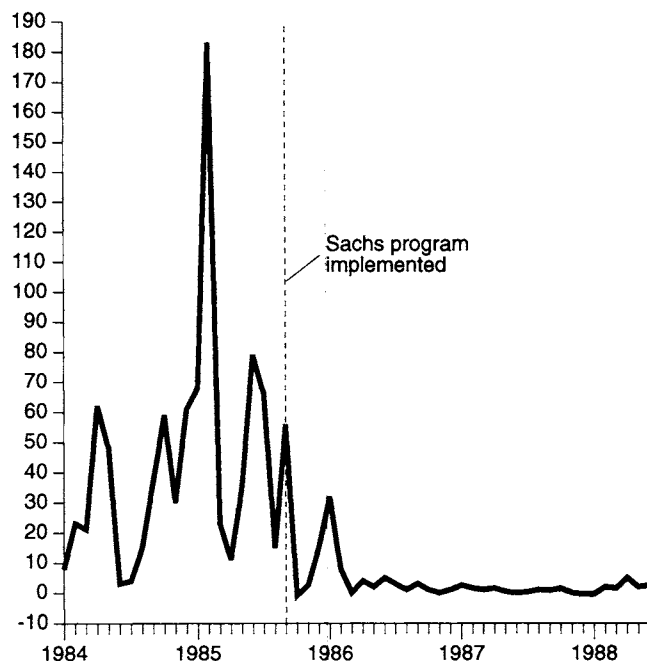
But the way Sachs stopped inflation, was by destroying what little existed of Bolivia's productive economy, and opening the doors wide for the international drug trade to come in and fill the vacuum he had helped create, and consolidate its death grip on the economy. In fact, Sachs's "success" against Bolivian inflation is like the case of the doctor who succeeds in lowering his patient's high blood pressure—by killing him.

Let us look at the highlights of what the mad doctor from Harvard actually did to Bolivia in the mid-1980s.

## Shock therapy

Víctor Paz Estenssoro was inaugurated President of Bolivia in September 1985, and within three weeks he began to

FIGURE 1  
**Bolivia's monthly inflation rates, 1984-88**  
(percent monthly inflation)



Source: Institute of National Statistics, Bolivia

implement a radical economic program drafted for him by Sachs. In fact, Sachs ran the entire program, hands-on, personally. He "became a day-to-day adviser on the implementation of the program over a two-year period," to quote from the introduction to Sachs's own 1988 study, *Bolivia: 1952-1986*.

The Sachs program for Bolivia has been admirably described by liberal economics guru Arnold C. Harberger as "the most dramatic stabilization effort in Latin American



history." What did it consist of?

First, the Bolivian financial system was effectively "dollarized." This meant:

- the Bolivian peso was linked, forcibly, to the U.S. dollar, through a fixed exchange rate;
- the peso was massively devalued overnight (by 93%);
- the dollar became the de facto unit of account (for prices, etc.) in the Bolivian economy; and, most importantly,
- all sovereign power of internal credit generation was abandoned, placing the country at the mercy of the dollar

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*Jeffrey Sachs: "To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls in Comibol and YPFB. Although fiscally necessary, the results are stunning, and indeed reflect a social tragedy. Comibol has reduced its employment from about 30,000 workers in 1985, to just 7,000, as of 1987. Many of these workers are still unemployed, or only marginally employed, or have gone to the coca-growing region to find work. The mining towns themselves have been decimated."*

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(and the U.S. Federal Reserve Board).

Second, the government budget deficit was dramatically reduced. This was done by:

- "improved public sector prices," in Sachs's words, which means that the prices charged for government goods and services went through the roof. Fuel prices, for example, increased *tenfold*;
- "reductions in employment in state enterprises . . . and reduced rates of real compensation." Translated out of Sachs-ese, that means that up to *two-thirds* of the work force at the state-run tin and oil companies were fired, and that real wages of the remaining workers were slashed; and
- government investment ground to a screeching halt.

Third, trade liberalization was instituted: Import tariffs were eliminated, ending any protection of local industry.

And fourth, a unique measure was adopted, which Sachs refers to as a "consensual default" on Bolivia's foreign debt. In other words, Sachs worked out a deal for Bolivia with the International Monetary Fund and the country's creditor

banks, under which these institutions agreed to a total suspension of all debt service payments for a number of years, in exchange for the adoption of the full Sachs package of measures.

This was necessary, in Sachs's view, because of a crucial political consideration:

"To the extent the public believed that the budget cutting was for the sake of foreign banks rather than for the sake of the domestic economy, the budget cutting was bound to provoke a political firestorm even beyond the normal, fierce opposition to budget cutting. This risk was exacerbated by the fact that the budget austerity was linked to an IMF program, making the politically sensitive link between budget cuts and the foreign debt payments even more obvious. . . . [By negotiating a temporary default] on the political side, the government was able to take harsh adjustment actions without facing the charge of being the servants of the foreign creditors."

How did the Bolivian government handle the political opposition that did arise to the Sachs program, including a general strike called by the country's leading trade union organization? "A temporary state of siege under the Constitution was declared, and the strike was quickly broken," Sachs explains matter-of-factly.

As the above summary of Bolivia's shock measures indicates, they are virtually identical to the liberal economic policies now being applied, five years later, under IMF tutelage across Ibero-America. They are the same policies now being demanded of every single one of the newly freed nations of Eurasia. And they will have the same consequences today that they did in Bolivia five years ago.

### **The effect on the Bolivian economy**

The Sachs measures caused an almost instant deflationary crash of the Bolivian economy. **Figure 2** shows, for example, that the per capita Gross National Product (GNP) declined significantly in the five years following Sachs's shock therapy—admittedly continuing a process which had begun years earlier. Even more to the point is the way Sachs's program decimated per capita Gross Domestic Investment (GDI), which had been rising in the years before 1985, and which then plummeted by almost 50% as a result of Sachs's slash-and-burn approach.

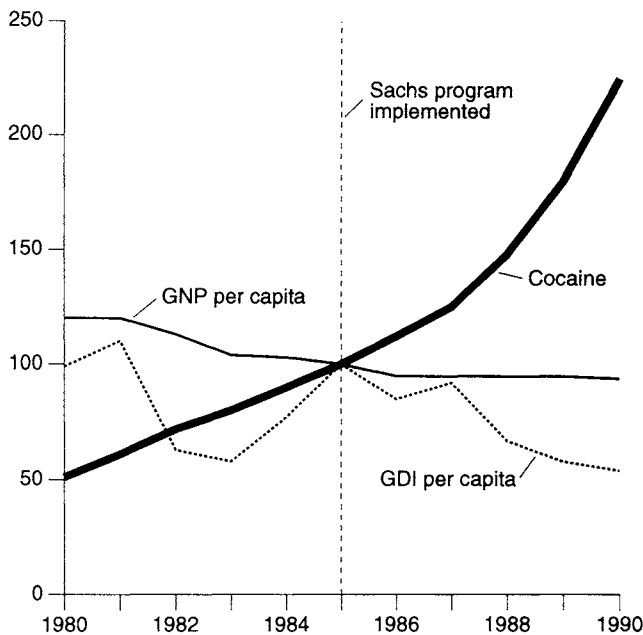
But not everything in Bolivia collapsed under the Sachs therapy; coca leaf production, for example, prospered, and began to grow at even more rapid rates than had occurred in the early 1980s. In fact, the output of the coca crop grew by almost 125% between 1985 and 1990. Today, cocaine derived from Bolivia's coca crop accounts for about 37% of the cocaine sold on U.S. streets, and its retail value is around \$50 billion per year—about 10 times as large as the country's legal GNP!

How did Sachs bring this about? One key aspect were the forced shifts in employment which occurred. As part of his

FIGURE 2

**Bolivia's drug trade booms while productive economy collapses**

(index 1985=100)



Sources: EIR, World Bank

budget-cutting frenzy, Sachs forced a reduction in employment in the state tin company, Comibol, from 30,000 workers in 1985, down to 7,000 workers two years later—a 77% reduction. A similar 45% reduction of the work force in the state oil company, YPFB, was also achieved. Employment in the private sector mining companies dropped by about 20,000 under the Sachs regime.

It should be emphasized that these are not minor or secondary areas of the Bolivian economy: Tin and natural gas are in fact the country's two top legal exports, and have been so for decades. They have a large multiplier effect on employment in the rest of the economy. In fact, a total of about 150,000 layoffs can be ascribed to the direct and indirect results of the Sachs program.

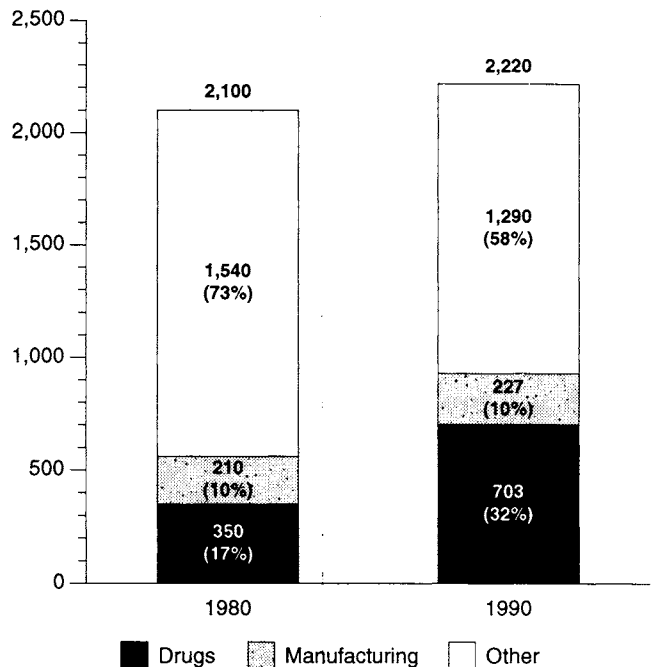
These newly unemployed workers, by and large, were forced to seek employment in the coca-producing regions of the country, since this was the only economic activity which continued to boom. As a result, the number of workers employed in coca leaf growing and processing leapt from about 350,000 (or 17% of the labor force) before Sachs worked his magic, to over 700,000 after—a third of the entire labor force (Figure 3)!

Was this all an unfortunate mistake, a miscalculation on the part of the well-intentioned Harvard wonder boy and his

FIGURE 3

**Bolivia's labor force: drugs take over**

(millions of workers)



Sources: EIR, World Bank

establishment sponsors? Absolutely not. The destruction of Bolivia's productive economy and the skyrocketing of its drug trade were the deliberate, conscious, and intended result of Sachs's policies.

**Deliberate genocide**

It is best to listen to Sachs himself on this subject, as he stated it bluntly in his 1988 study, *Bolivia: 1952-1986*:

"To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls in Comibol and YPFB. Although fiscally necessary, the results are stunning, and indeed reflect a social tragedy. Comibol has reduced its employment from about 30,000 workers in 1985, to just 7,000, as of 1987. Many of these workers are still unemployed, or only marginally employed, or *have gone to the coca-growing region to find work*. The mining towns themselves have been decimated."

Armed with this information about what was really behind Jeffrey Sachs's Bolivia "success story," it should not be hard for the reader to imagine what will happen to the nations of central and eastern Europe, and of the former Soviet Union, should they be foolish enough to apply the liberal economic policies of Sachs and the IMF in their own countries.

# Foreigners are not to blame for GM crisis

by Marsha Freeman

The announcement by General Motors chairman Robert Stempel on Dec. 18 that the giant automaker would be closing 21 manufacturing plants and idling 74,000 employees in the next four years, will lead to more than half a million secondary jobs lost throughout the U.S. economy. It is notable that this largest single down-sizing in the history of the auto industry is being carried out in a way which will achieve the greatest degree of chaos in the industry, and is being explained to the American public and auto workers alike in a way which is designed to focus their rage on foreigners, instead of the real culprit—failed U.S. economics policies.

As the chiefs of the big three U.S. auto companies join President Bush in Japan on Jan. 7, they have tried to prepare the way for exacting concessions from the Japanese, partly by making sure that the ire of U.S. citizens for the auto shutdown is directed across the Pacific. But a closer look at the numbers released at the time of the GM announcement tells a different story.

GM has blamed most of its failure to sell cars on its “loss of market share” to imported Japanese cars. In the middle of the 1980s, the company held about 40% of U.S. domestic car and truck sales. The peak year for sales in the auto industry was 1986, at 16.3 million total cars and trucks, including imports. At that level of sales, GM would have sold approximately 6.5 million units, at 40% of market share.

But, the company complains, they are down to about 35% of market share due to Japanese competition, and so now have excess capacity. However, the truth is that due to the depression, sales of new vehicles are estimated to have plummeted to about 12.5 million units in 1991. This means that even if GM had retained its 40% of the market instead of dropping five or so points, it would *still* be only selling 5 million units this year, leaving it with an excess capacity of more than 1.5 million vehicles.

Financial “analysts” explained that GM had to take this move now, due to pressure from Wall Street. Daniel Luria at the Industrial Technology Institute in Ann Arbor, Michigan commented, “Basically, you’ve got 28-year-old MBAs on Wall Street determining the size of our major manufacturing corporations.” At his Dec. 18 press conference, GM head Stempel recounted how he had repeatedly asked the White House in 1990 to come to the aid of the auto sector, but the Bush administration said only, “Wait for the upturn.” Now Bush—and his “mainstream” Democrat opponents—say: Blame it on the Japanese.

The competent response to the U.S. auto sector crisis is to declare a national emergency and take special economic measures. The automotive sector, with its related industries, is the largest single manufacturing sector in the country, involving about 650,000 people directly and millions indirectly. Drastic downsizing will guarantee the shutdown of the entire economy.

## Dog eat dog

A full week before GM’s announcement, Stempel released a statement simply saying that the company would be announcing massive cutbacks, leading to a week’s speculation as to whose necks were in the noose. Analysts predicted that GM would produce 1 million cars this year which it could not sell, and that to satisfy Wall Street, which was threatening to downgrade GM’s credit rating, the company would have to shrink dramatically.

But on Dec. 18, when the announcement was made, General Motors refused to specify what the shrinkage plans were. Contrary to past practice—where the oldest manufacturing factories or those producing the car models that weren’t selling were at the top of list to be shut down—this time there would be a national competition to see which plants would stay open. Stempel would only specify that 21 plants—6 assembly plants, 4 engine plants, and 11 parts plants—will be closed. The *Los Angeles Times* commented that this “open-ended announcement pits factories and communities against each other to persuade the auto giant to spare them.”

Though Stempel denied that GM was “whipsawing” the workers into a competition to see who could cut costs the most, the reaction of many of the workers and the locals of the United Auto Workers union was indeed to compete. The union members at the Arlington, Texas plant, which produces big cars such as the Buick Roadmaster and Chevy Caprice, have been pitted against employees at the Willow Run plant in Michigan.

One day after Stempel’s announcement, the Texas workers voted to compress their work week into four 10-hour days, supposedly to increase productivity by allowing three different production crews. Arlington has suffered layoffs as a result of the overall Texas economic collapse and aerospace/defense shutdown, while the region around the Willow Run plant in Michigan has seen more than 12,000 jobs lost in auto in the 1980s. Communities are desperately trying every possible scheme of tax breaks and other incentives to get GM to pick their plant to save. As officials from Arlington have stated, they will do *anything* necessary to keep the GM plant there open.

Did all of this cutting and psychological warfare at least accomplish what Stempel claimed was the immediate goal? Hardly. On Dec. 26, just a week after the shrinkage announcement, two major credit-rating agencies downgraded debt securities issued by General Motors Corp. and the GM Acceptance Corp., which is its financing subsidiary.

# BCCI plea bargain a shameful coverup

by Jeffrey Steinberg and Scott Thompson

After months of hypocritical tough talk from the Department of Justice, media headline grabbing, and televised congressional hearings, the Bush administration, true to form, has quietly cut a plea bargain agreement with the Bank of Credit and Commerce International (BCCI) that will in effect continue the coverup of the international drug-money launderers who dominate the American banking industry. The deal was struck just before the Christmas holidays and hardly drew any media coverage.

On Dec. 19, newly installed Attorney General William P. Barr and Manhattan District Attorney Robert Morgenthau held simultaneous press conferences in Washington, D.C. and New York to announce that BCCI Holdings SA had signed a plea agreement with federal prosecutors that would avert a criminal trial on the recent indictments against what *Time* magazine had dubbed "the world's sleaziest bank."

As part of the deal, BCCI agreed to forfeit \$550 million seized by the Federal Reserve and the Federal Deposit Insurance Corp. (FDIC) last July after the Bank of England initiated worldwide actions against BCCI.

On July 5, 1991, bank regulators in a dozen countries moved to shut down BCCI's operations on the basis of recent audits that showed that over \$11 billion in bank assets were missing. Following that initial shutdown move, stories appeared in the United States and world press accusing the bank of drug-money laundering, financing of international terrorism, and funding of shady intelligence activities. While the news coverage created the impression that the BCCI involvement in dope trafficking and shady intelligence operations had been just recently unearthed, the truth is that BCCI's role in the international underworld had been known for over a decade and had been the subject of a series of exposés in *EIR* dating back to 1979. U.S. government documents made public over the past six months show that by no later than 1984, the CIA was referring to BCCI as the "bank of crooks and criminals international." Nevertheless, the CIA made frequent use of BCCI's offshore money-washing services, according to some of those same documents.

Since the initial moves last July, bank auditors have discovered that only \$1.5 billion in bank assets out of a total of \$22 billion in BCCI holdings can be accounted for. The prospect of over \$20 billion having disappeared in the BCCI shakeout underscores the magnitude of the Bush Justice Department coverup of the BCCI scandal.

A full-scale trial of BCCI would have given the American

public a bird's-eye view of the extent to which the major international financial institutions have been taken over by organized crime and turned into little more than laundromats for the trillions of dollars in illegal money dominating the Anglo-American sector of the world economy.

Back in October 1988, when a federal grand jury in Tampa, Florida handed down the first criminal indictments against BCCI on charges of laundering \$32 million in Medellín Cartel dope profits, 41 other U.S.-based banks had been subpoenaed to turn over records detailing their involvement in the same cash laundering. At the time, U.S. Customs Commissioner William Von Raab had promised that the BCCI indictments were just the beginning of a government crackdown against "see no evil" bankers.

Among the banks targeted at the time of the Tampa case were some of the major British and Israeli banks, as well as banks tied to top officials of the organized crime-tainted Anti-Defamation League. Among the banks that have been so linked to the BCCI apparatus and that would have been exposed during a lengthy public trial are the Bank of Nova Scotia, the Hongkong and Shanghai Banking Corp., Bank Leumi, Bank Hapoalim, Israel Discount Bank, City National Bank of Florida, and Republic National Bank.

It is no coincidence that BCCI has been linked to this particular collection of international banks and financial institutions. According to well-placed Wall Street sources, BCCI Holdings SA, the Luxembourg-based holding company of the BCCI banking octopus, is chaired by Alfred Hartmann, a senior official of the Rothschild banking empire. Hartmann was the president of the Swiss subsidiary of BCCI and is a top executive of Rothschild Continuation of Zug, Switzerland and Rothschild Bank in Zurich, Switzerland. He was also the chairman of the Swiss subsidiary of the Banco Nazionale del Lavoro (BNL).

## The second round of BCCI coverups

The deal announced on Dec. 19 was the second flagrant coverup by the Bush administration of the BCCI role in drug-money laundering and other crimes. After the October 1988 Tampa indictments, federal prosecutors—with strong encouragement from the Federal Reserve Board—had cut an equally sweet deal with the bank that permitted the Florida branch to remain open, and foreclosed any new prosecutions of it. As *EIR* has reported recently, Kissinger Associates played an important behind-the-scenes role in working out that original plea agreement coverup, according to internal BCCI documents and the personal correspondence of former BCCI attorney Clark Clifford.

Thus, while federal prosecutors will no doubt claim that the seizure of \$550 million in assets of BCCI proves that the Bush administration is "cracking down" on dope money launderers, in fact those funds were probably a small percentage of the profits garnered since 1988 just by virtue of BCCI Tampa's continuing operations.

# Unicef report: 250,000 children die each week

by Kathleen Klenetsky

A new report issued by the United Nations Children's Fund (Unicef) paints an alarming picture of the conditions in which the majority of the world's children live. Fully a quarter of a million children die needlessly each week, and millions more are surviving in the "half-life of malnutrition and almost permanent ill-health" due to the lack of adequate food, medicine, and other necessities of life.

The report calls for implementing a "new order" for the world's children. "This is not a threatened tragedy or an impending crisis," says Unicef Executive Director James Grant. "It happened today. And it will happen again tomorrow. It is a problem which should rank in importance with any on the human agenda. But in practice, it has been given a low priority because it is primarily a problem of the poor and the powerless."

Entitled "The State of the World's Children 1992," the Unicef study documents that warfare alone has taken the lives of 1.5 million children, disabled another 4 million, and made 12 million more homeless. The report specifically cites the case of Iraq, whose infrastructure was destroyed by U.S. bombs in the Gulf war, and which still suffers under an international embargo. Young children there, it states, "are at this moment paying the heaviest price for the Gulf war," as "child mortality rates have increased steeply over the last year."

## Killer debt

Debt is another leading child-killer. Countries struggling to meet their payments to the International Monetary Fund and the big banks have been forced to cut back drastically on their spending for food subsidies, health care, and other programs that had previously kept the poorer sections of society alive.

"We do know that it is children who have paid the heaviest price for the developing world's debts," the report states. "Fragmentary evidence, pieced together by Unicef over the last decade, has shown a picture of rising child deaths, in some of the most heavily indebted countries of Africa and Latin America."

Although the report focuses primarily on the plight of children in the Third World, it also indicts the United States for tolerating a startling increase in poverty among its own younger generation.

"In the 1960s, the proportion of U.S. children living in poverty was halved from 27% to 14%," says the report. "In

the 1970s, it crept back to 17%. Then, in the 1980s, it rose again to 22%," according to the report. Puncturing the myth that most of America's poor children are born out of wedlock to black women on welfare, the report reveals that a majority of America's 12 million poor children are white, live outside big cities, and in families which have only one or two children, and in which at least one parent works.

The study cites two main reasons for rising poverty in the United States: First, "the erosion of benefits provided by government to poor families with children and, second, the steady fall in real wages among America's unskilled. The average weekly wage of non-supervisory workers fell by approximately 20% between 1973 and 1990," it reports, while the real value of payments under the Aid to Families with Dependent Children (AFDC) program "has dropped by approximately 40% over 20 years."

## Free market also to blame

While citing progress in several areas, including the immunization of more children in the developing sector, and claiming that the issue of child welfare is now being accorded greater attention than in the past, the Unicef study does not hold out much hope for the future, especially given the rapid collapse of the world economy.

The report highlights a recent study Unicef conducted on the economic collapse of eastern Europe. Although the report doesn't indict the U.S.-promoted free market lunacy which has caused this collapse, it does document the consequences: "Unemployment in Hungary increased tenfold between late 1989 and May 1991. In Poland, the end-of-1991 unemployment figure is expected to be 2 million—almost 15% of the labor force. . . . For those at work, incomes have fallen steeply. Average real incomes in Poland fell by 25% in the first nine months of 1990. In Bulgaria, the fall has been nearer 50%. . . . In Poland and the U.S.S.R., 40% now live below the official poverty line."

Deep government cuts in food and other subsidies in these countries have created a situation in which many families are now spending 50-60% of income on food alone. In Albania, "approximately 20% of all children are now malnourished, and infant mortality is more than double its 1989 level."

Although the Unicef report performs a useful service by presenting these grim facts, its policy recommendations range from inadequate to dangerous. The only positive exception is its proposal that "the chain's of Africa's debt be struck off."

Otherwise, the report calls for population control ("one of the most effective and least expensive ways of improving the quality of life on Earth"), and for a "process of demilitarization [beginning] in the developing world." The latter is part of the effort by the Anglo-American empire to destroy the militaries in Ibero-America and other areas where the military often functions as the only institutional defender of national sovereignty.

# Where do we get the money to pay for great infrastructure projects?

by Frank Hahn

*The Schiller Institute held a conference in Berlin, Germany Nov. 22-23, to discuss Lyndon LaRouche's proposed "Productive Triangle," a plan for intensively building up the infrastructure and industry of the area enclosed in the triangle linking Paris, Berlin, and Vienna. This area would form the core for a new world economic order of high-technology development, with "spiral arms" reaching out to eastern Europe and the former Soviet republics, as well as to the Third World. This speech by Frank Hahn of the Schiller Institute in Hanover, Germany, was delivered to the conference on Nov. 23, and has been translated and slightly abridged here. See also last week's EIR for a special documentary report on the Hamiltonian system of credit creation, featuring excerpts from Alexander Hamilton's Report on Manufactures.*

Certain people do not let themselves be inspired even by the most glowing speeches about the wonderful effects of the magnetic railway, the building of science cities, etc. Unimpressed, they pose two cardinal questions again and again: "Who is going to pay for all of that?" and "How is it possible that they can pay all that; are they not broke?" (What is meant by they, are the highly indebted countries of eastern Europe and the developing sector.)

With a little common sense, we can answer both questions once and for all. Take the first: It strikes me that last Friday, on the New York Stock Exchange alone, some people lost \$130 billion—with this amount alone we could build the Berlin-Warsaw-Minsk magnetic levitation line! . . .

As for the second question, one might reply that the U.S. automaker Chrysler currently has uncovered debt obligations in the range of \$75 billion. Compared to that, the former Soviet Union, with its laughable \$64 billion external debts, has an economy that is very solid. More than that, think of Chrysler's security—some aging models of cars, which no one will want in two years—while the nations of the former U.S.S.R. are endowed with an infinite potential for wealth.

Thus it is a very relative business, who gets money and capital. The money is "lacking" for specific sensible projects, while in other places it is squandered senselessly. Take an

example from Latin America: While \$70 billion is denied by the IMF for building a continent-wide drainage and canal system, still the individual nations are put under so much pressure, that in the last 10 years they have had to pay \$400 billion in interest alone to the creditor banks.

That means that we need political decisions and state interventions, in order to guide a smooth flow of capital and credit in the right direction, so that necessary productive investment, for putting people, machines, and raw materials to work, is not left by the wayside for lack of capital.

This problem has been a topic of political-economic discussion for centuries. But there is hardly any question that has been so unnecessarily mystified, as the problem of credit creation. If the state gets involved in the creation of credit, it is claimed, then you will get the bogeymen of galloping inflation, astronomical taxes, and finally the complete ruin of society. Let us examine three historic examples, taken from discussions of political economy of the past 200 years.

## Hamiltonian credit creation

The actual inventor of state credit creation of the modern period was the first secretary of the treasury of the U.S.A., Alexander Hamilton. After the victorious American War of Independence, he was faced with a similar problem as that facing Brazil or Poland today. This war had been financed by drawing upon internal and external credit, and the question was asked: When shall we pay all that back, and above all, how? To solve that problem, Hamilton made a brilliant move. He offered the creditors in various European countries to be paid, not in cash, but in Treasury notes issued by the U.S. National Bank. In this way, the creditors of the Old World were invited to participate in the future profits of the U.S. economy—a prospect so genuinely alluring, that almost all of the creditors went along with Hamilton. Indeed, in Europe the word got around that U.S. Treasury bonds were the most profitable paper to be had. This euphoria was absolutely justified, not because this paper had any kind of magical value, but because behind it, or behind the guarantee of the redemption of this paper, there stood a commitment to transform the U.S.A. into the most highly developed manu-

facturing state of its time. Investments in infrastructure, industry, and agriculture, had priority over all others.

That is exactly what we in Europe must do today. If the governments of Germany, France, Austria, Italy, and eastern Europe will unify themselves around the program of the Productive Triangle, then there will be a way to find the necessary capital for it, so that the countries of eastern Europe could pay their debts simply in the form of Treasury notes from their respective national banks. These Treasury notes might then be discounted by appropriate financial institutions in the framework of the European Monetary System, and thus transformed into new credits for financing great infrastructural projects.

Hamilton brought this method to bear also with respect to the domestic economy, by issuing Treasury bonds and notes to the domestic creditor, and thus provided the liquidity needed to stimulate the domestic economy. With this as background, he stated some basic laws on the question of debt. In the *Report on Manufactures* of 1791, he says:

“But though a funded debt is not in the first instance, an absolute increase of capital, or an augmentation of real wealth; yet by serving as a new power in the operation of industry, it has within certain bounds a tendency to increase the real wealth of a community, in like manner as money borrowed by a thrifty farmer, to be laid out in the improvement of his farm may, in the end, add to his stock of real riches.

“There are respectable individuals, who from a just aversion to an accumulation of public debt, are unwilling to concede to it any kind of utility . . . who cannot be persuaded that it ought in any sense to be viewed as an increase in capital lest it should be inferred, that the more debt the more capital, the greater the burdens the greater the blessings of the community.”

### **Prerequisite for future wealth**

Thus debts are actually very healthy, since it is only through them that we can broaden the capital base of society, to allow for great investments in our future. And finally, the whole society will be richer—as also the example of the farmers shows. Already we hear the warning, the alarm bell: “Inflation, inflation!”

Now Hamilton says naturally also, that there are boundaries, beyond which the blessings of debts are changed into their opposite, namely if the credit is used to finance the “will-o-the-wisp fantasies of some do-nothing,” as Hamilton puts it. Thus Hamilton would warn against giving today’s yuppies credits for building a new discotheque. Such purely speculative investments, without the creation of productive wealth, make it impossible even to pay the interest on the debt.

Thus let us clearly underline, that as long as debts are contracted for productive investments, they are actually ready money, which can be worked with. This fundamental

statement should make clear the actual essence of credit: namely, that state debts are only a title to the future income of the state. That is, credit means nothing other than bringing on line now, future income, in order to make investments which are a fundamental prerequisite for future wealth. Thus managed, debts are in fact capital. If, on the contrary, the state incurs debts in order to cover current expenses, for example to pay the wages of state employees, then everything goes wrong. We must here clearly distinguish between the current costs of the state, which must not overstep a specific boundary, and credits that are created by the national bank and are investment credits. These, when used productively, do not mean any additional burden on the budget, nor do they lead to higher taxes. The problem today is that the state gets its money on the capital markets at overly high interest rates, which then adds to current costs.

The other cornerstones of Hamilton’s policy are:

1) the creation of a special fund for state support of new industries, investment and other improvements of industry and agriculture;

2) tax breaks for development and improvement of agrarian and industrial production;

3) protective tariffs to foster domestic industry and agriculture;

4) subsidies for domestic raw material production;

5) state-fostered improvement of transportation infrastructure.

In connection with these principles, the founding of a national bank was the decisive step for creating the money—in unlimited quantities!—for projects that should contribute to “defense of the commonweal.” . . .

### **Germany: the program of Friedrich List**

In Germany, the question of credit creation became acute with the building of the first railways. The creator of the German railways was Friedrich List, who spent 12 years in the U.S.A., where he was able to get to know the Hamiltonian system close-up. List had to face practically the same problem that we do today: Besides the skepticism and partial rejection of his railway project, the question to be cleared up was the financing. To do this, List wrote a treatise, “On a Railway System in Saxony as the Foundation of a General German Railway System,” which appeared in the year 1833:

“People say that we do not have, here in our region, any such an amount of capital, not so much ready money for undertaking such a gigantic national work. . . . As for the financial point, we need not fear any further objection from sensible people, once it is pointed out that the capital so used bears the highest interest rate of return in the country. With that as a premise, no expense can be found that is too great. Furthermore, Saxony, if it is serious about the undertaking, will have at its disposal more than a hundred times more capital and cash than required. That North America possesses more capital and more cash, is not even true; most of the

settling of accounts there, is done with paper money, which we can create just as well here in Saxony. Here an amount of 4 to 6 million bank-issued bills of exchange make up one-third of the currency in circulation, while in North America, there are two and three times as many of these notes in circulation than ready cash.”

List speaks here of the creation of currency, of credit. In this creation of bank notes, he says, lies “the great secret of the entrepreneur in the United States.” The secret is that one does not fixate on an imaginary intrinsic value of money, but rather looks at it as an “instrument for settling payment balances.” Elsewhere, List says the following on this topic:

“People will probably ask me, where will Bavaria get the money to complete such giant works [railways]? I answer, that I have not yet seen any silver or gold in any of the canals or railways. To build them we use only consumer goods, steel, stones, wood, manpower, the power of animals. But is there not a surplus of all this in Bavaria? To the extent that we transform this surplus into canals and railways, which are not yet in existence, we create permanent and enduring value, we create an instrument which doubles the productive power of the entire nation. The money, however, does not leave the country, it only settles accounts.” . . .

### **Unifying internal markets**

List then thinks this through to the notion of creating a German national bank, modeled on the American. Appropriately, he bases the plans for a Leipzig-Dresden railway link, upon the founding of a German national bank. That is so much the more trailblazing and revolutionary, because Germany at the time—1833—was much more dismembered than the Soviet republics today, nor had there as yet been any development whatsoever of the consciousness of being one nation. In fact, it was not until one year later, 1834, that a “customs union” would be created, unifying the internal markets of the German states.

List again draws upon his American experience. He mentions the city of Baltimore, which issued many shares in railway- and canal-building projects to finance these projects. Could not Leipzig or Dresden do exactly the same thing, the more since such a project as the railways, in 10 years, should “increase the value of real estate, of plant and equipment, the state revenues and the standard of living of the poorer classes of people by at least 25%”? List proposed the founding of shareholders’ associations, in order to “cover all of Germany with railways, and moreover stimulate the industry of 20 million people.” That meant the private sector, but in increasing degree, public corporations, communities, and geographic regions should acquire shares in order to make possible the financing of great projects. That is of course not yet the pure concept of *state credit creation*, but how should that be possible, without the existence of a German *state*? Decisive here is the principle of creating credit in the form of shares, with the expectation of future social wealth. When,

then—in List’s words—“the railways have progressed to the point that one state reaches another with its rail line, then the time will be ripe for realizing the idea of a national bank, which would really be a way of boosting German internal transportation and making it run smoothly.”

What was done in practice in Germany in the 1840s and ’50s, looked quite different. The railways were primarily financed by private capital, and also run as private businesses. Discussion of state credit creation and the regulative state intervention into the economy, was nonetheless carried further and more broadly, and one can rightly say, that without a growing responsibility of the state, and state investments, the incredibly productive expansion of the German economy between 1880 and 1914, would not have taken place. The success of the economic policy of that period was based precisely upon the rejection of the British free-trade dogma.

After the First World War, with the Treaty of Versailles, the European economy was laden with a heavy burden. The horrendous reparations payments, which above all had to be carried by Germany, invaded the productive economy like a cancerous growth; the 1923 hyperinflation destroyed people’s overall capacity to resist, and the political-economic and scientific-economic discussion of the 1920s took on a peculiar cast because of these events. Victory went to monetarist liberalism, and any intervention of the state into the economy was declared taboo. The “self-healing power” of the market would become—just like today—reverentially worshiped. This cult of the free-market economy led to the view that shrinking industrial production was a God-given—better said, market-given—law. It was believed that this annihilation of productive capacities was healthy; people spoke about a “purification process,” as if some kind of unruly growth were being pruned. Except that a steel mill or a machine tool factory does not happen to constitute “unruly growth”; rather a “healthy shrinking” in this domain has the same effect as if a doctor were to amputate the arms and legs of a patient, so that the poor fellow should not have such a heavy body-weight to drag around, and might then be able to move more quickly!

As this amputation process plunged the world economy in 1929 ever deeper into the depression, and as in Germany, for example, unemployment rose from 2 million, to 4 and then to 6 million in the year 1932, some doubts were raised about how healthy this all was:

### **The proposals of Lautenbach and Draeger**

In this context, I should like to introduce you to two people who rebelled against the dogma of the “self-healing forces” of the marketplace. One was a member of the Ministerial Council within the Federal Economics Ministry, Wilhelm Lautenbach. He also worked on a government commission of the Brüning government, as an adviser in attempting to solve the economic crisis and unemployment. The other was an industrialist from Lübeck, Heinrich Draeger, who



was the intellectual head of the Study Group for a Money- and Credit-Economy.

Lautenbach, who was a very active publicist, prefaced his proposals for state-financed great projects to overcome the crisis with the following fundamental considerations:

1) The so-called healthy shrinking process of industry will not stop, because industry is continuously reproducing itself at a lower level.

2) This self-cannibalization must be consciously defeated. He said, "A depression can only be defeated by a courageous tackling of great tasks of the future."

He mentions as an example the rebuilding of Tokyo after the devastating earthquake of 1923. No one thought to ask where the money for such reconstruction should be gotten! The wealth created by the completely new reconstruction absolutely exceeded all expectations.

In 1931, when Lautenbach made his moves, the financial question was a very tricky one. With the collapse of the Vienna Kreditanstalt and the Danat-Bank, the wellsprings for private capital had run dry. Brüning wanted to take foreign loans to finance great state projects, which naturally drove the debt further into the stratosphere. Through the consolidation of reparations payments, the hands of the Reichsbank were tied, preventing the creation of new bank credits. That was underlined in a brutal fashion when in Germany, the discussion began about creating additional liquidity in the range of 3 billion Reichsmarks. The reaction came promptly, in the form of a thundering complaint from the other side of the Atlantic, combined with massive threats.

Lautenbach proposed the issue of bills of exchange for financing public infrastructure projects, in which a growing portion of the unemployed might be immediately put to work. In practice that should look like this:

The national railway company (Reichsbahn) wants to order new track to be laid, or bridges to be built, or wants to order new rail cars. The relevant factories or construction firms now receive a bill of exchange from the Reichsbahn and deposit it at their own bank. The bank, for its part, provides the necessary credit to the firm's current account, which can now be used for the payment of wages, materials, etc.

Now, since wages are paid in cash, while other costs can be paid by check or bill of exchange, the amount of new cash remains relatively small. That takes care of the case of the entrepreneur. The great advantage for him in the process, is that he does not have to go into debt at high interest rates, rather he is enabled to carry out necessary investments and repair work of his business, which have been left dormant during the depression. His business can thus be set back on its feet, the old debts consolidated—which again ought to make the banks happy.

Now what does the bank do with the note from the Reichsbahn? Since this bill of exchange is discountable at the Reichsbank, it takes on the character of a commercial bill of ex-

change, and with that, it is as good as cash or ready money. It is part of Lautenbach's plan that over 12 to 15 months the bank should convert the Reichsbahn's bill of exchange at the Reichsbank into middle- or long-term Treasury notes. The Treasury notes are backed up by a national income that is rising, and the bills of exchange either remain in the Reichsbank as part of the Reichsbahn's capital, and can be re-lent; or they can again be converted into bank notes, when the railway has made the profit required to redeem the original bills of exchange.

With this method, credit would only be given for specific projects; the interest rates would be very low, and we should not have to fear an inflationary effect; on the contrary, the consequence would be a stabilization of the currency! Says Lautenbach: "This credit expansion does not bring about further illiquidity; rather, it will increase liquidity and make more solid our credit-economy."

It was a great misfortune for Germany and Europe that these proposals were not adopted in 1931. Threats by the Americans, and the wrenching fear of inflation, remind you of the methods used today by the IMF and the World Bank vis-à-vis eastern Europe. It really is time that we learned something from history.

At the end of 1931 the Study Group for a Money- and Credit-Economy was formed, under the leadership of the Lübeck industrialist Heinrich Draeger. He came to the public eye in the spring of 1932 with an essay called "The Creation of Work through Productive Credit Creation." Draeger used the concept of "productive credit creation," because it implies the condition that "state credit [should only be] extended exclusively for the creation of new, durable, productive wealth, and a consequent increase of the supply of goods." He defined a 30 billion Reichsmark program for creation of jobs, which was calculated over six years, and included, among other things, great projects in city-building, infrastructure, the building of power stations, highways, dikes, etc. The method of financing corresponded in principle to that of Lautenbach. For Draeger, the Reichsbahn's bills of exchange should be given directly to the Reichsbank, in order to function as collateral for new credit creation. With that, Draeger was even more radical than Lautenbach, in that he meant that with this method the Reichsbahn should not be charged any interest, since its bills of exchange were already practically a kind of bonus, falling like a windfall into the lap of the Reichsbank. So they could not ask interest for that!

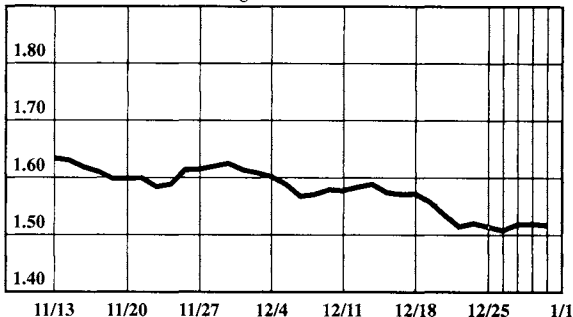
### **A differential rate of interest**

New in Draeger's proposals was a differential rate of interest charged by the banks. As we would say today: low interest rates for productive investments and high rates for speculative investment; for granting of credit must, as Draeger says, call forth a "creative effect, an expansion of the economy." Draeger wished to have it understood that the "state creation of credit should be only the first step toward

# Currency Rates

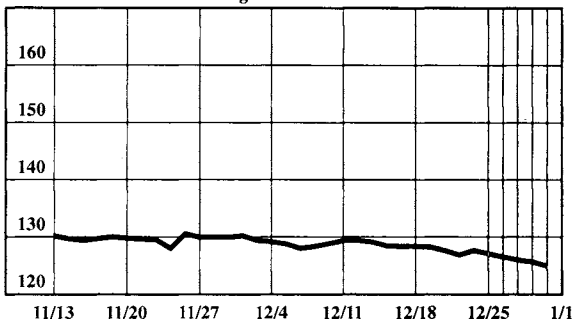
## The dollar in deutschemarks

New York late afternoon fixing



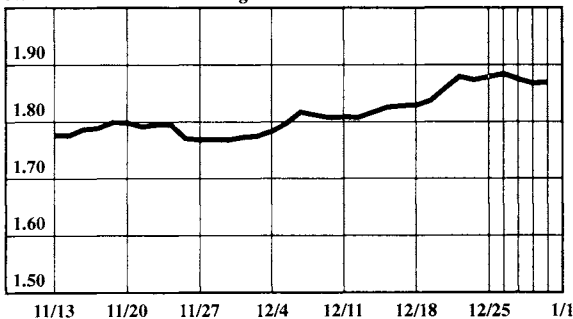
## The dollar in yen

New York late afternoon fixing



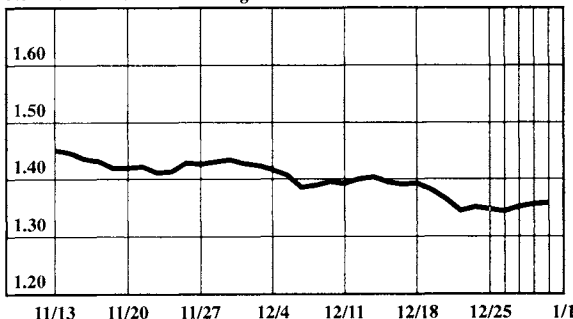
## The British pound in dollars

New York late afternoon fixing



## The dollar in Swiss francs

New York late afternoon fixing



a fundamental change in the hitherto customary way that the private economy has obtained credit.”

Unfortunately these proposals were adopted only at literally the last minute. Had people in the spring of 1932 begun to carry out this program, it might have been possible to pull the rug out from under the Nazis’ feet; after all, the NSDAP [Nazi Party] was going through a severe existential crisis at the end of 1932.

But it was only the last government of the Weimar Republic and Chancellor Schleicher who seized the initiative and inaugurated a job-creation program on the model of Draeger and Lautenbach, at the level of 500 million Reichsmarks. That was Jan. 28, 1933—too late! Two days later, Adolf Hitler seized power—and took over the job-creation program from Schleicher.

At this point we hear today’s free-trade dogmatists saying: “Aha, you wish to have the state create credit; the Nazis already did that!” Well, it is true that the Nazis built the Volkswagen and the Autobahns. Nonetheless, in 1945 no one took it into his head to stop building highways or producing Volkswagens, just because they had been symbols of fascist economic policy!

At the beginning, the Nazis did use the instrument of state credit creation, in order to put the unemployed back to work, earning their daily bread. In that way, they were able to consolidate their power within the country, and attract great admiration abroad. From 1934 onward, credit was created increasingly for military purposes and the production of synthetic substitutes (with autarchy in mind). With that, the original concept was transformed into its opposite: From productive, it now became unproductive credit creation. The results are known. Because of the Nazis’ disdain for humanity, it could not have been otherwise, for the concept of productivity can only be recognized by those who see the people’s creative thought and work, as the source of our wealth. The Nazis, however, knew only slave labor, as it was put into effect in their manpower programs of the 1930s.

Let me underscore something about the ideas of Lautenbach and Draeger: Their inadequacy lies in being limited to job creation. They lacked a deeper understanding of economic processes. . . .

We need today more than a job-creation program: We need a concept of a long-term buildup of the nations of Europe and the world. It is easy to find demagogues, dictators, and criminals who would unscrupulously use the state’s sovereign rights—including the right of credit creation—to plunge their country and the world into dangerous adventures.

Let us forestall that threat, by creating economic well-being, technological progress, and social peace. For that we need nations to be sovereign, nations which no longer let policy be dictated to them by the IMF and the World Bank. We need nothing less than the sovereign right to state-created productive credit.

# 'Shock therapy' formulas have ruined the Bulgarian economy

by Dr. T. Nikolov

*This speech was given by Dr. T. Nikolov of the Institute of the World Economy, Sofia, Bulgaria, to the conference of the Schiller Institute in Berlin, Germany on Nov. 23, 1991. The speech has been translated from the German.*

Allow me to introduce myself. I represent a group of scientists in Bulgaria which, for the past year and a half, has posed itself the task of working out an independent reform program. We have done this, and submitted it to the government and the President. This reform project was widely publicized and has become widely known among states. The task that we set ourselves in this project, was, first of all, to think strategically, and to achieve Bulgaria's economic development and long-term transformation from a command economy to a market economy.

In eastern Europe as a whole, different alternatives to achieve such a transformation have been chosen, and we must now ask the big question, why the so-called liberal variants have been predominant. I believe that there are three answers to that question. In the first place, the fact must be recognized, that the transformation from the command economy to the market economy is by nature a liberalizing process: a liberalizing of the market forces. There is nothing negative to be said about that. Second is the fact, whether we like it or not, that neo-classical doctrine is dominant worldwide in the politics of economic theory. But this is not necessarily a permanent phenomenon. Third is the fact that today's liberalism is the simplest and most tempting formula for achieving this transformation. People believed that with one jump, by "shock therapy," they could go automatically from the command to the market economy.

I will try to show here to what extent this has succeeded.

As far as the eastern European countries go, figures exist and prognoses have been made, showing that it will take 10 years to regain the economic level of 1989. That means that up to the end of this century, in these countries, absolutely no progress is to be expected.

How can this be seen concretely in the case of Bulgaria? First of all, there is the decline in production, which, according to official statements, was 33% in the first year. That is the figure for *just one year*. But there are also other calculations, showing that the decline was really 40-45%. Every fourth enterprise is producing nothing. The decline in

milk production, for example, is 40%; for meat it is also 40%. In other areas, diseases have reappeared that we had long ago forgotten about, or thought we had overcome.

The decline of production has led to a great rise in unemployment. We now have 10-11% unemployment: Of a work force of 4 million, 375,000 are unemployed. That only refers to those who are officially registered. The real number is more like 500,000. If you add to that the 140,000 emigrants who have left Bulgaria, and take into account the fact that retirement age in Bulgaria is five years lower than elsewhere, then it is clear that we are the country with possibly the highest unemployment.

Yet the general beliefs of our politicians are in line with the views of the International Monetary Fund. In Bulgaria, the same practices that were applied in other countries, were pushed through by force. How is that? We lived for a long time under totalitarianism. In our country, for a long time, there was an attempt to use Marxist formulas to explain everything and to bring about order. Monetarism looked to us like something different. If we look at the reforms and the "shock therapies" that are being carried out in the eastern European countries, we see a great contradiction. . . .

## Price policy

Take first the liberalization of prices [removing price controls—ed.]. According to the theory, these countries found themselves, at the time of the price liberalization, in a kind of neo-classical situation. But it was treated in a malthusian way. The economy was stimulated by demand, namely by this liberalization of prices. This brought us—as our group had warned it would—into a closed cycle. The economy went around in a circle, a disguised inflationary circle. The inflationary tendency intensified, leading to higher interest rates, declining production, unemployment; the spiral turned—and this has been going on for a year.

In the view of our group, the reason for it is that the reform was wrongly conceived. We believe that the best alternative for reform at the beginning would have been a currency reform. This would have reduced and stabilized the mass of money, in whatever form. . . . We in Bulgaria do not need a protracted phase of monetary stabilization. . . . You can see the situation in Bulgaria, and the situation in Poland is similar. Bulgaria is an extreme example, since the

whole reform was pushed through with virtually no foreign help.

### **Privatization of the economy**

I would like now to take up the first point of the government's policy with which our group disagrees, and that is, privatization. What is happening with this in Bulgaria? For a long time now, there has been absolutely no private sector in Bulgaria. The state controls 96%. Now, we are told that all the government's policies are oriented on the basis of a market economy. In Poland, it was calculated that if privatization were to continue to be implemented as it is currently, it would take some 150 years to complete the process. Therefore, our group demands a policy of social privatization in these countries. We believe that in this way, a middle class could be created.

If, at this moment, a massive privatization is pushed through, as is envisaged, it would lead to a Pakistani social structure in Bulgaria: a stratum of very rich people, and the rest of the people poor, with no money and no possibility of participating in the privatization process.

This is very easy to prove. Let me tell you a little story from the most recent auto show in Skopje. There were autos of various qualities on display, and you can well imagine which are the most sought-after and most frequently purchased autos in Bulgaria: the big Mercedes [and other expensive cars]. This means that there has already sprung up in Bulgaria, a stratum of millionaires and billionaires, whereas the middle stratum simply does not exist. If the transition from a command economy to a market economy were something "normal," then we might still have to wait another 150 years for such a middle stratum to develop—but it is not so.

In my view, we now need to bring unique and unprecedented means to bear on the world economy. Hence we do not need the standard International Monetary Fund (IMF) formulas, as applied in Nigeria for example, but rather each country needs to have worked out for it an elaborated specific concept.

From this standpoint, there exists in the east European countries a big question, and that is above all will be the relations among the countries of the former Comecon or CMEA. We have been forced to adopt measures with which we are not happy. For a long time, we had been unable to trade with each other. The "solution" that was adopted, was to make our currencies convertible, but [unfortunately] this was pushed through in a "shock" manner.

I believe that there is a valuable historical example which would help us. That is the payments system which has been operational in western Europe since 1948. This kind of system could now take on a new role, if western Europe were to take responsibility for introducing a new Marshall Plan for eastern Europe. If you recall, in the western European system of payments, accounts were balanced by funds provided by the Marshall Plan. This must be done today, too, so that the



Chris Lewis

*Dr. T. Nikolov, speaking at the Schiller Institute's conference.*

east European market does not completely disappear. Whole enterprises in Bulgaria have been closed, since they can no longer export to the Soviet Union. At the moment, the Soviet Union cannot import anything more from Bulgaria either, since the payments system has been virtually shut down. There do exist certain agreements between Bulgaria and the Soviet Union, but they do not govern the exchange of goods in general.

I do not believe in a "shock diversification," a policy that is now being promoted. Such cures are not advantageous to the economy. Not only in Bulgaria, but in eastern Europe as a whole, the reforms have led to a dead end. We need new concepts.

### **A warning**

In my view, the governments are not yet ready to accept such solutions. The situation is most critical. This must be underscored—particularly as concerns the reforms in the Soviet Union. What Yeltsin is now trying to work out, is just such a form of shock therapy, which already has been applied in Poland and Bulgaria. If we take into account that many people in Russia at this moment are living below the biological minimum standard of living, then one can imagine where such a reform would lead. I would like to warn the representatives of the former Soviet republics, against such a reform. There are other things that must be taken into account, in order for the transformation to proceed. Through these means, the market must be built up.

There must be a programmed development. Nothing is going to happen suddenly. You see, Bulgaria is at 50%. . . . The former Soviet Union and the former Soviet republics cannot pay this social price. It would also be a danger for all of Europe. That is the great question. If the Soviet Union stands still, what will happen to the new democracies? I am greatly concerned about this. In Bulgaria, a people has already been lost. . . . This should be a great warning.

## Wildlife groups gobble up farmland

*The government is backing the environmentalists with big bucks, while food production is being destroyed.*

**L**n January 1991, the Reynolds Aluminum plant at Troutdale, Oregon sold a wetland property with no development value to the Trust for Public Lands for \$2.7 million. TPL immediately resold the property to the U.S. Forest Service for \$2.8 million, making a profit of \$100,000. Doing about \$55 million in business per year with the U.S. government, the Trust for Public Lands has become non-taxable big business.

"A new land trust is created every five days," according to the Land Trust Alliance, and over one-third of the 899 U.S. land trusts have been created in the last five years. Fast-growing and well-funded, they are purchasing millions of acres of land with behind-the-door nods from government agencies, hinting at later repurchase by the federal government itself.

This land is being taken out of useful agricultural production as the independent American family farmer is driven into bankruptcy. While the wealthy acquire their nature preserves, the world's food supply and productive agriculture dwindles.

A typical case is reported in the December 1991 issue of *Farm Journal* magazine. Bill House, an Oklahoma rancher, lost leases to 7,500 acres of pastureland in 1989, when the Nature Conservancy, the largest of the land preservation groups, bought the 30,000-acre ranch from which he leased his land.

The Nature Conservancy, one of the oldest and largest U.S. land trusts, buys land at the rate of 1,000 acres per day. Operating budgets of \$223 million, in 1990, helped bring about

the purchase of the 500-square-mile Gray Ranch in New Mexico and the 30,000-acre Barnard Ranch in Oklahoma.

A little over 50 years ago, Congress passed laws to give land away. Today, the federal government, which still owns 33% of the nation's land base, or about 725 million acres, has billion-dollar taxpayer superfunds such as the Land and Water Conservation Fund (about \$7 billion) or the North American Wetland Conservation Fund (\$30 million) to use to repurchase land.

Former Interior Secretary James Watt doesn't think much of this situation. "We can't afford to take care of what we have," he says. "But the bureaucracies under Congress are using the Nature Conservancy as a holding group until they get the money. Land purchases by conservation groups would slow down considerably if they couldn't resell to the government."

Many foundation-funded non-profit organizations are being used as fronts through which money can be funneled to create and mold hundreds of supposedly grassroots groups in each state, which collectively become a political mechanism through which land control can be policed.

Take a look at one network that influences grassroots groups in the United States from the international level. The World Wide Fund for Nature (WWF), the largest environmental group on the international stage, is controlled top-down by Britain's Prince Philip.

The U.S. branch of the World Wildlife Fund has functioned in tan-

dem since the 1980s with the Conservation Foundation, and both are backed by Rockefeller money.

The Conservation Foundation created several subsidiary front groups, one of which is the American Farmland Trust (AFT), a non-profit front also backed by Rockefeller money, and with Mrs. David Rockefeller on its board.

The AFT is trying to establish a string of non-profit Purchase of Development Rights (PDR) organizations all over the United States, whose sole purpose is to buy farmland, place non-agricultural restrictions on the deed, sell off the development rights to a government agency, then resell the farmland with restricted uses.

These organizations are like a revolving door, with the directors and other top personnel moving from one organization to the other, yet with the policy always controlled by the wealthy Anglo-American elites.

The current chairman of the Conservation Foundation, for example, Russell Train, is the former chairman of the federal government's Environmental Protection Agency (EPA), and one of the top environmentalist enforcers in the establishment.

Train's predecessor at the Conservation Foundation, William Reilly, is now the chairman of the EPA; before that, he was chairman of the American Farmland Trust.

The current chairman of the American Farmland Trust, Patrick F. Noonan, is also president of the Conservation Fund; he was the president of the Nature Conservancy.

Cloaked in the rhetoric of "land preservation" and environmentalism, wealthy establishment families and financial elites are also providing the donations and hands-on control to build a large network of land trusts, as non-profit front groups to restrict the developmental use of land.

## Two plagues threatening Brazil

*The spread of cholera and AIDS is turning this South American giant into an African-style catastrophe.*

Over the next few months, Brazil will face an enormous explosion of two forms of plague brought about by International Monetary Fund (IMF) conditionalities: AIDS and cholera. The country's vulnerability, with its precarious public services, widespread malnutrition, and the government's determination to put debt service over the needs of the population, places this South American giant at risk of extermination.

The AIDS threat has become so dramatic that Brazilian President Fernando Collor de Mello was forced to go on national television Nov. 12 to explain that, according to the most optimistic predictions, there will be approximately 2 million HIV-infected persons in Brazil by the year 2000. Worst-case predictions suggest as many as 8 million! There are currently 21,023 cases of full-blown AIDS, and more than 700,000 HIV-infected people. The pattern is increasingly following that of Africa: In 1986, heterosexuals made up only 5% of total HIV cases, but by 1991 they were 20%.

"Brazil has the potential to become one of the AIDS catastrophes of the world," warned Eduardo Cortes, director of the Brazilian Health Ministry's AIDS program, a year ago. Cortes noted that Brazilian exports could be threatened by such a perception, turning Brazil into a new Haiti or central African country.

The same sentiment was expressed by Michael Merson, director of the World Health Organization's Global AIDS program, in statements to *O Globo* newspaper: "In just two

years, if things continue as they are and if governments do not take precautions, Brazil will be another Africa. In 15 African states, 30% of all adults are infected with AIDS. Brazil is quickly moving in that direction."

Cholera is also contributing to this Africanization process. Diseases like malaria, dengue, and yellow fever could spread to as many as 30 million Brazilians in the wake of a cholera epidemic, said Luiz Otavio Mota Pareira, chairman of the Brazilian Association of Sanitary and Environmental Engineering. He added that Brazil could lose \$12 billion from such an epidemic, the result of interrupted food exports, collapsed tourism, and a forced dependency on increased imports.

Brazilian authorities knew the cholera bacillus would arrive, but fantasized that despite the limited resources and the socio-economic crisis in the nation, the disease could somehow be kept under control. Such wishful thinking has proven a recipe for disaster. Cholera is no longer centered in the Amazon region, but is fast moving toward the impoverished northeast of the country, where Brazil's largely black population has long been a target of malthusian efforts to shrink population growth. On Nov. 3, the health secretary of Amazonas department Arnaldo Russo warned that cholera would reach the northeast by January 1992: "Within 60 days," he predicted, "the disease will be in the northeast, and from there will go south," to Brasilia and Rio de Janeiro.

The official November Health Ministry bulletin reports 455 cholera

cases and eight deaths in all of Brazil. From April 8, when the first case of cholera in Brazil was reported in the city of Benjamin Constant along the Peruvian border, to October, when 351 cases were reported, seven months elapsed. And yet one month later, the number of cases had risen more than 100, and had left the Amazon for the Atlantic coast, where faster disease transmission belts to the south exist.

On Nov. 28, the first case of cholera in Rio de Janeiro was reported. And what will the cholera bacillus find in Rio? According to Alexander Adler, microbiologist at Rio de Janeiro University, there are more than 1 million residents of the state of Rio without access to potable water. Indeed, the first cholera case was discovered in one of the many slums surrounding the city.

Until now, cholera was under partial control thanks to the relatively moderate winter months. With the advent of spring and summer, the disease is expected to spread rapidly. And despite Health Minister Alcenor Guerra's best efforts, his anti-cholera campaign is being stalemated by political enemies.

As if that weren't enough, the government's suicidal dedication to propitiate the IMF has led to economic stagnation in the country. Unemployment is soaring out of control and consumption levels are falling drastically in a society where whole sectors of the population have long lived under bare subsistence conditions.

It is perhaps no accident that the first cholera case appeared in Rio de Janeiro just as the Federal Health Network went on strike for better wages and working conditions. In some cases, doctors and other health personnel were protesting their inability to work in public hospitals, for lack of medical supplies or adequate staff.

## National Conference in Niger

*A ray of hope against the "Bretton Woods order," and for the economic integration and development of Africa.*

I have just had the opportunity to view videotapes of the recent National Conference in Niger. I was struck by the seriousness of the debates and by the determination of many of the participants to ask some fundamental questions. During the course of the many interventions, the postwar "Bretton Woods order" was the subject of reasoned attacks, and the demand for national sovereignty was always accompanied by a call for African unity.

Many of the speakers pointed out that, once achieved, democracy would lose all its meaning, would remain an empty shell, if not accompanied by "a return of the economic resources of the continent to the real sovereignty of democratic regimes," and by the means to exercise the rights offered to all citizens, notably the means of material and social progress.

Niger, once a colony of the French, is a vast country in the sub-Saharan region of Africa inhabited by only 7 million people. The northern two-thirds of the country is desert, but also contains the uranium deposits that make Niger the world's fifth largest exporter of refined uranium ore. In 1980, only 20 years after independence, Niger was producing more than enough food to feed its people. But terrible drought conditions on and off since 1983 have left many in starvation conditions. The collapse of uranium prices on the "free" market (controlled by the multinational cartels) has greatly hampered Niger's economic efforts.

Niger, like many countries in Africa, is a one-party state. The National

Conferences which are taking place in many of the French-speaking countries in particular, are large assemblies of opposition leaders and members of the ruling party, out of which a new consensus is supposed to emerge regarding future elections and national program. In all too many cases, the conferences have degenerated into empty phrases about democracy and jockeying by opposition figures for their turn in the government seat.

Thus, the effort in Niger's National Conference to clarify the debate over democracy in Africa is of fundamental importance. This is the only way to avoid having countries fall from Charybdis into Scylla: from a blood-sucking bourgeoisie to the looters in three-piece suits of the International Monetary Fund and World Bank. For the latter, the carrot of "democracy" hides the stick of usury and austerity conditionalities.

Among the documents voted up by the National Conference, of particular interest is the report on the work of the Subcommission on Foreign Affairs and Cooperation. Among the points of analysis, were:

- "The near-total disappearance of the solidarity which could have prevailed between the people of the developing sector and the developed countries of the planet";

- "The constant decrease of resources devoted to public aid for the development of these countries; which has meant more and more restrictive conditions for eligibility for outside financing";

- "The correlated persistence of the underdevelopment of African

peoples: a situation which has been aggravated, 30 years after the independence of the 1960s, by the maintenance of the micro-states born out of the colonial splitting of Africa";

- "The cumulative effects of the burden of the debt on the more and more anemic economies of the Third World countries";

- "The systematic looting of African national resources by the multinational companies."

Among the noteworthy recommendations made in the report:

- "Attachment to the principles and ideals of the United Nations and of Non-Alignment";

- Promotion of "African unity" and "North-South cooperation";

- The "quest for a more just and more democratic international order in the fields of politics, economics, science, and culture";

- Accelerating the access to the coast of Niger's inland population.

Niger's struggle will be long and difficult. There are many immediate and terrible problems facing the country, such as the constant advance of the desert, the reduction in the Niger River's flow, and the reckless cutting down of forests—the only accessible form of energy in a world defined by the speculation of the international cartels on the prices of raw materials. As a result, Niger, whose vast uranium deposits should give the country access to the energy of the present and of the future, finds itself forced to burn wood.

The struggle will be a long one, before Niger finds the conditions making its own and the continent's economic development possible. Nevertheless, as I watched the proceedings of the National Conference of Niger, I had the impression of witnessing a small part of the great dream of Cheikh Anta Diop for African economic integration and development.

# Business Briefs

## Debt

### Philippines votes to restrict debt payments

The Philippine Senate voted Dec. 12 to restrict foreign debt payments to 10% of 1990 export revenues, Reuters reported.

The level is the same as that initiated by former Peruvian President Alan García against the debt payment demands by the International Monetary Fund in 1985. During the brief period when the policy was in effect, Peru was able to begin to recover from murderous IMF conditionalities.

The debt repayment cap was part of a Senate-approved \$11.17 billion national budget for calendar year 1992. Servicing and repayment of the country's \$28 billion external debt is now over 30% of the country's export income.

## Free Market

### Hungarian attacks shock therapy

"What we do not need in Hungary is a shock therapy," Lajos Tolnay, president of the Hungarian Chamber of Economics, is quoted as saying in the German press Dec. 24. Tolnay is advocating a phased transition into the market economy, with a strong orientation towards the German model.

Tolnay's remarks, which reflect a dispute over economic policy orientation, came against a background of broad discontent among Hungarian workers in opposition to the liberalist policy course of the present government in Budapest. The first nationwide labor warning strike mobilized 250,000 workers, predominantly from the mining and transport sectors, in mid-December.

Strike leaders expressed harsh criticism of the government's unwillingness to halt the rise of the "new rich" (many of whom are former Communist Party officials, like Miklos Nemeth), while close to one-third of the Hungarian people are falling below the official poverty level. The government's privatization and disinvestment policy in the former state-sector in-

dustry was also attacked.

In Poland, new Economics Minister Jerzy Eysymontt said he wants to alter the former government's International Monetary Fund (IMF) approach on social and industrial policies that was supervised by Finance Minister Leszek Balcerowicz.

Eysymontt, a leading member of the Christian Center Alliance party that has spearheaded the opposition against the IMF, declared in Warsaw Dec. 23 that, despite IMF protests, he plans to have the annual state budget increase rise from 3% to 4.5% to be able to pay for social programs.

Taxation on state-owned industries will be reduced to allow the recovery of the industrial sector, which lost 30% of its output last year under Balcerowicz's fiscal austerity program. "One cannot build a new economy on the ruins of the old one," declared Eysymontt.

## Labor

### Construction workers demanding jobs

Approximately 50,000 unemployed construction workers marched in New York City Dec. 19 in the largest demonstration for jobs since the Great Depression. Angry workers demanded that all levels of government act to get them jobs.

The rally was led by John Cardinal O'Connor, who called "intolerable" the 50% unemployment rate in the area's construction industry. "I recall the Great Depression," he told the rally. "And there was nothing great about the Depression. People felt humiliated and worthless because they did not have jobs. We need a plan, and we need a plan now, and we need it put into action now."

On Dec. 10, Sigurd Lucassen, the general president of the United Brotherhood of Carpenters and Joiners of America—one of the largest U.S. trade unions, with 600,000 members—said in Pittsburgh that the United States should build its way out of the recession by investing in infrastructure, UPI reported.

"Infrastructure is an investment in the future," said Lucassen. "It's something we leave to our kids and grandkids. But what we're leaving them now are decaying bridges and broken

down systems."

Lucassen said the federal government should finance highways, airports, river dams and ports, water treatment systems, schools, libraries, community centers, hospitals, fire houses, parks and museums.

"Whenever you hear public works, people talk pork barrel," Lucassen said. "We don't figure it's pork barrel. It's an absolute necessity. If we're going to compete in this economy we need to have the tools." He is touting an infrastructure and back-to-work campaign he calls "Ready to Rebuild America."

The United States invests the least in its public facilities of major industrialized countries, he said. "I look at it this way: If the economy remains depressed, then the deficit becomes bigger. . . . We have a tax system based on an economy being vibrant. If people aren't working, they're not paying taxes. Right now interest rates are as low as they've been in years, but people aren't buying houses. They're afraid for their jobs. It's hitting all segments of the economy. If public works go, then this country is not going to come back."

## AIDS

### Montagnier promises vaccine in five years

In a surprising statement, Pasteur Institute Prof. Luc Montagnier declared that "a vaccine against the AIDS virus, in the case of transmission through blood, could be put in circulation in five years." He also told the Dec. 9 London *Financial Times* that "the reason people are wrong to think AIDS does not concern them personally is that the germs involved are not just the AIDS virus. If there are more and more patients in the world with immune systems depressed because of AIDS, that means more and more use of antibiotics. You can expect organisms to emerge that are resistant to all known antibiotics.

"For many years, we experimented in the dark. All attempts finished in a dead end. Today, we can say that the preparations for the experimentation and the development of a vaccine will last one to two years.

"We will need then two more years to exploit the results of that work. I don't want to



make ill-conceived promises, therefore, count on five years.

"This vaccine will be developed from an envelope of the virus. . . . The molecule obtained from that envelope cannot contaminate. It does not have genetic information. But it is able to program the immune system in its own defense system against substances which are similar to it, therefore also against the true virus, the HIV-1, as soon as it appears in the blood."

Because HIV-1 can be transmitted from cell to cell within the body without recourse to the blood stream, the effectiveness of the vaccine would be limited, since it only patrols the blood stream.

## Political Economy

### Kozyrev looks to science and technology

Andrei Kozyrev, foreign minister of the Russian Federation, emphasized in an interview Dec. 20 that scientific and technological progress are crucial for the future of any nation.

"World competition as to who should be regarded as a great power is now being decided in other planes and in other categories than in the past. First of all, this depends on scientific and technological progress, on the country's place in markets of products and in markets of technologies. This is where a real battle is taking place now," Kozyrev said.

"At the turn of the century, Russia held a worthy place among such states as France, Germany, America. We must return into that group. . . . In foreign policy our interests will be promoted by everything that helps economic development and normal life of people in Russia."

## Space

### Moon-Mars mission hinges on nuclear propulsion

*Aviation Week* reported in its Dec. 2 issue that though a nuclear engine for Mars is not the only

propulsion technology being advocated, it is clearly the leading candidate.

Intimidated for years by the anti-nuclear rhetoric from the press and demonstrations and lawsuits, NASA scientists and engineers have shied away from advocating the use of nuclear power for propulsion.

It seems that the hesitation is dissipating. David Weaver at the Johnson Space Center in Houston told *Aviation Week*: "I can't tell you we won't do a mission with chemical propulsion. I can tell you you're going to expose the crew to a whole lot more risk if you do."

NASA has increased the funding for the nuclear propulsion work at the Lewis Research Center from \$500,000 last year to \$5 million this year. The head of the Lewis program estimates that hardware could be readied for use in an unmanned lunar transit vehicle by 2000-2005.

## Agriculture

### FAO issues world food warning

The U.N. Food and Agriculture Organization based in Rome issued in December a grim assessment of world grain stocks in the wake of what they said is the "worst decline in world agriculture production in eight years."

World grain harvested in 1991 fell a staggering 86 million tons, or 5%, mainly due to deliberate U.S. acreage reductions and the severe Soviet harvest decline of some 25% from a year before.

"The world will enter 1992 once again consuming more than it produces, and stocks will be drawn down to dangerously low levels. As our safety margin is reduced, our food security next year will depend to a large extent on the success or failure of harvests," said the FAO.

The report is all the more alarming as the General Agreement on Tariffs and Trade negotiations would implement draconian reduction in European Community food output, and in context of recent warnings by prominent volcanologists that the eruption of Mt. Pinatubo last summer will set off major global climate alterations and possible harvest failures and drought in the coming 2-3 years.

## Briefly

● **THE DUTCH** government is considering domestic "production quality standards" for marijuana—which has attained position number six on the list of Netherland's favorite "garden crops."

● **RED CHINA** opened its first commercial nuclear plant Dec. 15. The 300-megawatt Qinshan plant in Zhejiang province will serve China's largest city, Shanghai. The plant "was designed and constructed solely by China," the New China News Agency reported.

● **A NEW SOLID FUEL** has been created by researchers at the Chemistry and Metallurgy Institute of the Kazakhstan Academy of Sciences, TASS reported Dec. 9. Used as a fuel for experimental tractors, "Aluminum-based alloys, activated by the additives of some metals . . . enter into reaction with distilled water and release pure hydrogen. As soon as small additions of gas get into the main engine, its power sharply increases without noxious exhaust fumes."

● **MORE THAN 3%** of the adult male population in the U.S., a record 2,978,328 persons, is on probation or parole, according to Bureau of Justice statistics released in December. The number of prisoners in the American prison system is more than 1 million.

● **DESALINATION** work may be abandoned in California, where Metropolitan Water District officials are urging termination of a pilot desalination project because of costs uncompetitive with other sources. The district pioneered in nuclear desalination studies using a modular high-temperature gas-cooled nuclear reactor, which was cost competitive, but abandoned the plan because it thought it could not get approval for a nuclear project.

● **VINDICATOR** of Florida, the nation's first commercial food irradiation plant, was granted an operating license Dec. 9 by the state of Florida.

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## Global warming: the rest of the story

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*Is the greenhouse effect something we should fear, or is it a figment of the media's overheated imagination? Gerd R. Weber explains the effect of trace-gases in the atmosphere in Part 1 of a series.*

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We are pleased to present excerpts from a forthcoming book by German meteorologist Gerd R. Weber, *Global Warming: The Rest of the Story* (Böttiger Verlags-GmbH, Wiesbaden, Germany). The book has already appeared in German under the title *Treibhauseffekt: Klimakatastrophe oder Medienpsychose?*

In his Introduction, Weber describes his purpose as being to "provide the reader with the current state of knowledge on all the issues related to the greenhouse effect and the possible future direction of the climate, and with an action plan to cope with a possible climate change.

"We will take a journey through the wonderland of science. We will first look at the greenhouse effect, and examine its meaning and importance for life on Earth; second we will discuss why it is increasing, and how this may be affecting the climate. Then we will look at the climate itself, what it is, and what might cause it to change in general, the way it has evolved through the centuries, and we will determine whether we can already see some signs of the greenhouse effect. We will also try to assess how life on Earth will change if the climate does change the way some people expect it to. And we will, of course, probe into the question of whether climate will really change the way it is expected."

This series will be slightly abridged from Chapters 3 and 4 of Weber's own English translation. For reasons of space, we are not able to reproduce all of the graphics, and for clarity, they are numbered consecutively as they appear here.

### On the threshold to climate modeling

So far in our quest to examine the scientific basis of the greenhouse effect and the predictions of future global warming, we have achieved the following:

1) We have found out what the greenhouse effect is—

both natural and man-made;

2) found out which trace-gases and human activities contribute to it; and

3) with a lot of if's, did some crystal-ball gazing and attempted to find out what the future concentration of those gases might be.

Our next step will be to assess in which way *the climate* might change *if* the trace-gases do increase in the suggested manner. The climatic changes we will be talking about are "what if" scenarios. In other words, we will be considering changes which might occur *if* trace-gases increase in the manner and to the extent assumed by the climate-model predictions.

This is where the infamous "if present trends continue" enters the game once again.

And we also draw closer to the central issues of the debate, i.e., climate predictions. No one would have become upset about trace-gas increases as such, which is all we have discussed so far, if it had not been for those dire climate predictions which stirred up a storm. Consequently, one of our major endeavors will be to examine those climate predictions: Only if there is reason to believe that they are correct, is the concern about increases of trace-gases justified.

Before we actually embark on a journey through the wonderland of climate prediction, there is still one job left to do from the preceding chapter: We will examine what happens to CO<sub>2</sub> once it has been injected into the atmosphere by one or another carbon-burning process.

### The carbon cycle: Welcome to life on Earth

Many people may actually be very surprised to hear that carbon dioxide, which sounds so much like the air pollutant "sulfur dioxide" or "nitrogen dioxide" is not a pollutant at all. Instead, it is a substance without which life on Earth as

we know it would not be possible. Carbon dioxide, and more generally, carbon, is continuously cycled through nature and it is reflected in every facet of life on Earth. In fact, it is the very building block of life. No plant life, no animal life, including human life, would be possible were it not for carbon dioxide. As you are sitting here reading this book, you breathe, and as you breathe you exhale carbon dioxide, which your body produces while oxidizing carbon compounds contained in the food you ate earlier in the day. And while human beings emit—breathe out—CO<sub>2</sub> just as a motor vehicle does when it burns gasoline—nature (trees, flowers, corn fields) takes it in through a process called photosynthesis, in which plants breathe in CO<sub>2</sub>, take the carbon out of the carbon dioxide, use it to build stems, twigs, branches, leaves, blossoms; in turn they emit oxygen into the environment and therefore give it back to us. But human beings, in turn, use those plants—tomatoes, apples, watermelons—they eat them and burn the carbon contained in them during the metabolic process—breathing out CO<sub>2</sub>.

This is a very simple, but nevertheless illustrative example of a carbon sub-cycle. There are many more of those cycles which link up to what is called the “global carbon cycle.”

Let us pause momentarily and consider this cycle one more time. If the carbon dioxide we emit by breathing, driving to work, and heating our apartments is taken up by plants, in fact is necessary for them to thrive, how can it be that carbon dioxide got such a bad reputation recently? If it's that good for the biosphere, shouldn't we be putting *more* of it into the atmosphere to make plants grow better? Moreover, would that not possibly solve some of the envisioned future food production problems in some parts of the world? As we shall see in a little while, there is—as one of the biggest ironies in the trace-gas/climatic change debate—an almost unconditional yes to those questions.

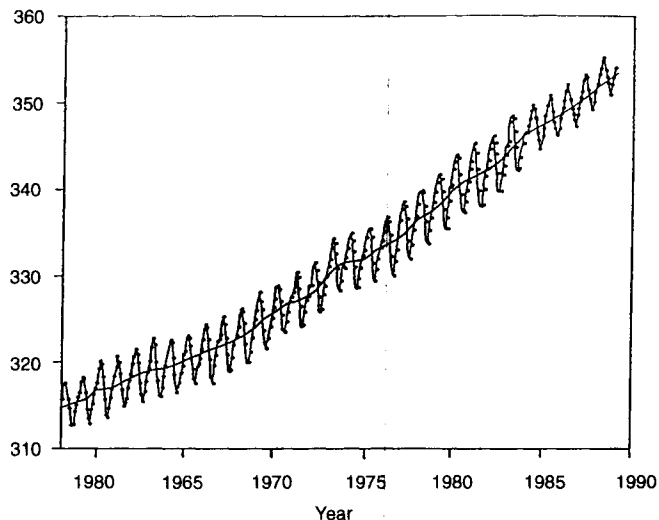
But the problem now at hand is that more CO<sub>2</sub> enters the atmosphere than our biosphere can handle at the present time. In addition, the biosphere is being continuously destroyed by deforestation and changing land use patterns, particularly in the tropics, thereby reducing the base which can swallow excess CO<sub>2</sub>. On the other hand, it has been suggested that the biosphere in mid-latitudes of the Northern Hemisphere has been expanding in recent decades—swallowing increasing amounts of CO<sub>2</sub>.

Moreover, what remains of the biosphere does respond to what is called CO<sub>2</sub> fertilization, i.e., the increased production of biomass through increased levels of CO<sub>2</sub> in the atmosphere. Some scientists think that this process, which is easy to demonstrate in experimental set-ups, has in fact already occurred in nature, and can be deduced from the increasing amplitude in the wiggles in the curve in **Figure 1**, the curve showing the atmospheric carbon dioxide increase: Whenever the biosphere takes a deeper breath, those wiggles grow larger.

However, much of the carbon taken up by plant tissue and fixed to them in summer, is re-emitted into the atmo-

FIGURE 1  
**Historic CO<sub>2</sub> concentrations observed at Mauna Loa, Hawaii**

(parts per million by volume)



Source: *Global Warming, The Rest of the Story*; U.S. Department of Energy, Report DOE/FE-0164.

sphere when leaves fall off a tree, or when herbacious plants die and begin to rot. Rotting means bacterial decay in which CO<sub>2</sub> is produced and recycled into the atmosphere.

Some of the carbon is incorporated into the woody tissue of trees and may stay there, not only for years and decades, but for centuries and millennia, because that is how long some trees live. Therefore, trees and other woody plants provide what is called a “sink” in the carbon cycle as opposed to sources, such as burning of fossil fuels and deforestation, microbial decay of leaves and other organic matter.

But the relationship of the sink of CO<sub>2</sub> fixation to woody tissues is at present neither large enough to completely counterbalance the source of fossil fuel-derived CO<sub>2</sub>, nor to even explain why only half of it appears in the atmosphere. But if the biosphere does not provide a sink large enough to account for the “missing carbon”—on the contrary, at present it is a source, and probably has been for some decades—where does the carbon go?

Enter the oceans. They cover nearly three-fourths of the Earth, and we may sometimes have the impression that it hardly matters what happens on land, in terms of the carbon cycle and many other geological and chemical cycles, but also with respect to climate, as we shall see.

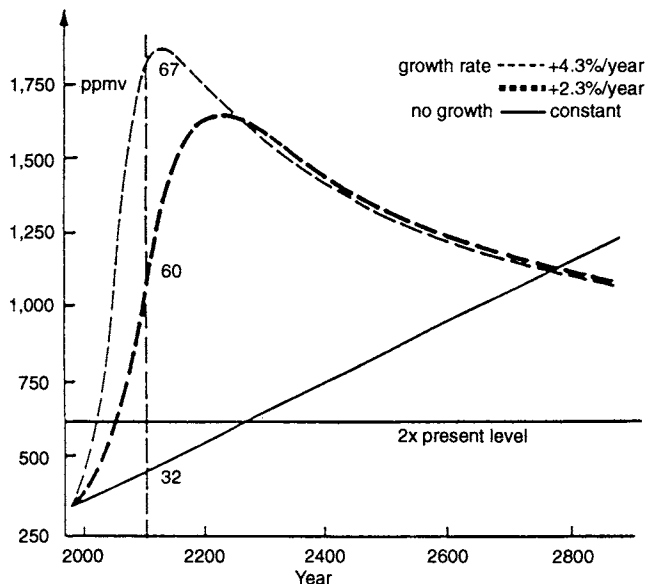
The oceans play a key role in the global carbon cycle. They take up CO<sub>2</sub>, put it into solution and make it available to a number of physical, chemical, and biological processes.

Physically, carbon may be transported horizontally and vertically by ocean currents. We know from observations and modeling studies that CO<sub>2</sub> is primarily taken up by the

FIGURE 2

**Growth of atmospheric CO<sub>2</sub> concentration as a function of the emissions growth rate**

(in parts per million)



Source: *Global Warming, the Rest of the Story*, Maier-Reimer and Hasselmann, *Climate Dynamics*, 1987

oceans at high latitudes and transported downwards and toward the equator. Chemically, it interacts with calcium carbonate, the material seashells are made of. Biologically, it is used to form plankton, which eventually sinks to the sea floor, thereby removing carbon from the ocean surface. All these processes combined remove carbon from the atmosphere and provide the biggest sink for carbon. But it still is not enough to balance the carbon budget, because, as we know, atmospheric carbon is increasing.

Much the same as in the biosphere, but on a larger scale, the ability of the oceans to curb the increase of atmospheric carbon depends on the rate—or speed—at which it is injected into the atmosphere and made available to the oceans. If the capability of the oceans to swallow CO<sub>2</sub> is less than the rate at which it is emitted into the atmosphere, the oceans cannot take it up and atmospheric concentrations will increase at a rate dependent on the emission rate in a way illustrated in **Figure 2**.

Figure 2 presents results from model calculations incorporating physical and chemical, but no biological processes in the oceans. The interesting aspect of Figure 2 is that the rate of atmospheric increase slows dramatically as the input rate moves from 2% to 0%, i.e., constant emissions, but changes only very little as we move from a constant rate to a negative growth rate, in other words a reduced emissions scenario.

Now, we recall from the previous chapter that our estimated emissions growth rate for the next 50 years was between 1-1.5%, and we are therefore right in the middle of that

territory of Figure 2 where large variations in the atmospheric concentration can be expected as a function of the input rate. Therefore, the future atmospheric CO<sub>2</sub> concentration will very critically depend on whether emissions growth is at, say, 1 or 2%.

If we then apply our 1-1.5% scenario to Figure 2, a doubling of CO<sub>2</sub> would not occur in the foreseeable future, but sometime in the early 22nd century. In a constant emission (no growth scenario), doubling would occur around the year 2300 and in a 2.3% scenario, near the middle of next century, as many assume.

Interestingly, though, the 1-1.5% scenario would then approximately translate into a 0.5% atmospheric growth rate—approximately a continuation of “present trends”—present meaning the last 20 years. Referring once again to the IPCC [Intergovernmental Panel on Climate Change] scenarios, we would not be somewhere in the middle between scenarios “A” [“Business-as-Usual”] and “B” after 50 years, but closer to “B” than envisioned before (see **Figure 3**). It should be recalled, however, that the ocean’s biology, which may further dampen and slow down, is not yet included in these calculations. Likewise, the terrestrial biosphere is also not accounted for—which might act as a considerable sink. We may therefore conclude that even though CO<sub>2</sub> emissions from fossil fuel-burning will continue to grow, the likelihood of a rapid and dramatic CO<sub>2</sub> buildup is smaller than previously thought, particularly if biomass burning has been a relatively large source in the past and will be curbed in the future: a conclusion which has obvious ramifications concerning the time frame and the magnitude of a possible greenhouse warming. We recall that the magnitude and time frame of a greenhouse warming had to be altered once before by the less-than-expected rate of increase of the second most important greenhouse gases, the CFCs. Recalling the IPCC scenarios, where we would now be closer to “B” on CO<sub>2</sub>, between “B” and “C, D” on the CFCs and on “A” with methane plus a small contribution from ozone, we might expect to end up closer to “B” than to “A” as a rough estimate.

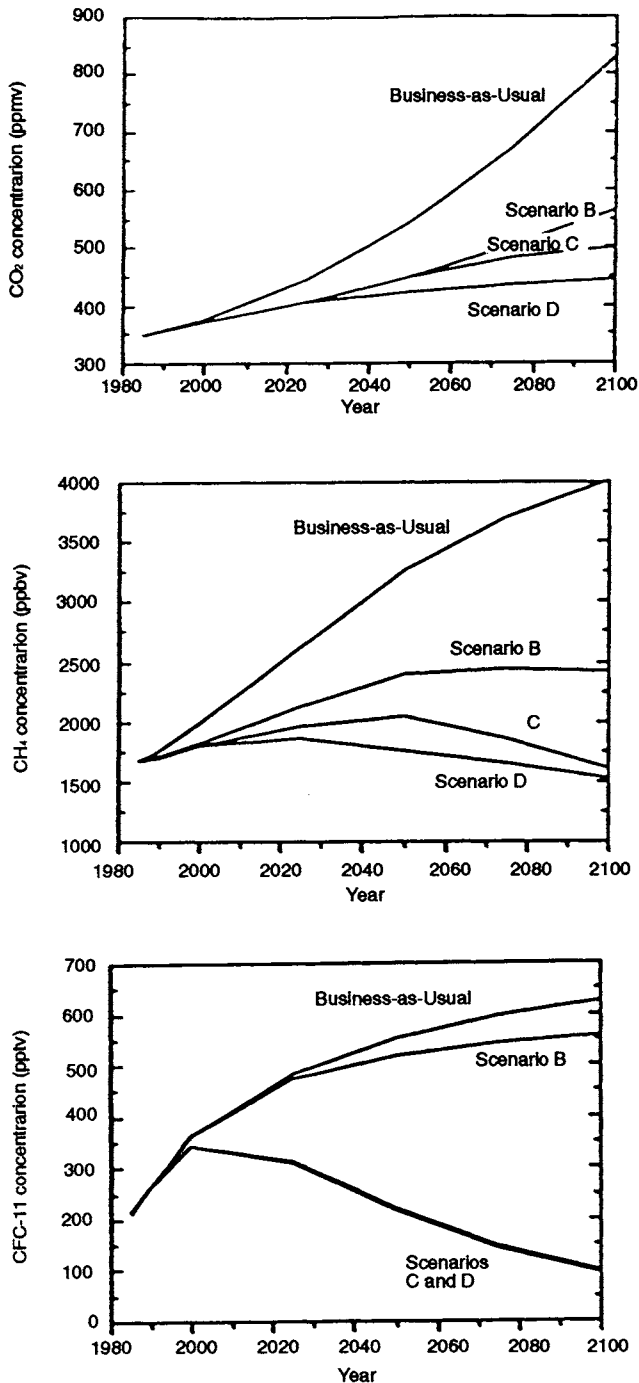
This is because CO<sub>2</sub> will remain the predominant greenhouse gas and large increases of methane will be balanced somewhat by smaller increases of the CFCs, which are potentially more powerful greenhouse gases.

We may then ask again: Could it be that all those horrific impacts on climate, which we still have to assess, if they really occur at all, would not occur as soon as a lot of people claim, but much further down the line, possibly giving us much more time to either combat them or adjust to them, and thereby take the tone of urgency out of the voiced concerns? According to everything we have heard so far, the answer can only be yes.

Let us now return to CO<sub>2</sub> and analyze one aspect of an atmospheric carbon dioxide increase which is frequently overlooked altogether or only dealt with in passing, but which we have briefly touched on a little earlier, namely the impact of the biosphere.

FIGURE 3

**Projected atmospheric concentrations of CO<sub>2</sub>, CH<sub>4</sub>, and CFC-11 resulting from the four IPCC emissions scenarios**



Source: *Global Warming, the Rest of the Story*, Intergovernmental Panel on Climate Change, 1990.

CO<sub>2</sub> does assume a special role indeed, since, in contrast to all other trace-gases emitted from fossil fuel-burning, it is *not* a pollutant with potential detrimental effects on the biosphere such as SO<sub>2</sub> or acid rain, or photochemical oxidants, but a gas essential and beneficial to the thriving of our biosphere.

Therefore, by emitting CO<sub>2</sub> into the environment, man is *not* harming it, but rather benefitting it, certainly over any CO<sub>2</sub> range that might possibly occur as a result of continuing fossil fuel-burning.

This is a fact which many people have a hard time grappling with, especially since it has been ingrained in people's minds that man's actions could only harm the environment. This one-sided doomsday view of the world is particularly prevalent among those who, because of their ideological position, maintain that any change, as long as it is man-induced, is bad per se and ought to be resisted. Surely this is a philosophical point and has nothing whatsoever to do with the relevant science. Since we are concerned with the *scientific* basis of the greenhouse effect and matters related to it, we will not dwell on those philosophical aspects, but rather return to science and present an image of the biosphere—the way it may evolve under increasing CO<sub>2</sub> concentrations.

There are in fact a large number of studies which have attempted to evaluate the possible impact of an enhanced CO<sub>2</sub> level on a variety of plants, both natural and cultivated.

The general conclusion of those studies is overwhelmingly positive on CO<sub>2</sub> and may be summarized as follows:

Increasing CO<sub>2</sub> levels lead to increases in photosynthesis, plant weight, plant branch numbers, fruit numbers, fruit size, plant tolerance of atmospheric pollution, and plant water efficiency.

While the first factors simply reflect CO<sub>2</sub>'s role as a fertilizer, the last two factors are related to the way a plant operates. It breathes through tiny openings in its leaves, called the stomatae, which may open or close depending on the environmental conditions. Increased CO<sub>2</sub> acts as an anti-transpirant, causing the stomata openings to close partly and take in less air pollutants and lose less water through transpiration, factors which may be important under drier, but CO<sub>2</sub>-enriched conditions.

Those positive effects may not be as large though, if other nutrients such as nitrogen or phosphorous are in insufficient supply. But curiously enough, nitrogen has not been a limiting factor in recent decades—at least not in the more industrialized regions of the Northern Hemisphere. This is because nitrogen emissions are another by-product of fossil fuel burning; and even though nitrogen emissions are considered air pollutants, they do have a fertilizing effect on plants, and therefore add to the general stimulus given to plants by the increasing level of CO<sub>2</sub>.

Some scientists claim that weeds may grow better under a high CO<sub>2</sub> scenario, thereby nullifying—at least partly—the expected positive impact on plant growth. The final vote on this has not yet been cast, but as far as trees are concerned,

there is growing evidence that they tend to reap a particularly rich CO<sub>2</sub> bonus, since they accumulate carbon and grow bigger year after year—which weeds do not do, since they are mostly annuals.

Furthermore, when the additional impact of higher temperatures is taken into account, which is expected to occur as a result of an increase in the greenhouse effect, it is sometimes claimed that plant diseases may increase and adversely affect any potential gain from a CO<sub>2</sub>-enriched atmosphere.

Here another factor comes on stage, namely the impact of higher temperatures on plant growth. We are not yet in a position to determine exactly what higher temperatures may result from the additional greenhouse effect, but . . . a quick glance at existing experimental work that has been conducted to investigate relationships between plant growth at high CO<sub>2</sub> scenarios as a function of temperature . . . [shows] that the higher the temperatures, the higher the growth benefits, at least over the range of temperatures observed on Earth. Remarkably, this is even true for tropical temperatures and it partially reflects the fact that the species variety of the biosphere increases as temperature and moisture increase. This point will be taken up later on, when we assess the possible impact of a climate change on nature, the environment, and human activities.

After examining possible future trace-gas scenarios and various ways carbon dioxide may interact with our natural chemical and biological cycles, and trying to determine how soon a dramatic buildup of greenhouse gas may occur in the atmosphere, we have found out that the very rapid buildup feared not so long ago may not materialize, because we now know that the main greenhouse gases, CO<sub>2</sub> and the CFCs, will in all likelihood grow much slower than was projected so far. In the case of CO<sub>2</sub>, this is due to a re-analysis of future energy use scenarios, but also to newer modeling work which explains the absorbing role of the oceans under different CO<sub>2</sub> emission scenarios and, in the case of CFCs, it is the regulatory action taken against them because of their role in stratospheric ozone depletion. This action has the double benefit of also containing the greenhouse effect. Looking again at the IPCC scenarios, our “BaU” [“Business-as-Usual”] scenario would then be lower than theirs.

## Welcome to the world of climate modeling

We have now found out how trace-gas concentrations may evolve in the atmosphere, and have therefore laid the groundwork to address the central issue of the current greenhouse debate: What will happen to *climate* if the greenhouse gas buildup continues? Do we already see some effects due to the greenhouse gas buildup which has already taken place?

In this debate, the ability of the climate models to predict future climate changes resulting from increased trace-gas levels takes center stage.

Everything we have heard so far in the media about detrimental climate changes thought to occur from increased trace-gas levels is based on computer model calculations which cur-

rently provide the best possible means to estimate future climate changes.

Those computer models were developed over the past few decades to varying degrees of sophistication.

To give you a little bit of detail, there are three major types of models: First, the so-called energy balance models, EBMs, which only consider surface energy fluxes; then second, RCMs, radiative convective models, which also take account of convective air exchange with the atmosphere above a surface point; and finally, the GCMs, general circulation models, which are the ultimate in sophistication and include everything from air currents at various levels in the atmosphere to moisture flow, cloud formation, rain, snow, evaporation, sometimes even the oceans and seasonal and diurnal cycles, in short, the whole works. All of the research we will be considering here, and which is of any relevance to the debate, is based on GCM results. Those models are in fact very similar to the ones used by the Weather Service to compute forecasts for the next weekend, but are extended to include processes which do not have a bearing on tomorrow's weather, but are critically important to climate. Those processes are, of course, the changing composition of the atmosphere and the resultant change in radiative energy, but also exchanges with the surface, such as evaporation.

To make one thing clear, however: No matter how good those models are, they are still only models, incomplete approximations of the multitude of physical, chemical, and even biological processes which take place on Earth, and they are currently far from including *all* processes which may be important to climate. For one thing, we do not even know what they are, and some of the ones we do know about are not yet incorporated into the models because of a variety of computational constraints.

On a forecasting level, we learn to appreciate this every once in a while when a weather forecast, based on computer models, goes bust and instead of sunshine, we have rain on a weekend.

Clearly then, in all types of computer-based weather and climate, there is considerable room for improvement.

Now, a climate “forecast” is achieved by letting the model run not only for the next weekend, but straight out for the next 30 or 50 years.

Let us digress for a moment and define what “climate” is. Climate is the *average* state of the atmosphere and of such parameters as temperature or precipitation, but also the variability and the range of those parameters over an extended period of time. It can be defined for any given location or larger geographical areas. The time period chosen for defining those averages is usually 30 years, but no less than 20 years. When using the term “climate,” it is implicitly assumed that climate does not change very much from one 30-year period to the next, in other words, climate is somewhat of a constant. This in itself is an assumption of limited validity, as we will see later on, because climate thus defined is indeed continuously changing at time scales ranging from

several decades to centuries and millennia.

A *change* of climate would be a permanent change in a climate parameter from one 30-year period—or an average over a number of such periods—to the following 30-year periods, where the change is of sufficient magnitude to be characterized as such.

This magnitude depends on the natural variability of the parameter. Therefore, if there is a run of seasons or years much shorter than 30 years which is colder or warmer, rainier or drier, than the 30-year average, we do not speak of a climate change yet, but rather of short-term climatic fluctuations.

Consequently, the occurrence of a run of extremely cold winters in the late '70s constituted a climate change as little as the string of extremely hot and dry summers in the '30s, because climate did subsequently return to its long-term norms. The droughts of the '30s and the cold winters of the late '70s are true examples of short-term climatic variations.

The climate models and the greenhouse debate then are not concerned with those short-term climate variations, but rather with long-term, lasting changes which occur on time scales of a number of decades and even centuries.

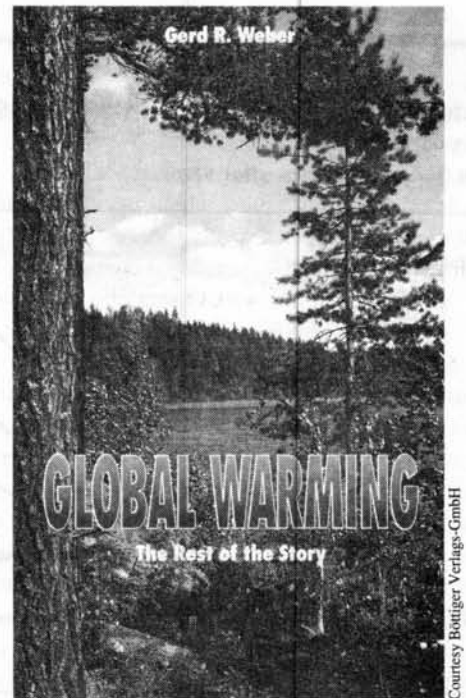
Running a climate model takes a lot of time even on the fastest and best supercomputers, which are very expensive, and there are therefore only a handful of research institutions around the world sufficiently funded and staffed to perform those calculations. Each group of researchers models the atmosphere a little differently, or characterizes the atmospheric physics in a somewhat different manner, and hence the results are different too, especially when they deal with regional detail—and regional means anything under 1,000 miles.

Nonetheless, no matter which model result we consider—after it has been run to simulate about 30 years worth of a doubled CO<sub>2</sub> climate—one basic result is the same from all models: It will get warmer.

Let us now consider what we can expect, according to those model calculations, if we double the atmospheric CO<sub>2</sub> content—or increase the concentration of all trace-gases to such an extent that it will be the equivalent of a CO<sub>2</sub> doubling.

We will do this by looking at the modeling results of the three largest U.S. institutions involved in climate modeling, namely the Geophysical Fluid Dynamics Laboratory (GFDL), NASA's Goddard Institute of Space Studies (GISS), and the National Center of Atmospheric Research (NCAR), which all run state-of-the-art, sophisticated GCMs, whose results are the very heart and soul of the current climate debate, and which are similar to those arrived at by other modeling groups around the world.

At this point we will not go into any detail of the modeling and computational procedures applied in those GCMs, because they are very complex and are somewhat beside the point here for most purposes. There are a few items, however, which are of sufficient importance and to which we will return later on.



The cover of Gerd Weber's forthcoming English-language book.

We are now going to present the image of a future climate at twice today's atmospheric CO<sub>2</sub> level, and do this by giving a consensus view from the models, first on a global basis, and then in a little more regional detail as far as this is warranted by the horizontal resolution of the models.

In a 2-times-CO<sub>2</sub> climate, the best available model calculations expect:

- 1) Global temperatures will be 6-8°F higher than before we emitted trace-gases into the atmosphere.
- 2) At higher latitudes, this temperature increase would be 2-3 times as large as the global average, and in low latitudes, it would be less than the global average.
- 3) The temperature increase would be larger in winter than in summer.
- 4) Precipitation is expected to increase by about 10% on a global average, but is expected to increase more in mid- and high latitudes, remain the same in the subtropics and increase some in the tropics.

5) Furthermore, because of thermal expansion of the oceans, the sea level is expected to rise by 1-3 feet.

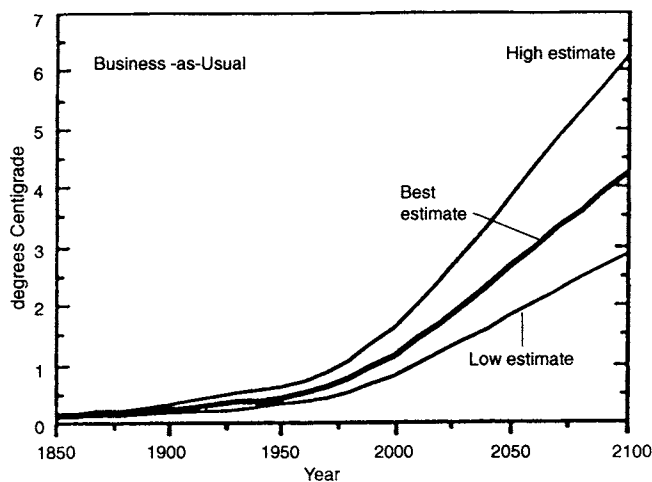
The Intergovernmental Panel on Climate Change (IPCC), the body instituted to probe into the greenhouse effect, arrived at conclusions which are broadly comparable. Some of their results and assumptions are shown in **Figure 4**. According to them, the equivalent CO<sub>2</sub> doubling may occur by the year 2030. Temperatures may have increased by 2°C by then. Additional warming is expected in the following decades until "equilibrium warming" is reached.

The "equilibrium warming" is the temperature increase calculated by climate models after all feedback mechanisms

FIGURE 4

## Projected global warming from 1850-1990 into the year 2100

Realized temperature rise after 1765



Source: *Global Warming, the Rest of the Story*; Intergovernmental Panel on Climate Change, 1990.

*This figure uses the IPCC "Business-As-Usual" trace-gas scenario to simulate global warming between 1850 and 1990 thought to have resulted from the observed trace-gas increase and projects the effect of increased concentration of trace-gases into the year 2100.*

have acted and after all delaying processes have ended.

One major example for such a feedback mechanism is the water-vapor feedback loop. It works like this: An initial increase of greenhouse forcing due to a trace-gas increase evaporates water vapor from the oceans. However, water vapor itself is also a greenhouse gas, and therefore the additional water vapor in the atmosphere causes more water vapor to evaporate (because if ocean temperatures rise, evaporation rises) and so on, until a new equilibrium of the energy fluxes is established. This feedback alone is important enough to account for roughly two-thirds of the additional greenhouse effect. In other words, without this feedback, temperatures, according to model predictions, would only increase by one-third of the value after feedbacks. This will be important to remember, because it means that the full effect will only become apparent after the oceans have warmed up and have provided the atmosphere with additional water vapor. Therefore, ocean temperatures and atmospheric water vapor content should provide valuable monitors of greenhouse-induced climate changes.

The envisioned temperature increases would indeed be very large, were they to occur, and put Earth into a climate it has not seen in over 100,000 years, eclipsing, by a large

margin, temperature variations of the last few thousand years, which in all likelihood have only been between  $\pm 4^\circ\text{F}$ .

Before we get into some of the possible drastic consequences this might have on nature and human activities in general, we will first consider the impact of such a climatic change on the U.S.

We do this by looking at the expected changes in temperature and precipitation at eight major U.S. cities, each representing a different climatological region. Those data are shown separately for summer and winter in **Table 1**.

The values given here have been interpolated from published results of the three major GCMs described above. To give you an idea of the degree of variation from model to model on a regional scale, both an average of all three models and the results from the individual model are given.

The variability among models is too large at present to put much confidence in any individual forecast for a given location. Therefore, we will consider the consensus or average forecast of the three main U.S. GCMs for the eight cities chosen.

Surprisingly, the average warming at all cities is nearly the same in winter as in summer, namely  $6.8^\circ$  and  $7.0^\circ\text{F}$  respectively. Even the geographical variations are comparatively small with a somewhat larger warming expected north within the continental interior, in Minneapolis and Chicago. It may be noted in passing that those temperature increases would be considered significant within the framework of the models, since the average error of the modeled and currently observed climate is in the neighborhood of  $5^\circ\text{F}$ . Therefore, the modeled temperature increases for a  $\text{CO}_2$  doubling are much larger than the expected error margin. According to those model calculations, Chicago would enter into a climate—as far as temperature is concerned—which is presently observed in central Tennessee. This may be a welcome change for Chicagoans, who occasionally suffer from atrocious winter weather, but the summer swelter, now confined to the Deep South may extend all the way up to Chicago. New Orleans may then be in for even worse news as winters get milder, but the entire summer half-year would get incredibly hot and sultry, turning New Orleans' climate into today's Miami.

In those two examples, we only considered temperature changes and not precipitation changes. But, of course, it is of utmost importance in the climate change debate not only to consider one parameter such as temperature, but other important parameters as well, the main one being precipitation. No analysis of climate change can be complete without considering precipitation. For instance, it would be foolish to state outright, "The climate of Chicago will be that of Nashville, Tennessee" by only considering temperature. If precipitation decreased drastically under a warming scenario, Chicago's climate would not be like Nashville's but rather like the one of Dallas or Amarillo, Texas.

Let us therefore consider the modeled precipitation



TABLE 1

**Climate model predictions for eight American cities in case of an atmospheric CO<sub>2</sub> doubling****Projected temperature changes in Centigrade**

(1°C=1.8°F)

	Winter				Summer			
	GFDL*	GISS	NCAR	Mean	GFDL	GISS	NCAR	Mean
Minneapolis	7.0	5.0	2.0	4.7	8.0	3.0	2.5	4.5
Chicago	6.0	5.0	2.0	4.3	7.0	3.0	2.0	4.0
Denver	5.0	5.0	2.0	4.0	7.0	3.5	2.5	4.3
New York	6.0	4.0	3.0	4.3	6.0	3.0	2.0	3.7
Los Angeles	4.0	4.5	2.0	3.5	4.0	4.0	2.5	3.5
Phoenix	4.0	5.0	2.0	3.7	5.0	4.0	2.5	3.8
New Orleans	4.0	4.0	2.5	3.5	4.0	3.5	2.5	3.3
Miami	4.0	3.5	2.5	3.3	4.0	3.0	2.5	3.2

**Projected precipitation changes in mm/day**

(1 mm=0.04 in)

	Winter				Summer			
	GFDL*	GISS	NCAR	Mean	GFDL	GISS	NCAR	Mean
Minneapolis	0.5	0.4	0.7	0.5	-1.0	0.2	-0.1	-0.3
Chicago	0.4	0.3	1.0	0.6	-0.7	0.4	0.4	0.03
Denver	0.2	0.3	1.0	0.5	-1.0	-0.1	-0.1	-0.4
New York	0.4	0.3	1.1	0.6	-0.5	0.0	0.2	-0.1
Los Angeles	0.1	0.2	0.0	0.1	0.2	0.2	0.1	0.16
Phoenix	0.1	0.3	0.5	0.3	0.0	0.3	0.0	0.1
New Orleans	-0.1	-0.2	0.0	-0.1	-0.2	0.4	0.0	0.06
Miami	-0.2	-0.2	-1.0	-0.5	-0.4	0.3	0.0	-0.03

\*GFDL=Geophysical Fluid Dynamics Laboratory

GISS=Goddard Institute of Space Studies

NCAR=National Center of Atmospheric Research

Source: *Global Warming, The Rest of the Story*; after data from U.S. Department of Energy, Report DOE/ER-0237.

changes. As we did before, we will look at an average of three GCM forecasts for the eight cities in Table 1, and we first do this for the summer months of June, July, and August. Those months are in the middle of the growing season, a time particularly susceptible to precipitation changes.

We notice at the very beginning that there is a remarkable scatter from model to model in the predicted precipitation changes. In Chicago, for instance, one model predicts a decrease of almost 8/10th of an inch per month, while the remaining two forecast an increase of 4/10th of an inch per month.

The consensus forecast for all stations calls for a decrease of monthly precipitation by less than 1/10th of an inch. The average monthly precipitation of the stations used here is approximately 3-4 inches. Therefore, the forecast precipitation change is only a very small fraction of today's observed precipitation.

If we furthermore consider the margins of error of the modeled present-day precipitation, we realize that they are

many times higher than the modeled precipitation changes resulting from a doubling of CO<sub>2</sub>.

From this we can only conclude that, on the basis of current model forecasts for the locations considered here, there will be no significant precipitation changes during the summer months. Looking at winter precipitation, the situation is somewhat different, insofar as there is a slight to moderate increase in modeled precipitation, particularly at those locations where there was a decrease in summer. In general, precipitation seems to increase over the northern half of the country. The increase in winter precipitation appears to be larger than the occasional decrease in summer. Since winter precipitation is decisive for water management (most aquifers get recharged in winter), it is hard to construe a worsening water supply situation on the basis of current model forecasts; the available evidence rather points to an improvement in most areas. This appears to be the case even in those areas which already are under water stress today, namely the desert Southwest.

# Save-the-banks swindles destroying the U.S. economy

by Marcia Merry

The year 1991 opened with a bang in Rhode Island—the declaration of a Great Depression-style bank emergency by Gov. Bruce Sundlun. Due to the failure of the Rhode Island Share and Deposit Indemnity Corp., the state's private deposit insurance agency, Governor Sundlun was forced to close 45 credit unions and banks on New Year's Day, freezing the accounts of 300,000 depositors and leaving many without the ability to pay their bills or even buy food. The banking panic quickly spread to Massachusetts, where runs sank the corpse-like Bank of New England, one of the region's largest banks.

In addition to the Rhode Island failures, the Federal Deposit Insurance Corp. took over 124 federally insured banks during 1991. The assets of the FDIC-seized banks totaled \$64.3 billion—nearly four times the \$16.2 billion of assets of failed banks in 1990. Three-quarters of those failed assets were in New England and New York, now in the grip of a spreading, Texas-style blowout.

As of Dec. 16, the Resolution Trust Corp. had taken over 232 savings and loans, with \$87.4 billion in assets. All told, in 1991, the government seized banks and thrifts with a total of \$151.7 billion in assets.

This shutdown process is a continuation of the deepest depression of the twentieth century, which has reduced the world's once-strongest economy to rubble. A chain-reaction financial collapse is under way, with increasingly large sections of the economy disappearing on an almost daily basis. The response of the Bush administration, and its controllers on Wall Street, is to try to save the dying financial system by applying more of the same suicidal policies which brought about the collapse in the first place.

The Rhode Island crisis dramatizes the New Year's challenge before citizens and lawmakers alike: To just make demands to receive your savings, your pension, your jobs, and your family's future, is futile. It is time for individuals to organize for a declaration of national emergency, nationalize the Federal Reserve, and institute banking policies that will aid emergency measures to rebuild the U.S.



*Treasury Secretary Nicholas Brady and U.S. Treasurer Katherine Ortega display their ludicrous notion of value. For Brady, the banks are "the engines of growth," and they have to be bailed out even if it means shutting down the physical economy to do it.*

Stuart Lewis

economy. Anything else just adds to the catastrophe.

Even the government's own statistics, issued by the FDIC based upon phony data supplied by the banks, demonstrate the chicanery and futility of the government's save-the-banks schemes to date.

The following feature report of graphs and analysis was based primarily on the FDIC's quarterly reports on the U.S. banking sector, in particular from the latest figures available in the FDIC 1991 third-quarter report, released Dec. 10.

This exclusive study by *EIR* bank columnist John Hoefle, shows that the whole U.S. banking system is bankrupt. But, the government will not admit what its own reports prove. The reason for this is purely political. George Bush and his cohorts are declaring they are implementing "solutions," while meantime they implement secret swindles, regulations changes, and other practices just to perpetuate looting. In particular, Citibank—the nation's largest and most bankrupt bank—has been the recipient of repeated interventions by the Federal Reserve to allow another few weeks of an "aura of solvency." The Fed's secret takeover of Citicorp is the model for the future of U.S. banking.

What the government banking statistics show is that huge resources are going down the rat-hole of "bailouts" to insolvent banks. The rationalization given for this is that bank lending will be the driver of the economic recovery. In December 1991, a litany of testimony to Congress and remarks to the public through the network television news interview programs, was given by Treasury Secretary Nicholas Brady,

Federal Reserve Board chairman Alan Greenspan, former FDIC head William Seidman, and other luminaries, that to save the economy, you must first save the banks.

"America's banks are the engines for growth in this country," Secretary Brady told a meeting of bank examiners in December, advising them to ignore bad loans in order to "foster the injection of fuel that will lead to solid economic growth."

The logic of these swindlers is that, "If you want to save the dog, you have to first save the fleas."

As long as this lying and swindling prevails, there can be no recovery. Look at where the resources are going. During 1991, the government voted \$225 billion to bail out the banks and savings and loans, raising the total appropriated since August 1989 to \$340 billion. By contrast, after weeks of bickering, only \$1 billion was made available in disaster aid to farmers hit by floods and drought; only \$1.5 billion was made available for food aid to the former Soviet Union; and the story is similar for the unemployed, the homeless, and those needing medical care. The government is strangling the real economy—and the population—while giving a blank check to the banks in the name of "saving the economy." Do you have any doubt who is running the United States?

Finally, what the following study shows, is that beneath all the government's lies, greed, and coverup, the U.S. banking system is hopelessly bankrupt. The government's save-the-parasites program is too late. The banks are too broke to save, and the attempt to save them will only destroy what's left of the economy.

# FDIC figures show U.S. banking system is hopelessly bankrupt

by John Hoefle

With the economy collapsing steadily and inexorably in a process characterized by Democratic presidential candidate Lyndon LaRouche as the "great mudslide," a panicked Federal Reserve cut its discount rate by 1% to 3.5% Dec. 20, the lowest level since November 1964.

The discount rate, which is the interest rate the Fed charges for loans to banks and other financial institutions, has been steadily dropping for a year. Since July 1990, the Fed has acted 15 separate times to cut the various interest rates it controls or influences. This is reminiscent of the actions the Fed took in the wake of the 1929 stock market crash. Like 1929, these actions will not stop the depression, but rather will accelerate the collapse.

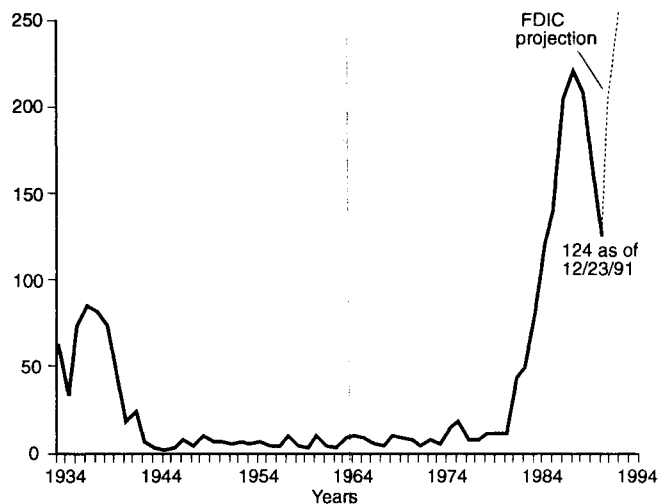
Despite the Fed's contention that such interest rate drops are intended to spur bank lending and ease the credit crunch, the real purpose of the cuts is to pump desperately needed liquidity into the increasingly insolvent U.S. banking system.

The U.S. banking crisis is out of control, as non-performing loans skyrocket, real estate values plummet, and the corporate and consumer sectors sink into oblivion. Trillions of dollars of corporate debt, consumer debt, and residential mortgages are unpayable due to the depression racking the economy of not only the United States, but the entire Anglo-American world.

The administration and the Fed have responded to this crisis not by trying to save the economy, but instead by trying to save the banks with a massive bailout reminiscent of, but on a much greater scale than, the bailout of the savings and loans institutions. This approach is both immoral and incompetent, since the failure to deal with the economy dooms any attempt to save the banks. The result is that funds needed to rebuild the productive sector of the economy are being wasted on insolvent banks, blocking any hope of a genuine recovery.

The U.S. banking system is past the point of salvation, no matter how much money is thrown at it. Commercial banks are failing at the greatest rate since the Great Depression. The failures are increasing both in terms of the number of banks failing (see **Figure 1**) and the size of the banks that are failing (see **Figure 2**) as larger and larger chunks of the

FIGURE 1  
**U.S. banks failing at record rates**  
(numbers of banks)



Source: FDIC (1991-94 are projections)

banking system fail.

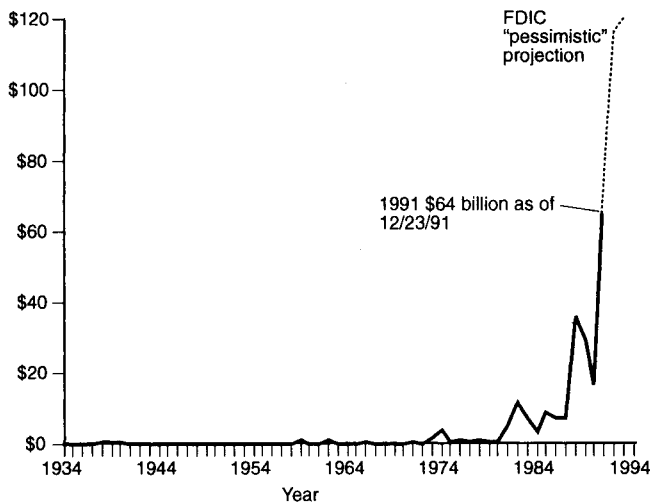
The figures for 1991 are deceptive. As of Dec. 23, only 124 banks had failed, short of the 137 failures the Federal Deposit Insurance Corp. had projected in October, and well under the 180 to 230 failures the agency had predicted in January. The reason for the drop in failures is not any recovery on the part of the banking system, but rather the insolvency of the FDIC's Bank Insurance Fund (see **Figure 3**). Regulators were forced to slow the closing of insolvent banks because the FDIC ran out of funds to pay off depositors. Banks that should have been closed this year, are being allowed to remain open until the FDIC obtains new funds.

Thus, the dip in 1991 failures, rather than representing any improvement, instead represents a further ratcheting-down of the banking system. As with the savings and loans institutions, the federal government is now leaving insolvent banks open because it cannot afford to close them. The result

FIGURE 2

**Total assets of failed banks zooms**

(billions of dollars)

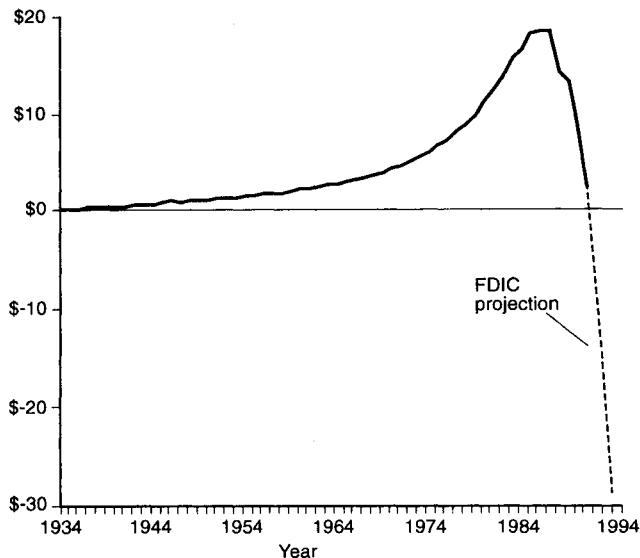


Source: FDIC (1991-94 are projections)

FIGURE 3

**Falling Bank Insurance Fund assets show FDIC is bankrupt**

(billions of dollars)



Source: FDIC (1991-1994 are projections)

of such a policy, as the S&L crisis clearly shows, is to add billions of dollars to the cost of bailing out the banks—money which will come out of the pockets of the taxpayers.

**Texas comes to the Northeast**

When the Texas banking system collapsed in the late

TABLE 1

**Bank failures, 1991**

(states ranked by assets)

State	Failed banks	Total assets (millions)	% of total assets
Massachusetts	14	\$17,513	27.2%
Connecticut	17	13,713	21.3%
Florida	10	10,646	16.5%
New York	2	9,953	15.5%
New Hampshire	12	4,921	7.6%
Maine	2	2,300	3.6%
New Jersey	4	1,967	3.1%
Texas	31	1,228	1.9%
District of Columbia	1	531	0.8%
Louisiana	5	238	0.4%
Kansas	1	191	0.3%
Virginia	2	171	0.3%
Illinois	2	171	0.3%
New Mexico	3	114	0.2%
California	4	112	0.2%
Arizona	1	82	0.1%
Ohio	1	69	0.1%
South Carolina	1	63	0.1%
Colorado	3	57	0.1%
West Virginia	1	49	0.1%
North Carolina	1	48	0.1%
Maryland	1	38	0.1%
Indiana	1	37	0.1%
Vermont	1	36	0.1%
Oklahoma	1	35	0.1%
Arkansas	1	33	0.1%
Hawaii	1	9	0.0%
<b>Total, as of Dec. 23, 1991</b>	<b>124</b>	<b>\$64,337</b>	
Total New England	46	\$38,484	59.8%
New England plus New York	48	\$48,437	75.3%

Source: FDIC.

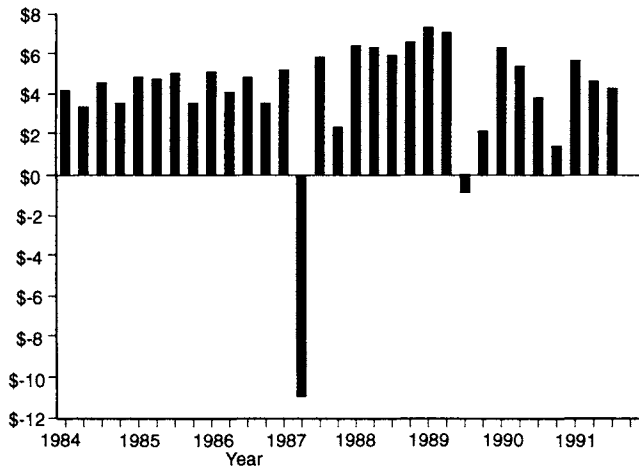
1980s, politicians, bankers, and regulators were quick to insist that the crisis was unique to Texas and would not spread to other parts of the country. The claim, like the constant talk of recovery, was nonsense.

The wave of bank failures which started in Texas has now spread to the Northeast and Florida. While Texas continues to lead the nation in the number of failed banks, it is a distant eighth when ranked by the assets of failed banks (see Table 1). New England alone had 46 bank failures and nearly 60% of the failed-bank assets as of Dec. 23, and this does not count the 45 non-FDIC-insured banks and credit unions which were

FIGURE 4

**Despite collapse, U.S. banks are reporting high quarterly profits**

(billions of dollars)



Source: FDIC

closed by the state of Rhode Island Jan. 1, 1991. Together, New England and New York accounted for 75% of the assets of failed banks this past year, while Texas accounted for just 2%.

The crisis is systemic, and it is growing. The wave of collapse which devastated the Texas banks is now ravaging the Northeast, and is breaking over California. No part of the United States will remain untouched.

**Phony profits**

Despite this escalating rate of collapse, the banks nevertheless are managing to claim profits nearly every quarter (see Figure 4).

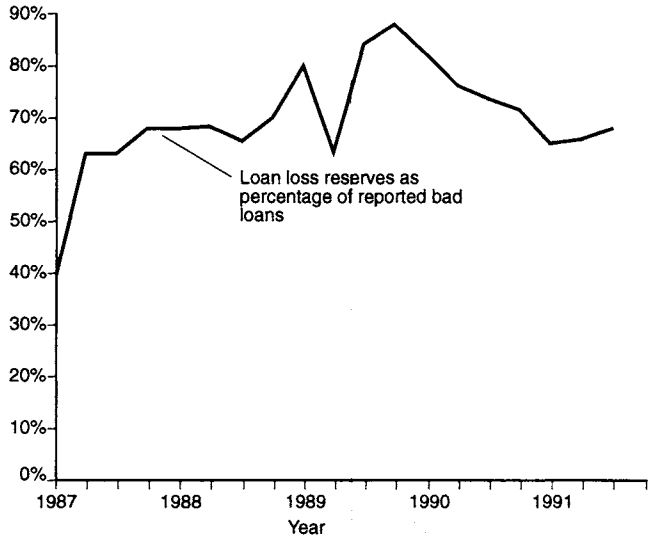
The secret to how an insolvent banking system can report profits even as it disintegrates is actually very simple: The banks are hiding the extent of their uncollectible loans and cutting back on the size of their loan loss reserves. The result is the appearance of profits, even as losses soar.

Banks are required to set aside funds as reserves for potential loan losses. Funds put into the loan loss reserve are deducted from income, but remain part of the bank's equity capital. When bad loans are actually written off, the money is deducted from the reserve and therefore from the bank's equity. Consequently, banks lose income when they add to their loan loss reserves, and lose equity capital when they write off bad loans.

Therefore, by underfunding its loan loss reserve and failing to write off some of its uncollectible loans, a bank can significantly overstate its profits and capital, disguising losses and even insolvency.

FIGURE 5

**Banks are not setting aside funds for admitted bad loans**



Source: FDIC, EIR

This is precisely what the U.S. banks are doing. The size of the aggregate loan loss reserves of the commercial banks, measured as a percentage of the banks' reported non-performing loans and leases, rose sharply from 1987 through 1989, peaking at 87% in the fourth quarter of that year (see Figure 5). Most of the increase in reserves came when several major banks added reserves for less developed country (LDC) loans and, to a much smaller extent, for real estate loans.

During 1990, however, the size of the loan loss reserves as a percentage of admitted non-performing loans declined sharply—even though the level of non-performing loans skyrocketed. Rather than add to reserves at the same pace that loans went bad, the banks decided to claim profits instead.

The ratio dropped to 64% on March 31, 1991—a 23 point drop in just over a year—then began slowly creeping up as federal regulators pushed the banks to keep pace with their reserves. As of last Sept. 30, bank loan loss reserves stood at 67% of admitted non-performing loans.

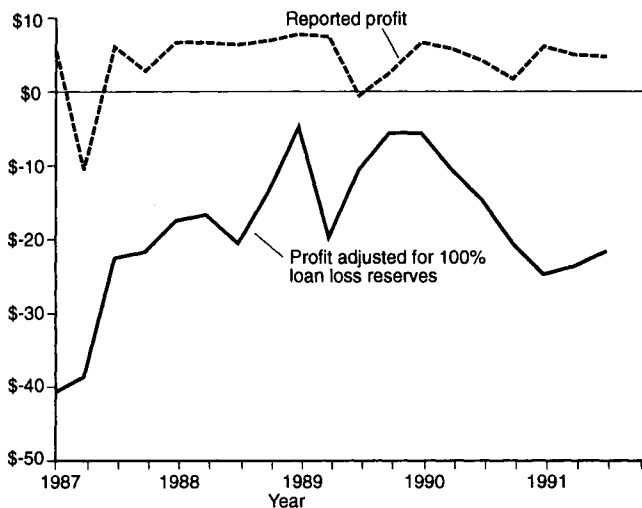
The effect of this has been to hide massive losses. Were the banks to have added \$1 to loan loss reserves for every \$1 in admitted non-performing loans, the income picture would be much different (see Figure 6). Banks would be losing money.

Banks argue that this is not a valid measurement, saying they usually recover most of such loans even when the borrower goes bankrupt, and thus should not be required to reserve at a \$1 to \$1 rate. While this was true during the real estate boom of the 1980s when real estate values were rising and there were always buyers, it is no longer true today.

FIGURE 6

**U.S. commercial bank profit becomes a loss at 100% loan loss reserves**

(billions of dollars)



Source: FDIC, *EIR*

Real estate values are collapsing, down 20-50% in many areas, with many properties no longer worth the amount of money owed on them. The real estate market is glutted, awash with cash-starved sellers and precious few buyers. In this market, banks cannot find buyers for their huge portfolios of real estate at anything near book value. In order to sell the properties, the banks would have to offer them at substantial discounts. Such a policy would not only force the banks to take huge write-offs on the properties, but it would further deflate real estate values, causing further losses.

As a result, banks are holding onto hundreds of billions of dollars of devalued real estate and real estate-backed loans. Unable to find buyers, and unable to sell if they could, the banks are holding these properties at or near book value—as if the collapse had not occurred.

Were the banks to have set aside loan loss reserves equal to their admitted non-performing assets—which are just the tip of the iceberg of actual bad loans—since 1987, their claimed \$231 billion in equity capital would instead be a deficit of \$204 billion, and the banking system would have been officially insolvent since mid-1988 (see Figure 7).

**Backdoor bailouts**

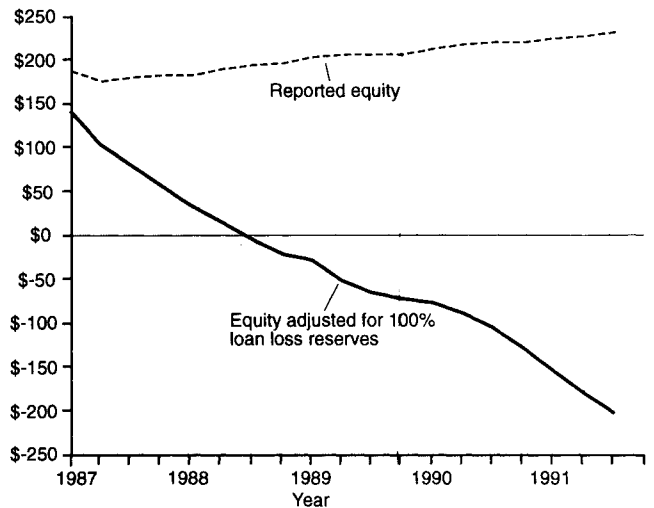
To cover up this accelerating insolvency, the Bush administration, bank regulators, and bankers have resorted to a scandalously wide range of backdoor bailouts, fraudulent bookkeeping, interest rate windfalls, rules changes, orchestrated mergers, and taxpayer bailouts.

The Federal Reserve has been systematically propping up failing banks with loans from its discount window, ac-

FIGURE 7

**Equity capital of U.S. commercial banks in the red**

(billions of dollars)



Source: FDIC, *EIR*

ording to a study released in June by the House Banking Committee. Between Jan. 1, 1985 and May 10, 1991, the study found, the Fed routinely made “extended” loans to over 500 troubled institutions, 90% of which subsequently failed. Approximately 60% of the banks receiving such loans were borrowing money from the Fed at the time of their failure, with over \$8.3 billion in such loans outstanding.

When the banks failed, the Fed turned to the FDIC for repayment.

“This is a massive form of forbearance—granted in secret by the Federal Reserve—at a huge cost to the insurance funds and the taxpayers,” observed House Banking Committee chairman Rep. Henry B. Gonzalez (D-Tex.). “The Federal Reserve’s loans have kept brain-dead institutions open for extended periods, increasing losses for the FDIC,” he added. The two biggest beneficiaries, the study found, were First Republic Bank Corp. of Dallas, and the Bank of New England, both of which subsequently failed.

The Treasury Department also helped prop up insolvent banks—notably the Bank of New England—by depositing billions of dollars of Treasury Tax and Lien funds in the banks.

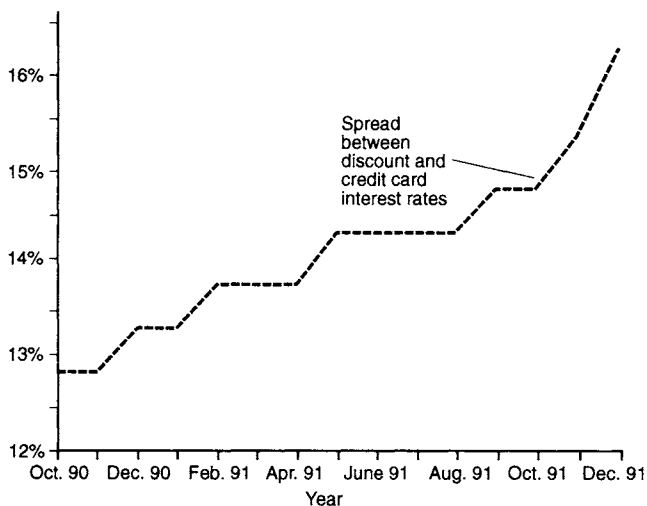
The Fed has also been helping the banks by lowering interest rates, thereby reducing the banks’ costs of funds. The Fed has cut its discount rate—the rate it charges to lend money to banks—six times since December 1990, from 7% to 3.5%. During this same period, the Fed Funds rate—the rate at which banks lend money to each other—has dropped nearly 3%, from 7.5% to 4.6%.

While banks have been quick to take advantage of the

FIGURE 8

## Banks living off usury

(interest rates)



Source: Federal Reserve, *EIR*

lower rates, they have been slow to pass the savings on to their customers (see **Figure 8**). It is estimated that for each 1% drop in the discount rate, the banks book an extra \$1.5-3 billion in profits, giving the banks a windfall over the past year of as much as \$7-13 billion.

## Cooking the books

In addition to these backdoor bailouts, the White House and banking regulators have issued a series of so-called policy clarifications which attempt to cover up the collapse of the real estate market and the subsequent devastation of the banks' balance sheets.

In February, Federal Reserve Board chairman Alan Greenspan complained that it is "fundamentally wrong" to make banks count their real estate holdings at market value. On March 1, the four banking regulators—the Fed, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision—issued a set of lending guidelines designed to make it easier for banks to roll over or hide their non-performing loans, and artificially inflate their incomes.

Deputy Treasury Secretary John Robson defined the measures as "confidence building," but "con" would be more apt. The measures will make it more difficult to determine the true health of a bank, the General Accounting Office warned. Which, of course, is exactly the intent.

As the banks continued to collapse, the Bush administration and the regulators were forced to even more blatantly political measures.

On Nov. 7, the four regulatory agencies issued a joint

policy statement on the review and classification of real estate loans, which called on bank examiners to review real estate loans not "based solely on the current performance of the collateral or similar properties," but rather on the alleged "ability of the real estate to generate income over time based upon reasonable and supportable assumptions"—meaning, based upon the mythical Bush recovery in which real estate prices will climb back up to their historic highs.

To make sure that the bank examiners got the message, the regulators gathered 464 examiners together at a conference in Baltimore, Maryland on Dec. 16-17 for what could charitably be called political indoctrination.

"If America's banks are the engines for growth in this country, then you are at once the throttle and the governor," Treasury Secretary Nicholas Brady told the examiners. "On the one hand, your decisions and examinations can choke expansion. On the other, you can foster the injection of fuel that will lead to solid economic growth."

Deputy Treasury Secretary Robson told the group that part of their job was to "promote economic growth," and he encouraged examiners to give banks "the benefit of the doubt, even if it might ultimately turn out to be a misjudgment."

Two years ago, the examiners were severely criticized by the administration for not cracking down on the S&Ls. Now the administration is criticizing them for cracking down on the banks.

## Bailouts out of control

The taxpayer bailout of the U.S. commercial banking system began Dec. 19, when President Bush signed the bank bill passed by Congress Nov. 27. The bill extends the FDIC's line of credit with the Treasury by \$25 billion, to \$30 billion, and grants the FDIC the right to borrow another \$45 billion from the Federal Financing Bank (FFB).

In theory, any monies borrowed from the Treasury will be repaid by the banks, through premiums paid to the FDIC for deposit insurance, while the so-called working capital borrowed from the FFB will be repaid from the sales of assets seized from failed banks.

To judge the worth of such assurances, one should look at how the cumulative S&L bailout costs have soared (see **Figure 9**).

When the Bush administration signed the Financial Institutions Reform, Recovery and Enforcement Act savings and loan bailout bill in August 1989, it said that the \$50 billion being appropriated was more than enough, since the bailout should only cost \$30 billion over three years and \$166 billion over 10 years, excluding interest. The ink was barely dry on the bill when, in September 1989, Resolution Trust Corp. chairman William Seidman told Congress that the RTC would need an additional \$50-100 billion in so-called "working capital." By December 1989, President Bush was forced to admit that the \$50 billion "might not be enough."

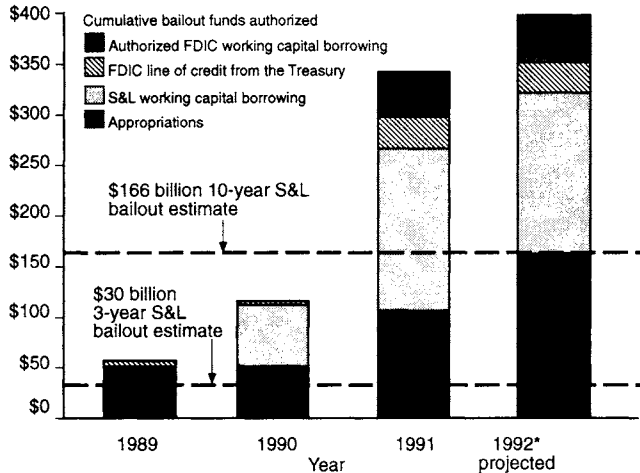
On Jan. 7, 1990, Seidman announced that the RTC was



FIGURE 9

**S&L and bank bailout costs soar**

(billions of dollars)



Source: EIR

out of funds and that no more S&Ls could be closed until additional funds were provided. In February, the administration announced a plan to let the RTC borrow working capital from the Federal Financing Bank. The RTC was authorized to borrow \$60 billion in working capital in 1990, raising the amount of funds authorized for the bailout to \$110 billion, nearly four times the administration's \$30 billion, 36-month estimate of just 17 months before.

The bailout accelerated in 1991. On March 23, President Bush signed a bill giving the RTC another \$78 billion—\$30 billion in appropriations and \$48 billion in working capital borrowing authority. Total appropriations now stood at \$80 billion.

In June 1991, Treasury Secretary Nicholas Brady told the Senate Banking Committee that the RTC needed another \$180 billion—\$80 billion in appropriations and \$100 billion in working capital. Brady suggested that it might be easier for Congress to just give the administration authority to spend whatever it needed without having to ask for more.

"I'm fully convinced the RTC has lost control of the situation," observed Representative Gonzalez.

On Dec. 19, 1991, the President signed the second S&L bailout bill of the year, adding another \$60 billion. Of that amount, \$25 billion was in the form of an appropriation, raising the appropriated total to \$105 billion, and \$35 billion was added to the working capital borrowing authority, raising that figure to \$160 billion. By the end of 1991, \$265 billion had been allocated for the S&L bailout.

The latest appropriation is expected to keep the RTC going until April 1992, when the administration is expected

to request another \$55 billion. If approved, the total cost of the S&L bailout would then be \$320 billion, excluding any additions to working capital. That's more than 10 times the administration's projection for the first three years, and nearly twice its projected 10-year cost. All of these figures exclude interest, which will be paid out over a 30-year period. The eventual cost of the S&L bailout will top \$1 trillion.

The banking bailout will be even more costly.

In fact, even before the FDIC money was appropriated, regulatory officials were warning that \$70 billion might not be enough.

In October, outgoing FDIC chairman William Seidman warned Congress that "the uncertainty of the timing and strength of the economic recovery could bring the sufficiency of the proposed recapitalization into question."

The General Accounting Office, in a report issued Nov. 12, warned that the amount of money needed by the FDIC may "be significantly higher" than the \$70 billion being proposed.

On Nov. 25, William Taylor, the new FDIC chairman, told Congress that the \$70 billion should be sufficient, provided the economy and real estate markets don't do anything unexpected and a "megabank" doesn't fail.

"It is impossible to certify to anyone what the cost of this will be," Taylor admitted.

**Massive bank consolidation**

The Bush administration's plans to save the big banks were pegged on its bank restructuring proposal, dubbed the Financial Institutions Safety and Consumer Choice Act of 1991, which was designed to give the big banks free rein to loot whatever is left of the U.S. economy. The bill would have allowed banks to set up branches anywhere in the country, sell insurance, underwrite and sell securities, and merge with non-bank companies. The resulting megabanks would be backed by the political and regulatory might of the U.S. government—and the pocketbooks of the U.S. taxpayers.

The Bush proposal would have, in effect, created a nationwide banking dictatorship, with credit controlled by a handful of big banks, to be issued in such a way as to maximize bank profits.

Thanks to determined opposition in Congress, especially by House Banking Committee chairman Gonzalez and House Energy and Commerce Committee chairman Rep. John Dingell (D-Mich.), the Bush banking proposal failed.

Nevertheless, the banking consolidation has begun. During a one-month period this summer, mergers were announced involving six of the twelve largest banks in the country (see **Table 2**).

On July 15, Chemical Banking Corp., the sixth largest in the nation, announced a merger with Manufacturers Hanover Corp., the ninth largest, making Chemical the nation's third-largest bank. On July 22, NCNB Corp., the seventh largest, announced a merger with twelfth-ranked C&S/Sovran Corp.

TABLE 2

### Banking consolidation under way: U.S. banks as of June 1991

Rank	Assets (billions)	Bank holding company
1	\$217.0	Citicorp
2	110.7	BankAmerica Corp.
3	98.1	Chase Manhattan Corp.
4	93.1	JP Morgan & Co.
5	84.7	Security Pacific Corp.
6	73.0	Chemical Banking Corp.
7	65.3	NCNB Corp.
8	63.6	Bankers Trust New York Corp.
9	61.5	Manufacturers Hanover Corp.
10	56.2	Wells Fargo & Co.
11	51.4	First Interstate Corp.
12	51.2	C&S/Sovran Corp.

Source: *American Banker*.

### This is what the banks look like today, counting the announced mergers:

Rank	Assets (billions)	Bank holding company
1	\$217.0	Citicorp
2	195.5	BankAmerica Corp. <sup>1</sup>
3	135.0	Chemical Banking Corp. <sup>2</sup>
4	116.0	NationsBank <sup>3</sup>
5	98.1	Chase Manhattan Corp.
6	93.1	JP Morgan & Co.
7	63.6	Bankers Trust New York Corp.
8	56.2	Wells Fargo & Co.
9	51.4	First Interstate Corp.

1. BankAmerica + Security Pacific, Aug. 12, 1991

2. Chemical + Manufacturers Hanover, July 15, 1991

3. NCNB + C&S/Sovran, July 22, 1991

to form NationsBank, the fourth-largest U.S. bank. BankAmerica Corp. solidified its position as the nation's second-largest bank with its Aug. 12 announcement of a merger with number-five Security Pacific Corp. A number of second-tier banks have also announced mergers.

These mergers were orchestrated by the Federal Reserve, to prevent several of these big banks from failing, according to informed sources.

Conspicuously absent from the merger list are Citicorp and Chase Manhattan Corp.

### Nationalization

Citicorp, the largest and most bankrupt of the big banks, is at the center of the banking crisis. According to well-

informed European banking sources and members of the staff of the House Banking Committee, Citicorp has been taken over by the Federal Reserve Bank of New York in a top-secret government bailout. According to these sources, the Fed seized Citicorp near the end of the third quarter of 1991, but is keeping the move secret to avoid setting off financial panic. Were the word to get out, regulators fear, it could provoke a flight from the dollar and runs against Citicorp and other banks. Meanwhile, regulators are struggling to contain the bank's growing insolvency and unwind its off-balance-sheet activities, which total several times its \$217 billion in assets on the balance sheet.

The crisis at Citicorp is reportedly one of the primary reasons the Fed has been dropping interest rates. The bank, which runs the largest credit card operation in the United States with nearly 20 million cards issued, benefits enormously from the rate drops, reportedly reaping half of the total windfall earned by the banking system due to dropping rates, giving the bank an extra \$3.5-6.5 billion in income over the past year.

Citicorp is the leader among U.S. banks in the \$60 billion credit card securities market, accounting for \$19.6 billion of the total. Credit card securities are pools of credit card receivables, sold in the securities market.

Citicorp's dependence on credit card income was at the center of the furor over President Bush's Nov. 12 call for the lowering of credit card rates, and the Senate's passage of a bill to cap those rates. The measure set off a firestorm of protest from the banks, who threatened to cancel half of their 120 million credit cards.

The Bush administration immediately backtracked on the issue. White House press secretary Marlin Fitzwater issued a statement saying that a legislated cap on credit card interest rates "could be quite disastrous to the banking industry." Treasury Secretary Nicholas Brady denounced the measure as "wacky, senseless legislation," and Council of Economic Advisers chairman Michael Boskin called it "economically dangerous."

Federal Reserve chairman Alan Greenspan warned that the measure would have a "negative effect of banks' earnings" at a time when there are already "concerns about capital positions."

Sen. James Sasser (D-Tenn.), a senior member of the Senate Banking Committee, put it more bluntly. "The thought around here," Sasser said, "is that Citicorp might go under, and that millions of folks would lose their credit cards, and that is causing a lot of wringing of hands and gnashing of teeth."

The fact is, millions of folks have already lost a lot more than their credit cards: They've lost their jobs, their homes, and even their lives. This depression, and worse misery to come, will not be ended until the Federal Reserve System is replaced with a system of national banking based on fostering growth in the physical economy.

# The LaRouche record on the banking crisis

*More and more Democratic Party leaders now talk of an economic depression, which they admit they failed to foresee at the time the "budget compromise" of 1990. Lyndon LaRouche alone has consistently foreseen what he has taken lately to calling the "economic mudslide." The statement reprinted below first appeared in EIR Vol. 17, No. 9 for Feb. 16, 1990—nearly two years ago—under the title, "Bush has not fooled the economy: LaRouche."*

The word is around that George Bush—President George Bush, as he's called temporarily—will be brought down by the collapse of the economy. In response to this, you have various well-informed and pompous idiots around Washington who assure you that George will succeed in managing the economy, and there will be no crash, there will be a soft landing.

When I hear that, my response is, the only kind of soft landing this economy is going to see, is the day that George falls on his head.

In point of fact, George has not succeeded so far, at least not in respect to the economy. He may have succeeded in fooling the dumb American people, but he hasn't fooled the economy one bit. The collapse of the economy means the collapse of infrastructure—that's being going on since 1970, and that's a definite date. We have never had a recovery in the basic economic infrastructure of the United States since the high point of 1970. It's been downhill all the way.

In agriculture, since the middle of the 1970s, we've had an accelerating collapse. Since about the same period, the 1973 oil crisis period—oil price crisis, to make it more precise—we've had a collapse of manufacturing and in productivity in manufacturing. Americans are much less productive today than they were in 1974, as a result of the emphasis on low energy economy and on shifting away from capital intensive investments in modern technology.

Now, under Bush, and the last years under Reagan, the rate of collapse of infrastructure, agriculture, and manufacturing has been accelerating. Under Bush, it accelerated at rates higher than ever experienced under Reagan. In terms of the economy, Bush has been a consistent failure, a disaster, since the day he stepped into office. So when people tell you that Bush and his administration is going to continue to be successful in managing the economy, you say, okay, when does it go over the cliff? It's already gone over the cliff!

## Monetary economy last to blow

What has not gone over the cliff yet, at least as of this

moment, are the monetary structures. They've been inflating the monetary structures, pumping money into the monetary structures. But at the same time the monetary structures have been rising, i.e., the so-called Gross National Product, the economy has been collapsing. All that is happening is that the distance between money and value has increased.

Now, the United States is over \$20 trillion in debt. That's public and private combined—about \$12 trillion in debt as such; \$8 trillion in what's called off-balance-sheet liabilities, of both the federal government and private agencies. For example, Fanny Mae, Ginny Mae, the S&L situation. If these things collapse, the government has undertaken responsibility to meet the obligations of these entities, the government picks up the tab. Then you have banks and others who've been borrowing money abroad on fiduciary accounts of third parties. Technically the debt is not the debt of the banks and so forth, but in case the third party doesn't pay, then the bank is liable.

There are about \$8 trillion of various kinds of off-balance-sheet liabilities in the U.S. economy, so combined, we're talking about \$20 trillion of this kind of debt, plus about \$1 trillion dollars of short-term debt, which is the amount of credit and debt in the economy just to keep the wheels turning in trade and production.

So we now have an annual debt service obligation of over \$4.5 trillion a year, which is pushing up toward the size of the GNP as it's recorded. Obviously, we can't continue to do that. It's going to collapse. The United States is the most hopelessly indebted Third World country in the world, virtually speaking.

In the course of our national history, whenever the United States government has adopted the policies of Adam Smith and opposed what are sometimes known as the command economy policies of Alexander Hamilton and President George Washington, the United States has gone into a deep depression. And this period is no exception. Since the 1950s, an increasing tendency toward deregulation and so-called free trade, or free markets, has brought the United States again to the point of collapse. The difference is, that this time we're headed toward a total, physical economic breakdown crisis.

Now, some people will say that during the 1980s there were periods of prosperity. But this is absolutely not true, by any sensible standard. What people mean by prosperity, is that some people during the 1980s have had a lot more money than they had before—or thought they did, at least on paper, in their accounting and tax statements. But the fact is that all during this period, per capita, the amount of basic economic infrastructure, the amount of agricultural output, the amount of manufacturing output, the amount of exports, and the amount of imports, have been declining. The United States economy has been consistently collapsing since October 1979, and has been actually in a drift of collapse since about 1970, since the collapse of Penn Central and the Chrysler Corporation in the famous crisis of that year.

## Why recognition of Croatia was postponed

by Umberto Pascali

A letter recently sent by the Provincial of the Franciscan Order in Croatia "to the brothers of the Order" and made available to *EIR* reads in part: "Croatian Christmas 1991—We have been granted the opportunity here to experience something of the historical Christmas of Jesus: Children have been born (e.g., in Vukovar) and continue to be born in cellars and in exile; Herods fearing for their power massacre the innocent; numerous families (over 600,000 persecuted souls) are escaping to 'Egypt' from their tormentors."

"Sadly many do not escape successfully," the Provincial Father, Antun Badurina, continues. "Every day we receive reports of people murdered in their own homes. There will be no midnight mass this year. . . . No glittering Christmas eclipses reality here. Therefore we are able to see even more clearly that the war against us is being waged against Christmas. All the values that the Incarnation of God established for eternity are under attack: truth, honor, personal dignity (freedom); the right to existence, name and identity (righteousness); beauty and the wonders of creation and love as the fundamental tenet of the children of God. For all of us this is a great trial and challenge to faith. We are literally undergoing genocide and ecocide. Our lives will always be marked by the horrors we have witnessed and endured."

Father Badurina summarizes the statistics of five months of ferocious war against civilian targets and with particular fury against religious buildings. "During this period, great suffering and heavy damages have occurred. Approximately 200 parishes have been evacuated, whole deaneries in some places. Three hundred and twenty-five churches and chapels have been razed to their foundations or damaged. The shooting has damaged famous cathedrals (Sibelik, Zadar, Osijek, Dubrovnik). Twenty-five monasteries have been destroyed.

Some have been looted and razed to their foundations. In nearly one-third of occupied Croatia, Croatian communities and houses are being systematically demolished.

"There are no signs left that some communities ever even existed because everything, including the graves, has been bulldozed to ground level. Cultural goods (e.g., museum artifacts) and other valuables are taken away to Serbia and Montenegro where they are sold to institutions and the populace. Libraries have been destroyed with thousands of books, including rare manuscripts, as well as hospitals, schools and old Renaissance, Baroque and other urban entities.

"Over 200,000 family houses and apartments have been destroyed. Nearly 40% of Croatian industry is gone . . . the precise number of dead is unknown because the Army and the Chetniks do not permit inspection and usually not even burial, but it is possible to speak of numbers of at least 20,000 from each side. The number of wounded is twice as large, over 70% are civilian. The weapons used by the aggressor include forbidden devices (cluster and napalm bombs, rockets, dumdum bullets. . .). Serbs are settling in occupied areas of eastern Croatia to change the ethnic structure of the region. The remaining Croats and non-Serbs wear armbands, serve as slaves, and are exposed to extreme abuse. In Serbia actual concentration camps have been established."

Father Badurina's letter was sent at a time in which the European Community has decided to postpone the recognition of Croatia until Jan. 15. Recognition, of course, that should have been granted in June—when 95% of Croatians voted for independence—would have meant that the Federal Army would never have dared to start the massacre. But on Dec. 16, at the meeting of the EC foreign ministers convened in Brussels, Belgium, to vote on recognition, Germany was

isolated and threatened, and recognition postponed. Croatia was abandoned to one more month of blood and terror.

### **Germany forced to postpone recognition**

Germany had announced long before the Brussels meeting, that it was going to recognize Croatia and Slovenia with or without a unanimous vote by the other European members. At that point Germany had already waited too long. Public opinion all over Europe and especially in Germany, Austria, and Italy (the countries closest to Croatia) was in favor of recognition, but pressure from the British, U.S., French, and Dutch governments and by the Secretary General of the United Nations prevented Germany from taking a stand.

The week prior to the Brussels meeting was a theater of unprecedented pressures and threats against the government of Chancellor Helmut Kohl and anyone else who tried to say that enough is enough.

The meeting lasted 10 hours. At the end, a compromise was reached. Germany, as previously announced, would recognize the two republics on Dec. 19, but the "implementation of the decision" will take place on Jan. 15. In exchange, all 12 EC countries accepted formally to recognize those republics that would "apply" by Dec. 23 and that would "satisfy" criteria of democracy and reliability established by the EC. Every "applying" republic was to be examined by an arbitration commission set up through the EC peace conference in The Hague, led by Lord Peter Carrington, known for having accused the Croatians of provoking the Serbians!

Germany made it clear that there were no more conditions that the Croatians had to accept before being recognized by Bonn. "Other countries can wait for those findings if they like. We are going ahead," a German official told the press.

The U.S. State Department applauded the EC decision as if it meant non-recognition. "We welcome the EC's decision to postpone definitive decisions on recognition, which will allow more time for the efforts of the United Nations Secretary General and [EC mediator] Lord Carrington," said State Department spokesman Richard Boucher the day after the decision was announced. Boucher refused to accept the idea that a date for recognition had been somehow established. "I don't really have a comment specifically on the Jan. 15th part."

But outside the diplomatic formalities, as was "leaked" to Reuters, "privately, U.S. officials are furious that Germany has decided to exert its new power on the issue." Germany was not supposed to take even that modest step. One week before the EC meeting, every EC government had received a threatening letter from Lawrence Eagleburger, who still happily enjoys his position as deputy secretary of state, despite his business collaboration with Serbian leader Slobodan Milosevic and his work at Kissinger Associates, of which Lord Carrington has been a director. The Europeans were told to stop immediately because a "premature" recognition would "almost inevitably lead to greater bloodshed."

Even the foreign minister of the non-existent Soviet Union, Yuli Vorontsov, was prompted to intervene with these historic words: "I hope very much that Germany will not make that move." And the U.N. Security Council voted a resolution asking Germany to "restrain itself."

### **Pérez de Cuellar honored by Bush and Queen**

The most shameful performance was that of the finally outgoing U.N. Secretary General Javier Pérez de Cuellar, who intervened time and again to warn Germany not to dare to recognize Croatia. His last intervention was a letter sent to the German government on Dec. 10.

During this entire period Germany resisted, and kept restating its position. On Dec. 13, German Foreign Minister Hans-Dietrich Genscher answered: "Dear Mr. Secretary General . . . I would like to express my deep concern that [your] statements—and their subsequent publication—are apt to encourage those elements in Yugoslavia which have been vehemently resisting the successful conclusion of the peace process. . . . To refuse recognition to those republics which desire independence must lead to a further escalation of the use of force by the Yugoslav National Army, which would construe it as a validation of its policy of conquest."

Pérez de Cuellar ranted that recognition "could have grave consequences for the Balkan region as a whole, and it would seriously undermine my own efforts and those of my personal envoy." That same day he was awarded by George Bush the Freedom Medal, nominally the United States' highest civilian medal. He had already been promised, publicly, a knighthood by Britain's Queen Elizabeth II. Bush personally intervened, demanding that Germany listen to Pérez de Cuellar and launching a series of last-minute telephone conversations, including with British Prime Minister John Major.

### **Third Yugoslavia and free market**

The question now is: Why this postponement? First of all, the Federal Army is using this time to destroy as much as possible in Croatia. Second, the Greater Serbians have suddenly organized an "historic" congress on Jan. 3 to proclaim what they call the Third Yugoslavia—after the monarchist Yugoslavia established by the victors of World War I and the communist Yugoslavia of Tito. This "new" Yugoslavia is supposed to be dominated by the Serbians and include, at different levels of "autonomy," all the other republics. This, even though in the meantime Croatia, Slovenia, Macedonia, and Bosnia-Herzegovina have asked to be recognized by the EC on Jan. 15.

And suddenly the new prime minister of Serbia, Radoman Bozovic, the closest protégé of communist leader Slobodan Milosevic, declared at a press conference in Belgrade that Serbia is going to be a "free market economy." "Free market" and "Third Yugoslavia" are the new pillars of the Anglo-American strategy to keep alive that terrible creature of the Versailles Treaty known as Yugoslavia.

## Our freedom depends on all nations being free

*The following exclusive interview with Dr. Zarko Domljan, president of the Croatian Parliament, who was on a tour of Chile, Uruguay, and Argentina, was given on Dec. 20 to EIR correspondent Diana Olaya de Terán in Buenos Aires, Argentina.*

**EIR:** Dr. Domljan, why the vehemence on the part of the Serbs to destroy churches, convents, and Catholic sites and monuments of historic significance?

**Domljan:** The insistence of the Serbian army and of the Chetniks [irregulars] to destroy every last sign of what is Croatian and Catholic is not understandable, because it is an irrational hatred, and this hatred toward the Croatian people is exacerbated by the Marxist or communist influence which Serbia and its army still maintain, which is that they hate anything to do with culture.

**EIR:** What do you think of the Serbian attitude toward the Muslims. I understand that there have been confrontations between the Serbian army and the Muslims?

**Domljan:** I could not say that the Serbs have attacked the Muslims; this is not to say that they love them. The Serbs are carrying out repression against the Albanian population in Kosovo, which is largely Muslim, although not entirely. They have carried out a severe repression and aggression.

**EIR:** How does Croatia view the U.S. position to try to block the decision of the European Community to recognize your country?

**Domljan:** Power often corrupts individuals, and sometimes states as well. I think that the United States is not assuming a principled position, because if the European Community had already agreed to recognize Croatia and Slovenia before Christmas, and if the United States left the resolution of the matter in the hands of the EC, that is, within Europe, the correct thing to do would have been to respect the EC resolution.

All states which in one form or another refuse, delay, or induce other states not to recognize Croatia are objectively assisting the aggression against Croatia. Every day, 50 people die in Croatia, and these attitudes of non-recognition imply a complicity with the Serbs and a co-responsibility with these crimes.

One cannot recognize Ukraine and the Baltic countries on the one hand, even announcing that they will be recognized before the referendum is taken, as in the case of Ukraine, and not recognize Croatia on the other, which held its referendum more than six months ago. This represents political duplicity, which is not permissible.

**EIR:** What other Ibero-American countries have you visited, and what responses are you finding?

**Domljan:** We visited Chile, Uruguay, and now Argentina. In the three states we have visited, we have received assurances that Croatia will be recognized as soon as the required conditions are achieved. This recognition on the part of the countries I have visited is not made conditional on all the states of the European Community recognizing Croatia, but on a majority of them doing so.

The Latin American countries do not possess great military, political, or economic power as do other states, for example, the United States, but this gives them great advantage, in being able to carry forward an independent and principled policy. Argentina, for example, has until now maintained a policy coherent with its principles, and did honor to those principles by recognizing the Baltic countries and Ukraine. This policy is based on respect for the fundamental documents of the international community; these documents deal with respect for human rights, for the rights of nations, and for the right of each nation to self-determination. This last is a basic and sacred right of each nation.

The Croatians have suffered terribly in the past 70 years of life in Yugoslavia, and with the fall of communism the moment has come for the Croatian nation to have its freedom. There exists no rational argument or reason why the Croatian people should be deprived of that which all the other countries of Europe enjoy.

**EIR:** What is your message for the countries of Ibero-America? How can we, as a continent which has in a certain sense the same Catholic culture, the same western history, contribute to the Croatian cause? And what kind of help is most needed at this moment?

**Domljan:** You can justly help us by affirming the Christian and human principles which are the cement of western European civilization. When we speak of individual rights and of the right to self-determination, we are affirming precisely all those principles which have emerged from those Christian values. They are the common denominator of our peoples, since they are embodied in the Christian world.

It is the Gospel which preaches peace and the right of each person to be whatever they want to be, when it preaches the dignity of the human person in the first place. But the dignity of the human person is not complete and total if his or her nation does not also have complete freedom. And this also applies if we invert the point: There can exist no free nation if each and every one of its inhabitants is not free.

# Li Peng's bid for India falls flat in Delhi visit

by Ramtanu Maitra and Susan Maitra

Between the platitudes expressing China's unswerving support for national sovereignty, non-interference, and policies of socio-economic development, the visit of Premier Li Peng to India last month left Beijing's fang marks, including in the joint communiqué issued prior to the Chinese premier's return flight Dec. 16. The insertion of a paragraph in the joint communiqué expressing China's "concern about the continued activities in India by some Tibetans against their motherland" surfaced the arrogance of the Chinese mandarins. This came about after India's repeated official assertion that Tibet is an autonomous region within China, notwithstanding the bloody repression that China has launched against Tibet since 1959.

In addition, the talks between Indian Minister for External Affairs Madhavsinh Solanki and his Chinese Foreign Minister Qian Qichen were a fiasco. It showed once more that China, despite its rhetoric of "mutual understanding and mutual accommodation," has no intention of veering away from its old principle: What is ours is ours and what is theirs is also ours.

This became evident when Indian Minister Solanki, expecting a bit of bonhomie from the guests in this generally friendly atmosphere, produced evidence showing that Pakistan is helping the terrorists within Kashmir and that the junta in Burma (Myanmar) is quietly passing on the arms supplied by China to the secessionists of the United Liberation Front of Asom (ULFA) in the Indian state of Assam. Solanki's objective was to bring to Beijing's attention that the Chinese-supplied arms are, in fact, being used against India as low-intensity warfare. But Minister Solanki's concerns were given scant consideration, and, in the process, Beijing endorsed in effect the subversion of India's territorial integrity.

On the other hand, the Indians, if not exactly bending over backwards to please the Chinese guests, created a spectacle by arresting at random and baton-charging Tibetan demonstrators, many of whom were women and children. At least 10,000 security personnel belonging to the Delhi police were deployed to track down the ostensibly dangerous Tibetans. Reportedly, special commandos were ready for rescue efforts in case the Tibetans turned violent. The Dalai Lama, spiritual head of the Tibetan refugees who has been provided a "home away from home" by the Indian government since 1959 when Beijing unleashed its reign of terror in Tibet, was



Stuart Lewis

*Chinese Foreign Minister Qian Qichen: Belying talk of a Sino-Indian alliance against "OECD colonialism," he hawked Washington's policies to India*

not allowed to enter Delhi. He was ostensibly considered a security risk to the Chinese visitors.

Notwithstanding, Prime Minister Li Peng did not, even out of mere courtesy, say even one good thing about India in his various discussions. During his talks with a group of hand-picked journalists, he said that he did not wish to imply that the Chinese system was better than the Indian one, but that "our system is better suited to China." The most derogatory remarks about the Indian system, however, came from the Chinese dissident, Dai Qing. She was sprung from a Chinese jail by U.S. Secretary of State James Baker III during his visit to Beijing recently. Dai Qing, now waiting with packed baggage to board a flight to Washington told the *Guangming Daily* that the Indians are not able to experience "true democracy," and that is why they involve themselves *en masse* in demonstrations and riots and fight each other.

Meantime Premier Li Peng was regaling a handful of journalists, describing the "multi-party" democratic system practiced in China. The Communist Party, said Li, was the ruling party leading eight other parties, which are not, however, in opposition. He described this set-up as a multi-party system under the leadership of the Communist Party.

## Beijing appeasing Bush new order

The visit should have been an eye-opener for all those who were vigorously promoting a Sino-Indian entente to fight

the "colonialist economic and other policies of the OECD countries." Besides Foreign Minister Qian's championing of the Pakistani proposal for a nuclear-free zone in South Asia, which has also been highlighted by the recent visit of U.S. Undersecretary of State for Internal Security Reginald Bartholomew (see *EIR*, Dec. 6, 1991), the Chinese solicitude for Washington's concerns took precedence throughout, but came out in the open most sharply during the formulation of an agreement for cooperation in space sciences and technology.

According to the *Economic Times*, the leading economic daily published from Delhi, the Indian Department of Space, in its original draft had included cooperation in "launch vehicle technology." China, which recently signed onto the Missile Technology Control Regime (MTCR) and which enjoys a \$12 billion trade surplus with the U.S. and direct investment to the tune of \$9 billion, was afraid that the cooperation could violate the parameters defined by the MTCR and draw the wrath of Washington. The Chinese balked even when the wording was changed to "satellite launch vehicle." When asked what the problem was, the Chinese were believed to have said: "The Americans will not approve it!" In the end, wordings were changed to "launch vehicle services" to the satisfaction of the Chinese delegation. So much for standing up to the new world order.

Notwithstanding Beijing's slavish attitude toward Washington, Li Peng was not short on rhetoric and posing as a world leader whose concern for the developing nations outstrips India's. In his tête-à-tête with a selected group of journalists—his scheduled press conference originally to be held at the Press Information Bureau was canceled ostensibly out of fear of the Tibetans—Premier Li Peng waxed eloquent. He said that India and China found similarities and even identity in worldview on the need to strengthen cooperation for peace, stability and development in an increasingly turbulent world. These empty words also found their way into the joint communiqué where, however, no mention was made of the massive debt that has crippled the developing nations. Instead, the inanities, such as "international economic relations are plagued by the intensifying North-South contradictions and widening economic gap," found their niche among the verbiage of "peace, security and stability."

### Smile and say nothing

The joint communiqué had little to say about what will be done. It stressed the importance of an early political settlement of the Afghan issue and "expressed support for consultations and dialogues among the parties concerned for the establishment in Afghanistan of a broad-based coalition government acceptable to all parties, thereby restoring peace within the country and ensuring independence, sovereignty, neutrality and non-aligned status of Afghanistan." Having uttered this mouthful, the Indians seemed singularly incapable of pressing China to say something on the issues which

## Dispute over the China-India border

While the dispute between India and China concerning the demarcation of borders all along the Himalayas, which led to the Chinese armed invasion in 1962 and routing of the Indian Army, is considered by outsiders as the key issue between the two nations, a closer look at China's role in subverting India's security will reveal a number of issues which have created Indian distrust of the Chinese leadership. The following is a partial list of issues on which China will have to come clean before such distrust can be overcome:

- China has become a major supplier of arms to Pakistan, Bangladesh, Sri Lanka and Burma (Myanmar), and on one occasion supplied arms to Nepal. All these countries together surround India, and at least Burma, Pakistan, and Sri Lanka have expressed hostility towards India openly.

- A number of secessionist movements in the sparsely populated northeast India draw succor from the Chinese and Chinese-backed Burma regime for arms. These groups include the United Liberation Front of Asom (ULFA), the National Socialist Council of Nagaland, and the People's Liberation Army of the Imphal valley in the state of Manipur.

- China has helped both Pakistan and Bangladesh to set up arms and ammunition factories and provided train

really concern India's security (see box).

On Kashmir, for instance, the joint communiqué carefully avoided the very mention of it, and, instead, took official cover under the usual diplomatic non-speak, such as: "The two sides expressed their support for the peaceful settlement of all bilateral issues between countries in the region through friendly consultations."

On the vexed border issue, even the mention of which could start a heated debate in India, Premier Li Peng took the short-cut by blaming history. "Being a legacy of the past, it would take some time to resolve," he told the gathering of friendly reporters. He also pointed out that China and India had agreed to "keep aside the difficult border question for the time being and not let it stand in the way of improving relations in other fields." The joint communiqué noted that the Joint Working Committee which was set up years ago to deliberate on the border question, "should step up its work in search of an earliest possible solution to the boundary question." It has also been mentioned in the same document that the next meeting of the Joint Working Committee may



ing to their militaries. There were frequent visits of military personnel to both countries.

- At least two of the northeast Indian secessionist groups, the ULFA and the Mizo Liberation Front (MLF), have been photographed in Dhaka, Bangladesh. Two chief ministers from Indian states have produced documents which show these terrorists have set up camps within Bangladesh, where the same Army officials who often visit Beijing are providing them with arms training.

- The secessionist groups in northeast India are bringing in more and more Chinese and Burmese heroin through well-established routes. The smuggled heroin, besides causing a large-scale addiction problem in Manipur, is dispersed all over northeast India by various secessionist groups. Some heroin and hashish is also finding its way into Bangladesh, again carried by the secessionists, and from there into international drug networks.

Recently China proposed a highway from its Yunnan Province through Burma to the Indian border. It is suspected that the highway, in the tradition of the old Silk Road, is part of building a "heroin road" to India for transit.

- China still does not recognize Sikkim as part of India, although in 1975, Sikkim, then a sovereign Himalayan kingdom, on its own volition and through a legislative act, joined the Indian republic.

- The Nepali Communist Party, backed by the monarchy, has begun a campaign to establish a "Greater Nepal." The Nepali Communist Party has close links with China via North Korea. The objective of the movement is to combine Nepal, Sikkim, and at least two northern hill

districts of West Bengal—all Nepali majority areas. The idea, which was formulated by the British ostensibly to protect their Indian colony from the "yellow peril," has the tacit approval of China, and perhaps of the United States.

Nepalis who settled in Bhutan, an independent mountain kingdom with very close ties to India, are getting drawn into this vortex and at least 12,000 Nepalis from Bhutan are presently encamped in India. Moreover, the Communist Party of India-Marxist, which governs the state of West Bengal and with which Beijing claims to have no separate relationship, has endorsed the Nepali "cause."

- Although Beijing maintains its "correct" position by urging both India and Pakistan to settle the Kashmir matter peacefully through bilateral negotiations, it nonetheless never fails to mention that Kashmir is a "disputed area"—a reference hotly contested by New Delhi.

- There is evidence, if not outright documentation, cited by the CIA and Indian intelligence, which implies that Beijing is helping Islamabad to develop nuclear weapons surreptitiously.

- India has rejected earlier proposals, as well as the present Pakistani proposal, to make South Asia a nuclear-free zone. Besides its argument that the solution only lies in global de-nuclearization, India has consistently pointed out that it has a long border with China, which has a formidable nuclear arsenal. During Premier Li Peng's six-day visit, his Foreign Minister Qian Qichen, in talks with his Indian counterpart, endorsed the de-nuclearization proposal that Pakistan put forward in the U.N. recently with backing by the United States.

be held early next year at Delhi.

Li's performance, however, has hardly raised hopes that the border issue would be settled soon. China has given not the slightest hint that it has any intention of accommodating India's requests. From Beijing's point of view, the settlement of the border issue will immediately take away the advantage that China holds by nibbling away at Indian security through various subversive activities. It is perhaps the same logic which induces Beijing to describe Kashmir as a "disputed area," and to refuse to recognize the accession of Sikkim to India.

There is no gainsaying that the Chinese reluctance to resolve the border issue also stems from the fact that, like the British and other western powers, Beijing believes that Delhi will not be able to hold on to its isolated northeast states for long, and the diverse ethnic and tribal identities that exist in these areas can be brought together to exert pressure on India.

It perhaps also believes that Ladakh, the eastern part of the state of Jammu and Kashmir, a good part of which is under Chinese occupation, will eventually become involved

in the imbroglio that engulfs the Kashmir valley now. All this can only help China to expand its territory. On the other hand, as long as India keeps its hands off Tibet, there is little that China gains from settling the border disputes.

At the same time, it is unlikely that China will create another "border incident"—a *fait accompli* to grab unmanned lands which was so very common in the 1960s and 70s. In 1987, the Indian Army, vastly improved over the outfit that the Chinese routed in 1962, moved its troops to the Line of Actual Control from the Hathung La to the passes like Bum La and Tulung La. The Chinese had rushed in a reinforcement in Tibet, but when faced with a better-trained and more experienced army moving with air support, beat a hasty retreat. The face-off at Hathung La had, in fact, laid the basis for the late Rajiv Gandhi's much-cited visit to Beijing in 1988.

As Premier Li's "legacy of the past," one Indian analyst pointed out that all borders in this region bear the same legacies. And, yet, China did not strike out against Bhutan, Nepal, or Burma and, instead, settled those border issues amicably.

# The embargo violates Haiti's status as a sovereign state

by Carlos Wesley

As Haiti's Provisional President Joseph Nerette states in the accompanying exclusive interview, "Small nations with no resources are the main victims" of the propaganda warfare waged by the advanced countries of the North, particularly the United States. Nowhere can this be seen more clearly than in the case of Haiti itself.

The population of that impoverished nation is being starved to death in the name of democracy, through an embargo imposed by the Bush administration with the complicity of the Organization of American States, France, and other nations of the European Community. The claim is that by forcing the resignation of dictator Jean-Bertrand Aristide on Sept. 30, 1991, Haiti's military violated the "democratic will" of Haiti's population, two-thirds of whom voted to elect Aristide, in elections supervised by the U.N. and the OAS a little over a year ago. The embargo is supposedly designed to pressure the Haitian government to accept Aristide's return to the presidency.

But the reality of the matter, as Provisional President Nerette explained in a message to a conference of the Schiller Institute in Arlington, Virginia, on Dec 7, is that the embargo is pure genocide. In the interview below, Nerette took the occasion to again express his "congratulations to the organizers of this important conference, which gave Haiti a tribunal from which to rectify the witting or unwitting disinformation" being spread against it.

Nerette emphasized: "That an institution of such scope as the Schiller Institute could think of the implementation of an economic development and great infrastructure projects program, is and remains for me a worthy intention which should be encouraged by all means."

## Aristide's private army

The reality in Haiti, which few are willing to speak about, is that the deposed Aristide was recruiting former members of the Tontons Macoutes, the dreaded death squads organized by former Haitian dictator François "Papa Doc" Duvalier, into his own private militia, the SSP. According to acting

Prime Minister Jean-Jacques Honorat, who is Haiti's best-known human rights activist and a leader in the fight against Duvalier, more than 3,000 people had been registered in Aristide's Tontons Macoutes by the time he was overthrown. (See interview with Honorat in *EIR*, Dec. 20, 1991.)

When the National Congress, where most of the seats are held by members of the National Front for Change and Democracy (FNCD), the coalition on whose ticket Aristide ran for the presidency, resisted his unconstitutional grab for power, he responded by sending the mob with "necklaces" in hand, invariably persuading the parliamentarians to go along with the President. It is not surprising that they capitulated; "necklacing" is a method of murder in which the victim's arms are chopped off, and a tire filled with gasoline is placed around his neck and set ablaze. Shortly before his overthrow, Aristide embraced an International Monetary Fund (IMF) austerity program to pay the debt, a betrayal that outraged his former supporters.

## Guantanamo concentration camps

Since the U.S. decreed the embargo on Oct. 29, 1991, about 8,000 Haitians have fled the country, only to be intercepted by the U.S. Coast Guard and taken to a concentration camp in Guantanamo, Cuba, to prevent them from obtaining political asylum in the United States. The U.S. Justice Department has been waging an unceasing war in U.S. courts to forcibly deport the Haitians. While out of one side of its mouth the Bush administration argues that the current Haitian government is a totalitarian dictatorship that should be overthrown, by force if necessary, it hypocritically also claims that there is no political persecution taking place in Haiti and that therefore those who are fleeing are "economic" refugees, not entitled to asylum.

As a "first step" to pave the way for Aristide's return, the administration wants a compromise prime minister to replace Honorat. Washington's current favorites are Marc Bazin, a former World Bank official close to circles in the U.S. intelligence community; Victor Benoit; and René Theodore,

the Communist Party boss. The U.S. State Department has gone on the record in support of Theodore: "This seems to be a step towards a negotiated solution in Haiti, a goal the United States strongly supports," a spokesman for the State Department said in late December. But "we still feel that the embargo is a necessary tool to encourage a negotiated solution in Haiti," said the official.

### **'I profoundly respect my country's Constitution'**

*The following interview with Joseph Nerette, Provisional President of the Republic of Haiti, was conducted by telephone on Dec. 17, 1991 by Dana Scanlon and Carlos Wesley.*

**EIR:** The Bush administration and members of the Organization of American States (OAS) claim that your government is a puppet government, controlled by the armed forces. The current Haitian government says that the Army was obliged to intervene because the priest-President, Jean-Bertrand Aristide, was violating the Constitution and attempting to establish a dictatorship. Can you explain why you say that?

**Nerette:** You have said that the Bush administration and the countries of the OAS *claim* that my government is a puppet government, controlled by the Army. Personally, I have never been informed of such statements, which in reality are mere allegations with no foundation whatsoever. Were certain functionaries of the state or government, through an excess of language or otherwise, to advance such allegations, for reasons unknown, it would not by the same token engage the responsibility of that government or that state.

Nonetheless, I must say that since the beginning of the crisis, Haitian patriots and we others of the provisional government have not ceased to deplore the obvious ignorance manifested by certain statesmen or by the OAS, as far as the real foundation of the present Haitian government is concerned. To pretend that the provisional government is a puppet government controlled by the Army is to demonstrate a profound and regrettable ignorance of Haitian national reality and constitutional legislation.

As Provisional President of the republic and a jurist by profession, I was invested in my functions by the sovereign decision of the National Assembly, in conformity with the Constitution in place.

The deplorable events of Sept. 30, which led to the departure into exile of Father Aristide, could have been avoided. The political conflicts which marked the seven months of the latter's government are the proof.

Nevertheless, there is one aspect which I believe to be of the highest importance and which the international press has not covered. In effect, the Armed Forces of Haiti, on the occasion of the events of Sept. 30, did not seize power, as one might be tempted to believe, and the Parliament was not dissolved. In addition, it is that very same Parliament which

undertook the democratic process which led to my designation, in accordance with the Constitution.

**EIR:** The Haitian government is organizing elections for Jan. 5, to elect a new President, in conformity with the Constitution. According to the foreign press, Prime Minister Jean-Jacques Honorat would have declared that the elections could be canceled if a negotiated solution could be found. Does this mean that you would be ready to step down from the presidency so that Aristide might return to Port-au-Prince as President?

**Nerette:** If you had a true idea of the Constitution of Haiti and of the circumstances which led me to take in hand the destiny of the nation, you would know that Article 149 of the Constitution defines the conditions and the limits in which I was called upon to exercise power.

The profound respect which I profess for the fundamental charter of my country obliges me to not transgress on any of the principles that it imposes.

**EIR:** In an interview published recently in *EIR*, the prime minister declared that Aristide's return would provoke a civil war? What do you think?

**Nerette:** In my capacity as Provisional President of a country which has so often been battered by regrettable political conflicts, I prefer to abstain from answering such a question. It is, on my part, the best way to avoid such a misfortune.

**EIR:** Some have accused former President Aristide of creating a private army in the image of the Tontons Macoutes. It has even been said that former Tontons Macoutes were being recruited into this army. Could you provide us with any details?

**Nerette:** It seems that there has been some truth to all this. Nonetheless, the numerous responsibilities I have as Provisional President prevent me from going into details. The ministers of the Interior and of National Defense could be much more explicit on the matter.

**EIR:** The violence organized under the regime of President Aristide—the so-called *Père Lebrun* or necklacing—has been compared with the monstrous practices of the Pol Pot regime of Cambodia. Do you think this is a fair characterization? Was Haiti headed in that direction?

**Nerette:** In my inauguration speech, I expressed, in the most explicit fashion, my reprobation against this most inhuman practice.

We are, are we not, in the second half of the 20th century. And Haiti has always been in the Mediterranean of the Americas, the advanced beacon of a civilization of peace, and the standard-bearer of Negro civilization. The *Père Lebrun* has always, in my eyes, symbolized grounds for the disparagement of our race.

No matter what form violence takes, or where it is prac-

ticed, it must always be condemned, so that it is not even necessary to compare one form of violence to another.

**EIR:** Those who advocate the new world order are carrying out an international campaign to eliminate the armed forces in developing sector countries. The former U.S. secretary of defense and World Bank president, Robert McNamara—among others—is a leader in this effort. The President of Venezuela, Carlos Andrés Pérez, is also now demanding that the Haitian Armed Forces be dissolved, because they would represent, according to him, an obstacle to democracy. Do you think that the measures recently enacted against Haiti could be part of this campaign?

**Nerette:** As far as I know, Haiti is a sovereign country. Without underestimating its place in the concert of nations, there are certain decisions which can only be in the exclusive domain of the Haitian authorities.

From this standpoint, I strongly doubt that Mr. Carlos Andrés Pérez ought to have made such unwelcome statements, no matter what might be the reasons which could have motivated them.

It is not up to a foreign head of state to decide what is good for Haiti.

Anyway, is there not, in Venezuela, a well-established army? Because of their vocation and their training, the armed forces are the same everywhere.

Nonetheless, the Haitian Armed Forces are what they are, and they are ours.

In addition, I don't think that the embargo could be interpreted as part of a series of measures intended to dissolve the Haitian Armed Forces.

You must know that Haiti is a founding member of the OAS. From that standpoint, we can tell you that we have followed very closely the evolution of that institution. The OAS shares with all the big organizations of the world the inconveniences of administrative weight and red tape. For the longest time, the OAS was wasting away. It is almost moribund. The Haiti case seems to have been chosen by the OAS as a pretext to give itself a certain vitality and to regain an aura of importance. It is a misfortune, that it chose this hand, for this measure is prejudicial. The OAS is not in the right. Juridical notoriety of Haiti and certain foreign specialists are of the opinion that the OAS should be sued before the International Court of Justice.

**EIR:** In a series of documents written during the 1970s by the U.S. National Security Council, the American government calls for a policy to reduce the non-white population of the developing sector countries. This policy was put into effect in the name of U.S. national security interests. Do you think that current U.S. policy towards Haiti might be intended to reduce Haiti's population, with that in mind?

**Nerette:** I cannot and do not want to put on trial the intentions of American policy vis-à-vis the non-white population.

These measures, I presume, would be part of the "new orientation" that the American administration seeks to imprint on its policy. For that reason, I do not think I should venture an opinion on that.

Would they be aimed, these measures, at reducing the Haitian population? I dare not think so, for I prefer to consider the matter from a global standpoint. Also, as far as American policy toward Haiti is concerned, I do not see much of the change you seem to mention.

**EIR:** In an interview published in *EIR*, the ambassador of Ghana to the United Nations, and current chairman of the Group of 77, Dr. Kofi Awoonor, called for the cancellation of Haiti's foreign debt to help reestablish democracy and for the reconstruction of the country. What do you think of this proposal?

**Nerette:** Even Hell is paved with good intentions! The Haitian people are sensitive to this show of interest, which the ambassador of Ghana to the United Nations honors us with. I think that all those who say they are friends of Haiti should study this proposal, while taking into account, nonetheless, that democracy is already reestablished in this republic.

Any aid, any proposal for aid must seek to reorganize the national economic structures, which have been shaken to their very foundation by an unjust embargo, decreed in the name of democracy in order to impose an anti-democracy.

**EIR:** At the Dec. 8, 1991 conference of the Schiller Institute held in Virginia, participants voted up a resolution calling for an immediate lifting of the economic embargo against Haiti. The resolution also called for the implementation of an economic development program and great infrastructure projects, called for in the Schiller Institute's "True Fourth Development Decade" proposal. You were recently informed of this proposal, based on the economic ideas of Lyndon LaRouche. What do you think of this program?

**Nerette:** This is the opportunity for me to express my most spontaneous congratulations to the organizers of this important conference, which gave Haiti a tribunal from which to rectify the witting or unwitting disinformation which has taken place so far on the events which marked Haitian political life over the last two months.

In this war of the media, with great sophisticated electronic reinforcements, small nations with no resources are the main victims. It is not for nothing that a great African, Amadu Matar Umbo, during his mission at the helm of Unesco, launched his judicious campaign for a new order of North-South, South-South information.

Did you know that, since the events of Sept. 30, it is only recently that the big powers have started to listen to the real version of events? It could be said that the original moments of euphoria having passed, wisdom, reason, and objectivity are reclaiming their rightful place.

That an institution of such scope as the Schiller Institute

could think of the implementation of an economic development and great infrastructure projects program, is and remains for me a worthy intention which should be encouraged by all means.

**EIR:** What do you think of the role played by President François Mitterrand of France in the present crisis?

**Nerette:** We have all in Haiti deplored that a head of state of the importance and experience of Mr. François Mitterrand should have let himself be pulled into a gallery as subtle and complex as the events of Sept. 30 were.

Frankly, I am astonished. From this standpoint, it is possible to assume that his attitude was formed on the basis of the misinformation being supplied to him by his former ambassador in Haiti, Mr. Rafael Dufour.

**EIR:** I would like to know what you think of the recent statements by two black American leaders, Jesse Jackson and [Rep.] Charles Rangel [D-N.Y.], who have called for a U.S. invasion of Haiti.

**Nerette:** These were political statements, with no foundation.

**EIR:** Do you have any remarks you would like to address to our readers, in closing?

**Nerette:** There are many, and time does not permit us to enumerate them all.

First, the general impression one gets from this blast of aggression by the big powers against Haiti is as follows: After many years of our democracy being put on ice, our society should have made giant strides to catch up to the advanced group of western countries in matters of democratic conviviality. It was its misfortune that models were imposed which in no way correspond to its culture and its socio-economic context.

The United Nations and the OAS came to organize the elections in Haiti, and you know better than I do how things turned out. The observers did not have the courage to reveal the fraud and other electoral irregularities that were noted.

Was this out of ignorance of the norms and techniques for running elections? May inexperienced experts not come and complicate the life of our people. We already have enough problems.

In addition, may your readers not be duped, for everything which is said about Haiti is not always true, and the Haitian people is open to modern ideas of the rights and liberties of the human person and of peaceful democracy.

Finally, the Haitian authorities are not insensitive and indifferent to the natural reparations which should result from the enormous prejudice caused to Haiti and its people by an unconventional embargo, adopted in violation of our status as a sovereign state and full-fledged member of the Organization of American States. It were better that the OAS had never been created.

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## Demjanjuk case

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# Lawyer charges conspiracy, frameup

by Joseph Brewda

The U.S. and Israeli governments conspired to suppress evidence exonerating a man charged with Nazi war crimes, John Demjanjuk's Israeli attorney has charged. Yoram Sheftel told the Israeli Supreme Court Dec. 23 that this evidence, which the U.S. and Israeli governments obtained as far back as 1978, showed that his client, former Cleveland auto worker John Demjanjuk, is not "Ivan the Terrible," the guard at the Nazi concentration camp Treblinka whom he is accused of being. Demjanjuk was deported to Israel in 1985, where he has been in prison since. In 1988, he was convicted of being "Ivan the Terrible," and sentenced to death. Sheftel has petitioned the Israeli court to reopen the case based on the new evidence.

"This is a frameup . . . a case of fraud, deceit and destruction of evidence," Sheftel charged, and compared the case against Demjanjuk to that against Alfred Dreyfus, the French Jewish officer falsely accused of treason in the infamous anti-Semitic show trial of the last century. Sheftel said that the U.S. and Israeli governments proceeded with a case against Demjanjuk because they wanted a sensational trial in Jerusalem involving the Holocaust. Demjanjuk has always insisted that he is a victim of mistaken identity.

That the Demjanjuk trial was sensational is incontestable. It was broadcast live throughout Israel, and became a national obsession, as it was apparently meant to be. One of Demjanjuk's previous Israeli attorneys was found dead in what was claimed to be a suicide, and a bottle of acid was thrown in Sheftel's face as well.

### What the evidence said

On Aug. 12, 1978, the U.S. Justice Department's Office of Special Investigations (OSI)—its "Nazi-hunting" unit—obtained 100 pages of eyewitness testimony from people who had known "Ivan the Terrible," and who identified the Treblinka camp guard as one Ivan Marchenko. All of the testimony, from some 25 witnesses, dates back to the immediate postwar period, and had been more recently assembled from the archives by the Soviet government in connection with another Treblinka war crimes trial, that of Feodor Fedorenko of Ukraine. The Soviet government forwarded the trial evidence to the U.S. government in 1978. Included was the testimony of Marchenko's

former lover, who also testified that Marchenko—not Demjanjuk—was “Ivan the Terrible.”

Moreover, all the testimony and documents identified Ivan as having been, at Treblinka, 30 years old, with dark hair, dark eyes, thick lips, and a scar on his neck. Demjanjuk at the time was 22 years old, with blue eyes, blond hair, thin lips, and no visible scars. Also, a photo of Marchenko was identified as being “Ivan” by other witnesses in various trials between the 1940s and 1960s.

Over 15,000 separate Treblinka documents were submitted in the Fedorenko case. There was not one reference to Demjanjuk, although there were repeated references to “Ivan the Terrible.”

Sheftel reported that he had a copy of a 1978 cable from the State Department to the U.S. embassy in Tel Aviv confirming that this Fedorenko testimony, photo, and other documentation had been forwarded to Israeli authorities. He charged that then-OSI head Martin Mendelsohn was in Israel in 1978, when Israel received the Fedorenko testimony, and conspired with Israeli officials to suppress it, because of its bearing on the Demjanjuk case.

### Israelis say ‘so what?’

The Israeli state prosecutors and judges did not attempt to contest the new evidence presented by Sheftel, but tried different tactics. Chief Judge Meir Shemgar, for one, interrupted Sheftel to exclaim “What happened in the United States makes no difference. . . . Let’s not forget [Demjanjuk] was convicted on the basis of evidence presented at a[n] [Israeli] trial.”

It is true, in a sense, that Demjanjuk was convicted on the basis of “evidence” presented in Israel. But what was this “evidence”?

Consider that the Israeli government’s star witness, Eliyahu Rosenberg, who tearfully identified Demjanjuk as “Ivan the Terrible” in the 1988 trial, had earlier submitted sworn testimony in 1945 in Germany that he had killed “Ivan the Terrible.” In his earlier testimony, Rosenberg reported, in a 66-page affidavit, that in 1943, while at Treblinka, “We went into the engine room where Ivan was sleeping and Gustav [another prisoner] hit him with a shovel on the head. And there he remained, lying for eternity.”

Chief Prosecutor Michael Shaked had a different approach at an earlier hearing, when confronted with Sheftel’s citation of the Fedorenko testimony. “Is there a difference,” he asked, “if he pushed a boy into the gas chambers of Sobibor or Treblinka?” Demjanjuk was never charged with any crime at the Sobibor camp, nor with having been a guard there. Similarly, Efraim Zuroff, the director of the Simon Wiesenthal Center in Israel and a former OSI attorney, offered another *non sequitur*: “As far as I am concerned, the question is not whether John Demjanjuk is an innocent person, but is John Demjanjuk ‘Ivan the Terrible,’ or another terrible Ivan.”

## LaRouche case hits Moscow newspaper

A full-page feature on Lyndon LaRouche appeared in a December 1991 issue of *Svobodnoye Slovo*, the newspaper of the Moscow Organization of the Democratic Union Party. It is a translation by V. Petrenko of two powerful presentations on LaRouche, his policies, and the persecution of him and his associates.

The banner headline is “LaRouche—American Dissident.”

The article, received in the Wiesbaden bureau of EIR Nachrichtengagentur by fax transmission, is accompanied by a portrait of Mr. LaRouche, and two illustrations of his Berlin-Paris-Vienna Productive Triangle proposal for overcoming world economic depression. One is a map of the plan, copied from the German-language pamphlet issued by the Schiller Institute, and captioned, “‘The productive triangle’, a scheme for economic cooperation in Europe according to Lyndon LaRouche.” Second, there is the picture of a maglev train, with the caption, “Lyndon LaRouche proposes to lay such high-speed magnetic cushion lines from Europe to Moscow, St. Petersburg, Kharkov, Kiev.”

Representatives of the Schiller Institute, founded by Lyndon LaRouche’s wife, the German political leader Helga Zepp-LaRouche, have visited Moscow and traveled to several of the former Soviet republics as well as to all of the former eastern European satellite countries over the past year, presenting the LaRouche policy to seminars, think tanks, in press conferences, and in meetings with government officials and opposition groups. On Nov. 12, 1991, an advertisement for the Triangle was placed in the Russian daily *Nezavisimaya Gazeta (The Independent)*, a very widely read publication with a daily circulation of nearly 300,000, after *Izvestia*, the former official newspaper of the former Soviet government, had turned it down on political grounds because the advertisement openly attacked the policies of the International Monetary Fund.

### Rigorous opposition to Malthus, Darwin

This first translation reads as follows (lacunae are due to the quality of the fax transmission):

“Lyndon LaRouche, who turned 69 on Sept. 8, is often compared with Sakharov. By profession he is an industrial economist. His theoretical work has been concentrated on the refutation, from a rigorous scientific standpoint, of the malthusian and darwinian ideas . . . [illegible]. . . . The ‘free market’ approach, he exposes as a fraud, behind which hides in ambush the cruiser of imperialism. In the early



1970s, as the leader of a political action group (the International Processes [sic] of Labor Committees), he began to agitate for unconditional moratoria on the payment of Third World debts and proposed an interconnected packet of international development programs, the goal of which was to put an end to poverty forever, by means of the support and development of high-technology industry and agriculture in those countries.

"Mr. LaRouche visited India, Thailand, and Latin America. He met with leaders at the level of I. Gandhi, José López Portillo, and R. Alfonsín, in order to create a single front against foreign indebtedness. This led his collaborators into direct confrontation with the ruling elite in London and Washington, in the person of Secretary of State Henry Kissinger. The latter coldbloodedly and unflinchingly utilized the IMF and the World Bank for the depletion (by means of hunger and disease) of hundreds of millions of people, whom the Anglo-Saxons view as colored (i.e., subordinate) races. Although LaRouche was in prison at the time, he warned that the IMF would apply the very same policy to eastern Europe. He [illegible], that the shock therapy which . . . [illegible] . . . Poland and Czechoslovakia (under the vigilant eye of Harvard economist Jeffrey Sachs) would lead to huge personal traumas, the collapse of industry and agriculture, civil unrest, and, if this program were applied to the former Soviet Union, possibly even world war.

"At the beginning of 1990, he proposed an alternative which he called 'The Paris-Berlin-Vienna Productive Triangle.' Without a capability for rapid transportation of freight, according to him, nothing will come of plans for the industrialization of the East and the modernization of agriculture. The governments of the West ought to subsidize with long-term, low-interest-rate credits the construction of an all-Eu-

ropean high-speed rail network, together with new roads, bridges, and canals.

"When this is achieved, it will be necessary to move into the second phase of an industrial and agricultural revolution, bringing a sharp growth in living standards for all the people of eastern Europe. This proposed plan was rejected by Anglo-American ruling circles, who fear that the development of eastern Europe will mean new spheres of power on the continent, which they will not be able to dominate.

"It is worth noting the statement of Secretary of State James Baker in September 1991: 'The model for Europe is Mexico'—a country, plunged by the U.S.A. into a sort of 'free trade' period, when employment, living standards, and basic food consumption have fallen already 30% since López Portillo left the presidency in 1982."

### Legal persecution covered

A second article is a translation of a speech given in Moscow earlier in the year by Anno Hellenbroich of the Schiller Institute. It has two subheads: "On the Persecution of Lyndon LaRouche" and "Harsh Treatment of LaRouche's Collaborators." It covers LaRouche's presidential campaigns and television broadcasts of 1976, 1980, 1984, and 1988, the development of the National Democratic Policy Committee (the LaRouche wing of the Democratic Party, founded in 1980), and the March 1986 Illinois victories by two NDPC-backed candidates. The counterattacks, including slanders instigated by the Anti-Defamation League, are recounted, including the fact that LaRouche was accused of killing Olof Palme (a charge bolstered by none other than Boris Pankin, Soviet ambassador to Sweden in 1986).

The Moscow paper gives a thorough summary of the cases, highlighting the role of federal Judge Albert Bryan, who presided over the judicial railroading of LaRouche to prison in late 1988 and sentenced the American statesman to a harsh 15 years in prison on vague "conspiracy" charges in January 1989. The mistreatment of Lewis du Pont Smith, an heir to the du Pont chemical fortune who was ruled "mentally incompetent" by a corrupt court at the instigation of his family, after he contributed money to LaRouche-associated causes, is covered.

Reaching the 77-year sentence being appealed by LaRouche's colleague Mike Billington, the Russian translator (even though writing for an audience with personal experience of the Gulag) was so shocked that he inserted an exclamation point, and translated the "violation of Virginia security laws," which referred to securities in the financial sense, as "security" in the sense of "national security." The account summarizes the complaints about the LaRouche case that are before the United Nations, and concludes with the fact that the U.S. government is sitting on documents related to LaRouche, using the excuse of national security, while people accused in the Iran-Contra case were given access to their documents. "Isn't that inequality before the law?"

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## Review

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# Best CD of Verdi's best Schiller opera

by Kathy Wolfe

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### Don Carlos

by Giuseppe Verdi, based on the drama by Friedrich Schiller  
Carlo Maria Giulini, Conductor; Royal Opera House Orchestra, Covent Garden, 1971  
EMI CDCC 47701, Five Acts, complete; 3 Compact Discs

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The best commercial recording of the most powerful musical setting of a Friedrich Schiller play, *Don Carlos* by Giuseppe Verdi, is now available on compact disc. Carlo Maria Giulini's 1971 EMI recording includes all of Verdi's original five acts, and some of the loveliest Italian bel canto singing on a modern recording. It is Verdi's Italian version, not his original French version composed for Paris in 1867, based on the Schiller drama of 1787.

The cast features Plácido Domingo as Don Carlos, Montserrat Caballé as Elisabetta, Sherrill Milnes as Posa, Ruggero Raimondi as King Philip, Shirley Verrett as Eboli, and Giovanni Foiani as the Inquisitor. All are at their peak of legato singing, before the dents which high pitch, jet lag, and too many *verismo* operas have now made in those voices.

It is Giulini, however, who makes this Schiller as Verdi intended it, in the power and depth of his conducting. Giulini is above all a Beethoven conductor, as his recordings of Beethoven's masses attest. Verdi knew that Beethoven's concept of Promethean greatness is required to set Schiller, and here rises to his most "Beethovenian."

### Patriot and world citizen

Giulini brings out the concept of Schiller's *world history* here, as could only a musician steeped in Beethoven's counterpoint. The power of the opera, as of the play, is that of the grand march of universal history, of the fate of nations and peoples. This makes up a "fugal" development, in which the voices of individuals remain fully individual, yet each will ultimately be judged by history, according to whether they

meet Schiller's criterion for "patriot and world citizen": one for whom the progress of nations is the greatest personal joy.

Because Giulini grasps this, he gives emphasis, broad tempi and poetic phrasing, to choral ensembles and orchestral transitions between different voices and poetic ideas. That, for example, is the beauty of his Act I, set in France, in which Elisabetta and Carlos meet, only to be parted. Their soprano-tenor duet must be heard as Giulini directs it, against the jubilant chorus of the French people, who bless Elisabetta for ending the ruinous Franco-Spanish war. When Elisabetta repeats with the chorus, "*Pace, pace!*" (peace!), she evokes the highest form of human beauty, the individual reconciling herself to a higher purpose, for the love of mankind and God.

Giulini, that is, grasps those scenes wherein Verdi used heightened musical pacing, to explicate just the dramatic pacing which Schiller demands.

### Schiller's 'Don Carlos'

Schiller's *Don Carlos* drew upon the 16th-century struggle for freedom by the provinces of Flanders against Spain's Hapsburg monarchy, as outlined in his *History of the Revolt of the United Netherlands*. In the play, Schiller handled some historical details loosely, to convey poetic truths of universal consequence. Verdi's librettists, working under his close supervision, produced a version of the drama which many listeners' first taste of Schiller's noble ideas.

In Schiller's "Letters on Don Carlos," Schiller states that the real story is not about Carlos, the Crown Prince of Spain, but about the tragic failure of Rodrigo, Marquis of Posa, to establish a republic in Flanders, which has been put to the torch by the Spanish Inquisition. "So soon the edifice stands complete, so falls the scaffolding," Schiller says in Letter V. "So the story of Carlos's passion, the mere preparatory action, retreats to make way" for Posa's story.

The play begins by revealing Carlos's love for Elizabeth of France, whom his father King Philip of Spain has wed. Carlos's friend Posa points out that the prince's fixation on his own problems, while millions are dying, is a major flaw, and asks his help to save Flanders. It is Posa's more serious flaw of ego, however, Schiller writes in his Letters, which leads the protagonists to death, and dooms Flanders. The real need, Schiller states, is for Posa's weakness to be exposed, so that potential patriots in the audience may learn to *succeed* in founding future republics. This crucial lesson was timely, since Schiller was writing on the eve of the French Revolution; similarly, Verdi composed his opera during Italy's struggle for national independence. The lessons are no less urgent today.

Posa must die because he cannot control his emotions, which lead him into a series of fantasies, first, about his influence over the King; later, to decide foolishly upon suicide. Blinded by emotion, Posa is oblivious to the real power behind the throne: the blind old Grand Inquisitor, the real tyrant, the one character who knows how the world "really"



works, who ironically sees more than all others.

Thus, Posa falls into a "flight forward": He panics, and runs right into the Inquisitor's gunman. He dies as a "heroic palliative," writes Schiller, because it is easier than fighting on. "Might not his life, have been of more service than his death?" Schiller asks. "Why did he not employ the time consumed in contriving his death, in thinking of some plan of saving his life?"

### Verdi's portrayal

It is this "red thread" of psychological truth through Schiller's drama as a whole, which Verdi weaves into a unified opera, and Giulini realizes for us.

For example, Verdi in Act II successfully shows the intent Schiller expressed in his Letters, by incisive condensations of the play. He sets a later meeting in Spain of Carlos and Elisabetta (Elizabeth), now the prince's stepmother, as a "mad scene" for Carlos. Under Giulini's baton Domingo sings this part with intense Italianate lyricism. Two scenes later, Verdi counterposes Posa's meeting with the King to Carlos's madness. Posa, he shows, is the victim of a more subtle madness.

In the play Schiller took several scenes to bring this out. At one point the King suddenly tells Posa "You are a Protestant!" which is not true, but is the irrational voice of the Inquisition speaking. This psychological one-liner is often lost in performances of the play. Elizabeth later states openly that Posa is insane to imagine that he could convince the King to save Flanders. The self-absorbed Posa is blind to the fact, of which Elizabeth is too well aware, that the Inquisitor has "majority control" of the King's heart and mind. In Schiller, that is Posa's sin: Posa speaks *at* the King, not *to* him, without treating the King as a human being.

Verdi—and in performance, Giulini—capture this precisely. The pace of Posa's music quickens, as he is carried away by the fantasy that he will sway the King, marvelously brought out in Sherrill Milnes's Leonard Warren-like, full legato singing. Philip's attraction to Posa's ideas and Posa's blindness to the King's internal struggle, is underlined when the King warns Posa: "Ma, ti guarda dal Grande Inquisitor!" ("But—beware the Grand Inquisitor!") Posa is oblivious, no matter how often the terrified Philip repeats: "Ti guarda!" (Beware!)

Verdi and Giulini's other portrayals of the power of the Inquisitor over the soul of Spain, and the fact that it goes unchallenged, are equally strong. From the introduction to Act II at the tomb of Charles V, to the fanfare and monks' processional at the terrible auto-da-fé of Act III, Giulini brings out with inexorable motion Verdi's brass and bassoon themes for the Inquisitor.

When the Inquisitor himself at last appears in Act IV, Verdi introduces him with the deepest voice of the contrabassoons, a reference to Beethoven's singular use of the contrabassoons in the dungeon scene of *Fidelio*. The Inquisitor, at

his most manipulative, mimics the voice of Heaven by offering the King salvation over Posa's dead body: "Ritorna al tuo dover" ("Return to your duty"); here Giulini shifts to a new voice, and the flutes sing, with consummate irony. His power enforced, the Inquisitor exits, again to contrabassoons.

### The soul of the drama

Thus Giulini brings out those high points where Verdi's condensation of Schiller captures the spirit of Schiller, as no pedantic, "verbatim" setting could have. As Beethoven and Brahms emphasized for the different case of *lieder*, the musician must indeed master any text to be set, but then the particulars of it—this word, that sound—are put aside, in favor of penetrating into the single *preconscious idea* of the poem, the "gist" of it, the "unheard sounds" which as Keats said, "are sweeter still." Although a musical drama—in this case twice-removed due to translation from German into Italian—is different from the *lied*, where the poem is set to music, the principle is the same.

Brahms taught that with song, "there is an underlying mood which is maintained through all particulars or all the varied images," as his student Gustav Jenner wrote.\* Of one Schubert song, Brahms said, "This melody has welled up from the same single deep emotion from which flowed all the images which are so manifold and yet always say the same thing anew. It is a musical expression of what the *entire* poem left as an impression, within the composer. . . ."

Since the medium of music is distinct from that of poetry, from this *unit idea*, the true musician then must generate a valid new idea, in the medium of music.

Giulini brings out a rarely heard thematic development which begins in that very first "French" Act I Elisabetta-Carlos duet with chorus, "Di qual amor." A key reason for the opera's compelling emotional drive from start to finish, is that this theme reappears, as a theme and variations, throughout the work. (This is one reason why Act I, often cut out with the excuse that Schiller has no such French prelude, should in fact be performed.)

One famous variation of the "French" duet is the Carlos-Posa "Friendship Duet" in Act II, "Dio, che nell' alma infondere." It appears during the auto-da-fé in Act III, when the entire populace of Madrid pleads for the Flemish deputies "Pietà! il Fiammingo nel duol!" ("Have pity on Flanders in pain"); in the final act in Elisabetta's monumental aria "Tu che le vanità," as well as in her last duet with Carlos, "Si! l'eroismo è questo."

Only here, at the finale, when Carlos finally transforms himself into a patriot, does Elisabetta weep, as she repeats this theme. These, she says, are the tears of joy, "the tears we shed for our heroes."

\* In *Johannes Brahms as Man, Teacher and Artist*, by Gustav Jenner (1865-1920), Brahms's student from 1887 to 1895. The Schiller Institute will publish the English translation in the near future.

# U.S. targets Jordan, King Hussein

by Joseph Brewda

A U.S. campaign against Jordan was renewed on Dec. 22 when a CBS "Sixty Minutes" broadcast claimed that King Hussein was cooperating in Iraqi "sanctions busting." "If you close Jordan, you will reduce Saddam Hussein's chances of survival drastically," special guest Ahmed Chalabi said. "They permit Iraq to receive various contraband . . . from North Korea, Libya, Cuba." The Jordanian king, he claimed, was getting a juicy cut. "King Hussein made a lot of money through Saddam Hussein," he said.

A fugitive Jordanian banker of Iraqi ancestry charged by Jordanian authorities with embezzlement and fraud, Chalabi has his own axe to grind, as even "Sixty Minutes" indicated. It failed to report, however, that Chalabi is a leader of the State Department-run, Saudi-funded "Iraqi opposition." One week after the broadcast, some 17 of these opposition groups met in Damascus, Syria, while the U.S. press reported that the Pentagon was considering installing this opposition coalition as the puppet government of Iraq.

Backing up Chalabi's reliability on the broadcast was one Jules "Julie" Kroll, the head of Kroll Associates, a New York detective firm hired by the Kuwaiti government to track Iraq's assets and monitor the enforcement of the sanctions. Kroll praised Chalabi as "extraordinarily gifted" in finance and "credible," and concurred that one must first go to Jordan to negotiate a deal with Iraq.

Kroll was joined by Peter Galbraith, the Senate Foreign Relations Committee hand who has long advocated that Third World states, especially Arab states, be denied advanced technology of any sort, since such technology could be used in making weapons. Galbraith had been warmly praised at an August conference of the Iraqi opposition in Virginia, which Chalabi chaired.

Last March, Kroll had appeared on "Sixty Minutes," claiming that Iraq had "billions of dollars" in secret assets, and secret deals with German weapons manufacturers. Already at that time, Washington journalists say, Kroll, ABC's "Nightline," the *Wall Street Journal*, and the *London Financial Times* had put together an informal task force targeting the "Iraq network" and related subjects of interest to the newly formed CIA Fifth Directorate, the Agency's economic warfare branch. The same propaganda task force has also

specialized in stories on the BCCI fraud case (Bank of Credit and Commerce International), a bank often used by U.S. intelligence. More recently, the group has attempted to put a cap on the "October Surprise" story—the story that Reagan and Bush tried to fix the 1980 election by their secret dealings with Iran.

## Why Kroll?

Kroll Associates was formed in the 1970s as specialists in "white-collar crime," following Kroll's training in the Justice Department. One of its first major clients was David Shauli, the Israeli mafia figure whose warehouses in Frankfurt, Germany have reportedly been of some use to the Mossad. Another early major client was the New York law firm of Willkie, Farr and Gallagher, then headed by Kenneth J. Bialkin. Bialkin, the attorney for drug-runner Robert Vesco, was at the time the chairman of the Anti-Defamation League, America's most powerful Zionist organization, and it was through Bialkin that Kroll began work for the ADL's legal department. The ADL's legal department was then staffed by Ruth Sella, the wife of Col. Aviem Sella, the Mossad official who ran Jonathan Pollard. U.S. Naval Intelligence official Pollard's espionage for Israel involved, in part, stealing U.S. documents on Iraq, among other Arab states.

Since establishing such ties, Kroll has expanded operations throughout the world, doing investigations for large corporations based in Europe and Asia, as well as securing contracts with government agencies, such as the U.S. Treasury Office of Foreign Assets Control. The firm reports that its expertise is in electronic and computer-related intelligence; its some 200 employees are drawn from among former officers of British SAS, MI-5, U.K. Customs, CIA, FBI, and the U.S. Justice Department.

Kroll's partners include:

- William Kish: director of operations at the firm, a 28-year FBI veteran with long assignments at the U.S. embassies in Stockholm, London, Copenhagen, and Helsinki.
- Joe Rosetti: managing director and, earlier, the long-time head of IBM corporate security.
- Brian Jenkins: RAND Corporation specialist on terrorism who had been an important "back channel" between the CIA and KGB.
- Patrick Grayson: head of Kroll's London office, formerly with the British Army in the Mideast.
- Michael Oatley: London office director of operations, formerly of the British Foreign Office.
- Michael Comer: former head of Exxon-Europe security.
- Arish Turtle: head of Kroll's Hong Kong operations, former head of "Control Risks," and retired Special Air Services Major.

Kroll's London office is said to be the one that was once used by the late chief of British MI-5 intelligence, Sir Maurice Oldfield.

## NAFTA on the ropes

*Both Presidents are desperate for it: Bush to help save U.S. banks, and Salinas to protect his financial bubble.*

The only thing to have clearly emerged from the Camp David talks between Presidents Bush and Carlos Salinas de Gortari in December is that both are in hot water, and the much-touted North American Free Trade Agreement along with them. All the protocol reports of "positive and cordial" exchanges between the two notwithstanding, Salinas's efforts to disentangle the NAFTA negotiations and extract a commitment for the treaty's early passage by the U.S. Congress—before the 1992 U.S. elections—were doomed by Bush's repeated insistence, as a precondition for NAFTA's approval, on politically explosive concessions regarding Mexico's oil and banking industries.

Ironically, both Presidents desperately need NAFTA. For Bush, the treaty is a critical first step to eliminating remaining restrictions on U.S. banking and multinational takeovers in Ibero-America. It is precisely such looting abroad that has been keeping the U.S. financial system afloat this long.

For Salinas, NAFTA is essential to prevent the Mexican financial bubble, upon which his "miracle" depends, from collapsing. Mexico's \$11 billion annual trade deficit, expected to rise to \$14 billion in 1992, has so far been papered over with an enormous inflow of capital into Mexico's speculative stock market, largely based on expectation of an early passage of NAFTA by the U.S. Congress. That money is short-term, and can flow out as fast as it flowed in.

In fact, the Mexican stock market collapsed by over 5% Dec. 9-10, precisely on the news that NAFTA was on the ropes. Such slippage could become

a free fall if the rumors continue, and that could lead to a sudden exodus from Mexico of billions of U.S. dollars.

The new situation can be traced back to Nov. 5, the day on which the Bush administration hurriedly moved NAFTA to the back burner, following the stunning upset electoral victory in Pennsylvania of Democratic senatorial candidate Harris Wofford on an anti-free-trade platform. It quickly became clear to the Bush boys in Washington that the Democrats are in a position to use the growing sentiment against NAFTA among U.S. workers and others as an election issue. Even some Republicans began to recognize that NAFTA is a loser in the context of the deepening economic depression in the United States.

Thus, according to anonymous Bush administration officials quoted by the Dec. 16 *New York Times*, Bush told Salinas that "there must be very good content," and that reaching an agreement "would take a lot of work and include some give on the part of the Mexicans," before Bush would dare to put NAFTA to a vote before the 1992 elections. That "very good content" and "give on the part of the Mexicans," suggested the *New York Times*, is the total opening up of Mexico's oil and banking industries to foreign investment and ownership.

This has been the focus of the Anglo-American establishment from way back, as promoted by former Secretary of State Henry Kissinger in particular. Early in 1991, Kissinger insisted that the central issue in NAFTA had to be Mexico's handing over of its oil. He reiterated that theme during his December visit to Mexico. It comes

as no surprise that Kissinger held a private luncheon with Salinas in December, before the latter's conversations with Bush, and that Kissinger Associates, Inc.—in its capacity as hired consultant to the Salinas government—helped define the agenda of the presidential talks.

Following his 1990 tour of Europe, Salinas had returned home "convinced" that Mexico could not survive the competition of eastern Europe without forging "the largest market in the world" with the U.S. and Canada. Even as late as three weeks ago, Salinas was still piping the tune that Mexico needed a NAFTA "revolution" to meet the changing times. Speaking before the Economic Club of New York Dec. 13, a forum organized by Kissinger Associates, Salinas insisted that for both nations, the NAFTA treaty "was the only way to face the future."

And yet, as the pressure to hand over Mexico's oil intensifies, Salinas knows that such a concession on his part could easily destroy the fragile political control he has thus far succeeded in imposing. And so, as much as he needs NAFTA, Salinas is beginning to panic over the price he is being asked to pay for it. At least, so his post-Camp David comments to the press would suggest. No longer presented as the *sine qua non* of Mexico's future, Salinas declared that the NAFTA "treaty will be one more, additional instrument, within a very broad process of reform that we are carrying out in Mexico."

The final result of the talks was nothing more than a proposal by Bush that both sides come up with a preliminary draft of the pact, in which areas of disagreement are noted in brackets, to be ready by sometime in January. But Bush made no commitment as to when he would present it to Congress—if ever.

## Alan García wins a battle

*A special court has absolved the Peruvian former President, but there still remains the "Morgenthau card."*

**T**here is insufficient evidence to bring charges" against former Peruvian President Alan García, stated Horacio Valladares, president of the special tribunal of the Peruvian Supreme Court which ratified on Dec. 27 an earlier ruling absolving García of alleged embezzlement from the government. The tribunal's finding was backed by the full Supreme Court, which decision gave García his first important victory in a war instigated by the financiers behind the International Monetary Fund (IMF). The war is far from over, however.

According to García's lawyers, the court's finding "is unappealable and has the authority of a judgment." The accusations included the charge that he used \$400,000 of government money to build three homes, that he stole \$50 million from the public treasury, and that in 1985 he illegally sold a contract for the sale of airplanes to another country.

All charges were found to be without merit.

Nonetheless, and despite the technical ban on a further appeal, prosecutor María Herminia Drago declared that she would challenge the court's decision yet again, now claiming that the law limits the court's power to ordering a trial based on the congressional charges against García.

Sources close to García report that prosecutor Drago is also readying a "complaint" against the magistrates of the special tribunal, accusing them of basing their decision on ideological bias, an allusion to their alleged political sympathies for García's APRA

party.

Popular Christian Party Congresswoman Lourdes Flores, one of García's original accusers, said that the case is far from closed and that the prosecutor's motion to annul the court ruling had yet to be considered.

"In any case, one mustn't lose sight of the BCCI [Bank of Credit and Commerce International] question, and the issue of the Mirage jets has not been part of the Attorney General's case. We will just have to start over again."

The central element in any new offensive against García is the actions of New York District Attorney Robert Morgenthau, a close collaborator of the Anti-Defamation League, who has told the Peruvian Attorney General's office and Congress that he has a witness against García in both the BCCI and Mirage cases. Morgenthau claims the witness is prepared to testify if given immunity. But since Peru does not have a plea-bargain system as does the United States, where a person can exchange testimony for a reduced sentence, the Peruvian Congress would have to alter its own legislation to permit this.

But the real "crime" for which García is being persecuted is his opposition to the IMF during the early years of his presidency (1985-89). Ever since the charges were first made against him, García has responded that they are "lies, dirty maneuvers" motivated by an effort to sabotage his participation in the next presidential elections.

Above all, he has stressed, they

are intended to punish him for having dared to challenge the IMF and the international bankers.

As the reader will recall, García was one of the few Ibero-American heads of state who had dared to openly confront the world dictatorship of the IMF during the 1980s. His first two decisions as President in 1985 were to limit payments on the Peruvian foreign debt to 10% of the country's export earnings and, second, to send police and army units into the Peruvian jungle to raid drug traffickers' laboratories which nobody had dared to touch for years.

García's "crimes" are worsened by the fact that today he seeks to head up the opposition to the genocidal austerity policies dictated by the IMF and willingly imposed by current Peruvian President Alberto Fujimori, policies which have caused the cholera epidemic that is now sweeping Peru and spreading across the continent.

It is García's renewed leadership role that has reactivated the campaign against him, and it is Robert Morgenthau who triggered the reactivation with his claims to hold "proof" that García received money from the infamous BCCI bank, and that he made a profit from certain weapons transactions.

On Oct. 19, 1991, the Peruvian Senate voted 38-17 to lift García's parliamentary immunity as a life-long senator, thus paving the way for a potential trial on embezzlement and fraud charges. Following months of hearings, the Peruvian Chamber of Deputies accused García of having forgotten to declare \$4,000 of his 1980 income. At the same time, the Senate decided that Morgenthau's charges should be heard in court. Later, more tax evasion charges against García were unofficially aired—by the press.

## Two years of U.S. occupation

*Since President Bush imposed a U.S. military dictatorship, there are more drugs, more crime, and more corruption.*

**O**n Dec. 20, 1989, a reported 30,000 U.S. troops invaded Panama on orders from President George Bush to get Gen. Manuel Noriega, the commander of the Panamanian Defense Forces, whom the U.S. alleged to be involved with drug trafficking, and "to restore democracy." Two years later, those U.S. troops continue to occupy the country.

On Dec. 6, 1991, a U.S. Cobra combat helicopter hovered for several minutes above the Presidential Palace, the National University, and other public buildings. On Dec. 11, while the families of the civilian and military officials who have been held prisoner since the invasion were demonstrating outside Panama's Supreme Court, American MPs started handing out traffic tickets and a U.S. military truck came to remove the protesters' cars. When MP Troy C. Scott was asked by what authority he harassed Panamanians, he replied, "This is United States territory."

So, how have Panamanians—some 4,000 of whom were killed in the invasion according to most reliable estimates—fared, after two years of U.S. military occupation?

For one thing, 50% of the labor force is unemployed, and that's according to the U.S.-imposed Vice President Ricardo Arias Calderón. Another 20,000 people will be laid off in the next few months, to comply with the demands of Panama's creditors.

The man who really rules Panama, U.S. Ambassador Deane Hinton, delivered what was, in effect, a State of the Union address to the American Chamber of Commerce in Panama on Dec. 11. Sounding like his boss Bush,

Hinton lashed into "those many Panamanians who, two years after the overthrow of Noriega's mafia, are so busy complaining about this and that, and criticizing this one and that one, that they have lost sight of the real and very great progress Panama has achieved and is achieving." Hinton said that new legislation would permit "a harsh economic program that would allow Panama to get rid of its arrears with international financial institutions and allow it to recover its credit reputation." He also announced that a free-trade agreement with the U.S. is being worked on.

To make Panama more "competitive," Hinton demanded an "open economy," and reducing wages and benefits for workers. The government just slashed social security benefits for retirees.

A U.N. report notes that the economy "has collapsed catastrophically" because of the invasion itself, the preceding two years of U.S. economic warfare, and the policies of the past two years.

"While Panama's situation must necessarily be seen in the context of the widespread poverty that prevails in Latin America," says the report, "the further deterioration of living conditions is a direct consequence of the invasion and of the existence within Panama's territory of two forces [the U.S. and the U.S.-installed government] interested in liquidating all vestiges of previous nationalism." The report, presented to the U.N. Economic and Social Council in Geneva toward the end of 1991, was first made known in the United States in an article published in Miami by journalist Enrique Maza, which

was reproduced by Panama's *La Cronica* on Dec. 18.

According to the U.N. document, "the governments of Panama and the United States are jointly persecuting the leaders and supporters of the former regime, and the suspected supporters of the former government and members of trade unions and universities, and other such institutions, which by their very nature could become a nucleus of civic protest and political opposition. Thus, the governments of Panama and the U.S. are linked in violating human rights, particularly the rights of trade unions and trade unionists," who face unemployment if they participate in protest or demonstrations, says the report.

In sum, the report says, "it can be affirmed that the governments of Panama and the U.S. are guilty of gross, intentional, and systematic violations of the U.N. Accord on Economic, Social, and Cultural Rights against the Panamanian people."

Every day more information surfaces about corruption and illegal drug activities connected to U.S.-installed Panamanian President Guillermo "Porky" Endara and others in his government, including Vice President Guillermo Ford, and Ford's nephew, Jaime Ford Lara, manager of the Colón Free Trade Zone.

One recent scandal involves First Vice President Arias Calderón, also known as "The Mad Nun" for his holier-than-thou attitude, who was charged on Dec. 23 with collecting tens of thousands of dollars in illegal government payments. Then there are the 15,000 boxes of photos of officials and supporters of the current government purportedly found in Noriega's "secret archives." The photos, officials say, show politicians, diplomats, and businessmen connected to the Endara government, performing "deviant acts" and in "immoral poses."

# International Intelligence

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## ***U.N. repeals resolution on 'Zionism is racism'***

Yielding to pressure from George Bush and other leading advocates of the new world order, a majority of governments at the United Nations on Dec. 16 repealed Resolution 3379, equating Zionism with racism. U.S. Deputy Secretary of State Lawrence Eagleburger, patron of the Serbian Chetniks, was on hand to supervise the vote.

The resolution was originally adopted on Nov. 10, 1975.

Is Zionism racist? Look at the record of the Israeli government. Dec. 9 marked the third anniversary of the Palestinian *Intifada* (uprising) in the Israeli Occupied Territories. Here is the Israeli response to stone-throwing by children, demonstrations, and the like in that three-year period:

Deaths: 987 (youth under 16 years, 25% of total)

Injuries: 118,000 (of a total population of 2 million)

Detentions: 95,000 (15,000 extra-legal)

Houses demolished or sealed: 1,959

Trees uprooted: 120,000

About 95,000 of these uprooted trees are olive trees. Olive production accounts for most Palestinian agricultural income; one-third of all Palestinians in the West Bank are farmers. Every mature olive tree yields 1-1.5 drums of oil per year, at a price of 50 Jordanian dinars (\$80) per drum. It takes several years to grow a mature, fruit-bearing tree.

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## ***Germany, Hungary sign friendship treaty***

A friendship treaty between Germany and Hungary was signed by the foreign ministers of the two countries in Bonn on Dec. 18. The agreement states the commitment of the German government to pave the way for the association of Hungary with the European Community at the earliest date possible. The two finance ministers signed an additional treaty on cooperation in customs and anti-crime policies.

No decision has yet been taken in Bonn, however, on the urgent request from Budapest that Germany donate matériel of the abolished East German Army (NVA) to the Hungarians, to improve their defense capabilities against an eventual attack from Serbia, which may well develop out of Belgrade's military operations in neighboring Vojvodina.

The Hungarians especially want air defense and air surveillance equipment from idle NVA stocks, to protect their air space from incursions by the Serbian Air Force, which have repeatedly occurred over the past months. In one of these incursions several weeks ago, a Serbian jet dropped a bomb on a Hungarian village close to the border.

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## ***Israeli settlers named as military auxiliaries***

The Israeli Defense Ministry has authorized the 100,000 Jewish settlers in the Occupied Territories to form armed "civil guard" units with police powers. According to the Defense Ministry, the units will only be allowed to operate within Jewish settlements, and not Arab areas patrolled by the Army.

Reportedly, the first units will be established in the settlements of Maale Adunim, Ariel, and Kiryat Arba, the last settlement being the home of 6,000 Jews from the Jewish Defense League, Gush Enunim, and related terrorist groups. Jews from these towns have repeatedly been involved in shootings of Arabs throughout the territories. Recently, a related group, El Ad, seized Arab homes in the Arab Quarter of East Jerusalem, evicting the occupants, with the full support of the government. These are the groups responsible for attempts to blow up Jerusalem's Al Aqsa mosque.

According to well-placed Jerusalem sources, the units have long existed, de facto, and have been supplied and trained by Ariel Sharon's Housing Ministry and Rafael Eytan's Agriculture Ministry. Their formal and public integration into the military, however, is a major provocation. In the case of a new Arab-Israeli war, the units will

reportedly have the function of stampeding panicked Palestinian civilians over the border into Jordan, making the Occupied Territories "Arab-free."

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## ***Yeltsin proposes NATO membership for Russia***

Russian President Boris Yeltsin on Dec. 20 asked for Russia to be allowed to join the North Atlantic Treaty Organization. In a message to a meeting of the new North Atlantic Cooperation Council in Brussels, delivered by the ambassador of the former Soviet Union to Belgium, Yeltsin said he supported efforts "to create a new system of security 'from Vancouver to Vladivostok.'"

Although Yeltsin, before leaving Rome on Dec. 20, said that his country's membership in NATO was a "hypothetical thesis" that is something in the "very far, far future," his request nevertheless appears to have startled some western NATO members. One senior U.S. official, presumably Secretary of State James Baker, responded: "Who knows what's going to happen? The only thing that's for sure is you should have gone out and bought some Rand McNally stock some time ago." Britain's Foreign Secretary Douglas Hurd commented: "It's a long way off. It won't be on the actual agenda for a bit of time to come."

Yeltsin also said that Russia and the new members of the Community of Independent States "guaranteed" their adherence to all arms control and other commitments made by the former Soviet Union.

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## ***Security Council extends sanctions against Iraq***

The United Nations Security Council has extended its sanctions against Iraq, following its fourth review of the situation there. The announcement was made by Council President Yuli Vorontsov on Dec. 20, who spoke of Baghdad's supposed failure to fulfill U.N. demands.

The Iraqi daily *al-Jumhuriya* respond-

## Briefly

● **POPE JOHN PAUL II** said, after listening to a performance of Mozart's Requiem Mass on Dec. 5, that "the Church had to render homage to the genius from Salzburg, recognizing that he had dedicated many sublime pages to religious expression." The concert, held at the Vatican, commemorated the 200th anniversary of Mozart's death. The Pope expressed the hope that the religious music of Wolfgang Amadeus Mozart "will ease our road toward the Absolute."

● **TAIWAN'S** nationalist party, Kuomintang, swept the elections on Dec. 21, winning 71% of the vote against the pro-independence Democratic Progressive Party, which won only 24%. The Kuomintang will now have 254 seats in the National Assembly, the Democratic Progressives 66, and the other parties, 5. The Assembly will revise the 1947 Constitution in the spring, and the Kuomintang now has more than a three-quarters majority.

● **PANAMA'S ASSEMBLY** voted up 72 changes in the nation's Constitution at the end of December, including the abolition of the Panamanian Defense Forces. The changes will have to be ratified by a second legislative session, and backed by a plebiscite, to be held in four months.

● **GERMAN** security officials have issued a terrorism alert for the transition into early 1992, pointing at the still-operative structure of the left-wing Baader Meinhof Gang, as well as the newer right-wing groups.

● **THE ESCAPE** of former East German dictator Erich Honecker from Moscow to North Korea is imminent, reports from Moscow say. He is wanted by the German government for trial. An official North Korean statement maintains the fiction that Honecker is not seeking asylum, but rather wants "to undergo a special medical treatment" in Pyongyang.

ed to the announcement by saying: "The U.S. and anyone in alliance with it should know well that the Iraqi people are not the type of people who wait for charity from those who killed their children, women and old people. . . . They will never be able to confiscate the Iraqi brain, which has the capability to confront difficulties and accomplish the impossible."

Although there is no indication that there was any opposition to the move from within the Security Council, one head of state has called for the world to help the besieged Iraqi people. Jordan's King Hussein appealed, in a joint interview with Reuters and the international television agency Visnews on Dec. 17, for action. "I hope there will be a time very, very soon that the needs of the Iraqi people will be addressed on a humanitarian level in a manner that is compatible to people's needs. Men, women, and children . . . their cause must be addressed. One cannot look the other way at their suffering."

The king emphasized that he was talking of the ordinary people and not the ruling elite. "I believe this problem can't continue," he said.

### Escobar sues former Colombian justice chief

Medellín Cartel kingpin Pablo Escobar has filed a criminal slander suit against former Justice Minister Enrique Parejo, reported the Colombian daily *El Espectador* on Dec. 14. Parejo is an outspoken opponent of the drug cartels, and a critic of the government's capitulation to the drug traffickers.

According to the suit filed by Escobar—before the same anonymous judge who is presiding over his trial on reduced drug charges—he was slandered by Parejo during a recent interview with Radio Caracol. In that interview, Parejo charged that a contract against his life had been issued from the luxurious digs in Envigado where Escobar is "jailed." Some of his recent articles, said Parejo, "have not been well received at the cartel's general headquarters in Envigado,

which is now called a jail. They have upset the man who is there, who has given or reaffirmed the order to assassinate me."

Columnist Valdimiro Naranjo wrote in *El Espectador* that "because of the serious charges of death threats against Parejo from the 'Cathedral' [the nickname for the Envigado facility], the national government should take steps to carefully guard the former justice minister." Naranjo reminds the government that another justice minister, Enrique Low Murtra, was murdered earlier this year, and he says that the government will face a terrible burden of responsibility "if the atrocity, about which Parejo has been warning with clarity and courage, takes place."

### Vatican journal exposes NSC's malthusian plan

The monthly publication of the Pontifical Institute of Foreign Relations, *Mondo e Missione*, has denounced the U.S. government's National Security Study Memorandum (NSSM) 200, written in 1974, which called the growth of population in Third World countries a threat to U.S. national security interests. The article cites *EIR* as the source of the story (see *EIR*, May 3, 1991, "The Genocidal Roots of Bush's New World Order").

The article, "NSSM—War Against the Newborns," reports, in part: "Recently *Executive Intelligence Review* published a memorandum of the United States Security Council, which was secret until last year. The document, coded NSSM 200, is from 1974 and bears the significant title, 'Implications of the Growth of World Population for the national Security and Foreign Interests of the United States.' At that time Henry Kissinger presided over the Security Council and George Bush was director of the CIA [sic]. . . .

"In the document the racist attitude of the American government is transparent, when it foresees that birth control will serve to 'regulate the hereditary aspects of human capacities.' "

# Establishment fears LaRouche presidential bid

by Mel Klenetsky

The Federal Election Commission (FEC) and various secretaries of state and state Democratic Party chairmen have taken actions to either prevent Democratic presidential candidate Lyndon LaRouche's access to the ballot or to make it more difficult. At a time when the population has become increasingly angered with the economic policies of the President and Congress, together with its livid reaction at the budget-cutting madness that many state and municipal governments have perpetrated, this blatant, dirty political tactic to hurt LaRouche's ballot access may yet backfire.

## **The only program to stop the depression**

On Dec. 21, LaRouche reiterated his program for economic recovery, calling for creating employment for 6 million people within a year. His program, however, is not what the Wall Street crowd and the Anglo-American oligarchy want. In LaRouche's words, "My recovery program depends upon the initial action of federalizing, nationalizing, the Federal Reserve System. That is, to take away its status as a quasi-independent corporation controlled by bankers, and to make it an institution of the U.S. government, a bank of the U.S. government, the kind of bank that the United States Bank represented under President George Washington. This bank would be a means, not for emitting currency, but for putting federal currency, legal tender, out as loans at very low interest rates to get the economy moving."

LaRouche is planning for about \$300 billion a year of loans for public works, and a comparable amount for the private sector for investment in high-technology and engineering types of activity and employment. This would involve about 3 million people in the public sector working for federal, state, and local infrastructure projects such as railway and water and power system projects, plus another 3 million people, minimally, employed as a result of spinoffs of these public projects.

LaRouche's program to employ 6 million people within a year will involve investment in necessary, long-overdue projects, none of which are make-work programs. Since no one else running for office on the Democratic or Republican side has this kind of approach, and because this approach has been proven to work in the past, under Presidents John Kennedy and Franklin Roosevelt, and is the only approach that can revive the economy, the political targeting of LaRouche by the FEC and other entities is not accidental.

For the fourth time in which LaRouche has filed for federal matching funds, the FEC has delayed granting the funds, a blatant political move. Now the FEC is threatening to heed the recommendation of its general counsel, Lawrence Noble, and deny LaRouche matching funds entirely. Noble has shown himself to be an ally of the Anti-Defamation League, which has been running an illegal, unconstitutional political witchhunt against LaRouche and his associates for more than a decade.

This would be the first time in the history of the FEC that a candidate has met the threshold qualifications for matching funds and been denied them. Should the FEC accept the recommendations of Noble, they will open themselves up for massive civil lawsuits, though the damages sought could never compensate for the irreparable harm that FEC delay has already caused.

## **Ballot access impeded**

Every delay not only deprives candidates of hundreds of thousands of dollars of matching funds, but automatic ballot access by the offices of the secretary of state in many states is influenced or in some cases absolutely dependent on FEC matching funds being granted. The "LaRouche in '92" campaign will be on the ballot in at least 20 states. LaRouche is already on the ballot in Mississippi, New Hampshire, Colorado, Minnesota, and South Dakota, and ballot access is expected to be secured in Massachusetts, Texas, Maryland,



Rhode Island, Oklahoma, Louisiana, West Virginia, South Carolina, Kansas, Arizona, New Jersey, Pennsylvania, Alabama, Illinois, and Washington State. In addition, there are 10 states in which LaRouche has requested to be put on the ballot automatically by the secretary of state.

Both the Democratic and Republican Party leaderships have put every possible roadblock in the way of LaRouche's presidential efforts. Jeff Masten, the Democratic Party chairman of South Dakota, announced on television that party officials tried to keep LaRouche off the ballot but had no reason to do so. Masten said that the demands of the election campaign were conflicting with his law practice and then announced his resignation.

The secretary of state of Michigan, Richard H. Austin, a Democrat, did not place LaRouche on the ballot. The "LaRouche in '92" campaign had sent the secretary of state evidence to demonstrate high name recognition, showing that LaRouche had appeared in more than 60,000 newspaper articles since 1986; had spoken on more than 1,000 radio talk shows and television spots; had qualified and received matching funds for 1980, 1984, and 1988 campaigns, and had met the threshold qualifications for 1992. Austin was also informed that LaRouche supporters had already distributed more than 7 million leaflets for the campaign in every single state of the union, showing the broad-based machine that LaRouche has.

Austin placed columnist Patrick Buchanan on the Republican ballot and Mario Cuomo on the Democratic ballot. Cuomo had not even announced his candidacy at that time, and subsequently announced that he was not running. Austin's office said that LaRouche would not be automatically placed on the ballot because the national media did not recognize LaRouche as a viable candidate.

Michigan has a very prohibitive petitioning requirement of more than 8,000 valid signatures. Since a campaign would have to gather at least 16,000 signatures to ensure getting on the ballot, the strain on a campaign not granted automatic ballot status is clear.

In Maryland, Massachusetts, and Rhode Island, the secretaries of state refused to put LaRouche on the ballot, but the "LaRouche in '92" campaign will be on the ballot through petitioning. In Massachusetts, LaRouche supporters filed 5,900 signatures, 3,400 over the 2,500 required. In Rhode Island and Maryland, there will similarly be signature submissions for ballot access.

Looking at David Duke, one sees the narrowness of his political base, especially compared to LaRouche. Duke is a media creation, as is Buchanan and every one of the so-called main Democratic candidates. Once Duke was not placed on the ballot in Massachusetts, he was not able to muster the 2,500 required signatures.

In Rhode Island, Secretary of State Kathleen S. Connell refused to put both Duke and Pat Buchanan on the Republican ballot. The American Civil Liberties Union intervened on behalf of Buchanan, and she reversed her original recommen-

ation and placed Buchanan and Bush on the Republican ballot, and an array of Democrats including Paul Tsongas, Robert Kerrey, Thomas Harkin, Douglas Wilder, Jerry Brown, William Clinton, Eugene McCarthy, Larry Agran, Thomas Laughlin, and Charles Woods on the Democratic ballot. Duke was left off, as was LaRouche. Do you recognize these last three names? It shows the arbitrary basis of the Connell recommendations.

In 10 other states the secretary of state will make ballot access recommendations. LaRouche was denied access in Florida, where the secretary of state recommendation is the sole criterion for ballot access. The "LaRouche in '92" campaign has asked the ACLU to intervene on its behalf in Florida and Michigan.

### **FEC twists federal law**

Perhaps even more blatant and certainly more dangerous to the Constitution is the attempt on the part of the FEC to deny LaRouche matching funds. On Dec. 19, the FEC made a provisional ruling to temporarily accept FEC General Counsel Noble's recommendation that "LaRouche in '92" be denied matching funds. The FEC issued a press release stating, among other things, that LaRouche could not get on the ballot in many states because they prohibit a convicted felon from running for office.

This is just one small example of the dirty trick tactics of the FEC. General Counsel Noble certainly knows that state law does not apply to federal elections, and LaRouche, therefore, has every constitutional right to run for the presidency. In 1986, Noble and the FEC reviewed a request by Edward Spannaus on behalf of the electoral efforts of Lyndon H. LaRouche. Spannaus complained that the Anti-Defamation League of B'nai B'rith and the American Jewish Committee were illegally interfering with LaRouche's electoral efforts in violation of the Federal Election Campaign Act of 1971.

Five years later, the FEC and Noble responded to Spannaus's complaint. Noble wrote: "After an investigation was conducted and the General Counsel's and the respondent briefs were considered, on Feb. 6, 1990, the Commission found there was probable cause to believe these [ADL and AJC] respondents violated 2 U.S.C. 441b. In consideration of the circumstances of the matter, however, the Commission determined on Jan. 9, 1991, to take no further action against both respondents, and closed the file in this matter." The ADL has been in the forefront of running a political and legal witchhunt against LaRouche and his associates. Noble admits the ADL *is in violation of law, and yet he refuses to act.*

In 1975, Eugene McCarthy sued to abolish the FEC for fear it would wield unconstitutional power in the electoral arena. In the Oliver Stone movie "JFK," New Orleans District Attorney Jim Garrison describes the events around the Kennedy assassination as a cold coup d'état that has opened the door for fascism. A look at the workings of the FEC certainly supports that view.

# Virginia's Terry gets slammed by the press

Fragments of a secret government "national security file" targeting Lyndon LaRouche, suppressed during his 1988 trial, are finally leaking out, and one of the first casualties is the LaRouche-hating Virginia Attorney General, Mary Sue Terry.

Terry, whom LaRouche calls "America's Ilse Koch," for her brutal pursuit of executions even in cases where condemned men have claims of innocence, has also made her prosecutions of associates of LaRouche her political campaign slogan. In the recently released FBI memorandum about the LaRouche prosecution by a federal-state-private task force, Terry was described as politically biased and looking to get political credit for raids on LaRouche-affiliated publishers.

Now these FBI memos, secret for five years and highly embarrassing to Terry, have set off editorial attacks on her by the *Richmond Times-Dispatch*.

The FBI memorandum describes secret federal-state meetings before the 400-armed-man raid on LaRouche publishing offices in October 1986. The section of it quoted by the *Times-Dispatch* says of Mary Sue Terry that "the state attorney general's office was adamant in being the lead agency [in the raids], which was construed to be for politically motivated reasons . . . rather than for the successful prosecution of state and federal cases." The FBI "emphasized to the state attorney general that there was much more involved in this case than just mere temporary political mileage."

By law, although the *Times-Dispatch* does not mention this aspect of the scandal, prosecutors may not conduct prosecutions for political reasons or express political bias against their targets.

## Drawing first blood

The *Times-Dispatch* has criticized Terry strongly in recent months on issues of "fiscal chiseling" against pensioners and taxpayers, and for using her influence improperly with the State Supreme Court. But Terry did not respond until she was stung by the newspaper's charge that her prosecutions of LaRouche's movement had been politically motivated.

When the first *Times-Dispatch* editorial, "Terry and the LaRouchies," appeared in the state's capital on Dec. 18, it quoted the damning FBI memorandum for three paragraphs. Terry immediately fired back a 1,000-word reply, claiming that the barbaric 40- to 80-year sentences imposed on the

LaRouche defendants "showed the seriousness of their crime," and complained bitterly that fundraisers for the LaRouche movement would use the *Times-Dispatch* editorial to raise money.

A Virginia weekly which has specialized in slanders of LaRouche, the *Loudoun Times-Mirror*, was also "spooked" by the Richmond newspaper's exposé of Terry, and ran an editorial trying to defend her with the silly claim that in October 1986 there was no *federal* "get LaRouche" investigation in Virginia. (In reality, U.S. Attorney Henry Hudson was conducting precisely such a "get LaRouche" investigation then, and was one of the federal officials trying to get Terry under control.)

But the *Times-Dispatch* hit back with a second editorial Dec. 21, "Terry and the LaRouchies (II)," carrying a new and stronger charge: not only political bias in prosecution, but selective prosecution and sentencing on a *national* scale. The newspaper called Terry's response "garbage," and said that it increased the paper's suspicion of improper political motivation *particularly* because Terry was bragging about the brutal sentences meted out in the Virginia "LaRouche cases."

None of the LaRouche defendants had ever been convicted of anything before. All were charged with "securities fraud," which, as the newspaper said, was "a charge that could be pursued against a political organization only after a special ruling from the State Corporation Commission. Meanwhile, Ivan Boesky of Wall Street infamy was sentenced to three years and served two, for massive securities fraud."

The *Times-Dispatch* noted that, involved in this scandal over the FBI memorandum, is the appeal of LaRouche movement activists Anita and Paul Gallagher and Laurence Hecht, who were sentenced to 30-40 years in prison. On Dec. 4, the Virginia State Court of Appeals accepted the FBI memos as a "proffer of evidence" for the defendants' claim that Terry should never have been allowed to prosecute their cases, because of her clear public bias.

As the *Times-Dispatch* noted, before the FBI documents were released under the Freedom of Information Act, the defendants were basing their appeal on Terry's "copious use of the LaRouche case" on television programs, in political speeches, etc. Clearly, the *Times-Dispatch* regarded the FBI memo as damning evidence. U.S. law and U.N. conventions prompted by U.S. representatives, say that prosecutors should not "publicly prejudge cases" or target individuals for political reasons.

During LaRouche's appeals of his 1988 railroad conviction, his legal team demanded the release of the "national security" files on LaRouche, and asked President Bush to use his power to release the files. The FBI, NSA, CIA, and other agencies refused on "national security" grounds, and Bush did nothing.

LaRouche's attorneys insisted the documents would exonerate him. The scandal now hitting Mary Sue Terry, shows what they have been talking about.

# Virginia inmate fights for his life

by Anita Gallagher

For the second time in less than one year, Virginia's Attorney General Mary Sue Terry has left a man who is very possibly innocent—Herbert Bassette—waiting for the electric chair. Bassette will die on Jan. 23, 1992 unless Virginia Governor Doug Wilder, now campaigning for the Democratic nomination for President, grants his petition for clemency in the days immediately ahead.

Herbert Bassette's attorneys are seeking international support for their campaign to commute his death sentence. In February 1991, such a political mobilization directed at Wilder succeeded in saving from execution another death row inmate, Joe Giarratano, of whose guilt there was substantial doubt.

These two cases of men probably innocent who are condemned to die, occurring only 11 months apart, in just one state, demonstrate even on the most base, pragmatic level, why the death penalty must be abolished in the United States.

## Convicted on no evidence

Bassette is the first person in Virginia to be convicted of a capital crime *solely on the basis of accomplice testimony*. Three people—Betty Winfield, Sam "Dap" Cook, and Jeannette Green—admitted their own participation in the murder of 16-year-old Albert Burwell during a November 1979 service station robbery in Richmond. All three had long criminal records and all three admitted that they were drug addicts. Although all three confessed that they were high on heroin or prelude on the night of the crime, none testified that Bassette was a drug user at all.

All the physical evidence in the case *points away from Bassette*. The police search of Bassette's car, which the trio of accomplices said was used in the crime, found no evidence to link Bassette to the crime. When Winfield and another acquaintance, Tyrone Jackson, admitted they had sold the murder weapon within 48 hours of the crime, it was established that the accomplices, not Bassette, had controlled the .22 pistol used in the killing. Winfield and Jackson then retrieved the pistol for a bank robbery on Nov. 27, 1979—only four days after the murder.

Miraculously, when the "accomplices" tried to implicate Bassette in the bank robbery, he was able to produce a policeman witness, who testified that he was in court with Bassette on a traffic charge at the time. As well as showing that the

accomplices, not Bassette, controlled the murder weapon, this also showed that they were out to pin crimes on Bassette. Furthermore, a witness testified that Tyrone Jackson had confessed to killing Burwell.

Bassette, who is black, has steadfastly maintained his innocence throughout. His first murder trial ended in a hung jury; and the attempt to implicate him in the bank robbery charge failed because of the policeman witness.

## Cover up evidence of innocence

Both Winfield and Cook could have faced the death penalty, but instead got extravagant deals from the Virginia Attorney General's office in exchange for pinning the crime on Bassette. A prominent study of the death penalty to be reviewed in *EIR*'s next issue documents that the use of perjured testimony obtained by U.S. prosecutors in exchange for lenient treatment for a lying witness, has frequently caused persons later proven innocent to be convicted of capital crimes.

In Bassette's case, the Virginia Attorney General's office took steps to *prevent* a jury from seeing the 12-month *suspended* sentence that Winfield received (and after Bassette's first trial ended in a hung jury), by asking the court to postpone her case and that of Jeannette Green until after Bassette's second trial.

Lyndon LaRouche, candidate for the Democratic nomination for President and himself a political prisoner, addressed this in a Dec. 19 statement: "Worse, there is suspicion that the [Virginia] Attorney General *knows* of evidence pointing to such innocence, and is sitting on it. . . . Nothing could be more monstrous. This woman, this Attorney General, Mary Sue Terry, is neither a man, nor a woman, nor a person. She *is* a monster. She is perhaps the United States' Ilse Koch."

In the case of Roger Coleman, a second Virginia death-row inmate with a substantial claim of innocence whose appeals are nearly exhausted, Terry's office argued Dec. 5 that "claims of 'newly discovered' evidence pertaining only to the issue of guilt or innocence do not constitute a basis for *habeas corpus* relief." In other words, even if Coleman is innocent, he does not have a right not to be executed!

Coleman's motion for reconsideration of his appeal is expected to be decided in the first week of January. He was originally intended to be Terry's victim on Jan. 23; when the trial court refused on Dec. 5 to authorize Roger Coleman's execution, another probably innocent man, Herbert Bassette, was plugged into Coleman's slot to appease Terry's bloodlust. Coleman's attorney told *EIRNS* on Dec. 19: "I know who committed this crime and I can prove it. But I do not believe that I will get the opportunity to present this evidence."

Telegrams and letters for clemency for Herbert Bassette should be sent to The Honorable Douglas Wilder, Governor of Virginia, P.O. Box 1475, Richmond, Va. 23212.

# Kevorkian faces grand jury probe

by Linda Everett

It may be too soon to say exactly what scenario is unfolding in Michigan, where Oakland County authorities are investigating Jack Kevorkian's publicly admitted role in killing three women, and where legislators refuse to take a stand against deliberate medical killing. But it appears that at least some lawmakers are trying to use the notoriety around Kevorkian and his plans to use his home-made killing machines to "treat" 50 people he says want his services, to force through a law that would allow a more "socially acceptable" and "regulated" form of killing by physicians.

The Michigan legislature started statewide hearings on a half-dozen bills that variously make physician-assisted suicide a felony; call for legalizing it; or call for creating a commission to propose state policies on euthanasia.

Richard Thompson, Prosecuting Attorney for Pontiac, has called for a citizens' grand jury to investigate whether Kevorkian, an out-of-work Michigan pathologist, should face homicide charges in the deaths of two women who died Oct. 23 after being hooked to his "suicide" machines. Kevorkian reported the deaths to Oakland County authorities as physician-assisted suicides, but Oakland County Medical Examiner Dr. L.J. Dragovic, M.D. has now ruled the manner of death in both cases was homicide.

Thompson announced on Dec. 18 that a grand jury was needed to investigate the homicides because relatives present when the deaths occurred refused to cooperate with authorities, as per instructions laid out by Kevorkian's lawyer, Geoffrey Fieger. However, some family members have already been subpoenaed to appear in early January.

## Victims not terminally ill

Neither of Kevorkian's latest victims, Majorie Wantz, 58, and Sherry Miller, 43, was terminally ill. Medical Examiner Dragovic found no evidence of any disease in Wantz. Doctors found that Miller had several physical limitations due to multiple sclerosis. Court testimony shows that psychiatric, physician, and hospital records indicate both women were depressed, but, as "patients" ostensibly under Kevorkian's care for two years, he never sought to treat them (which he was at any rate unqualified for) or to seek advice on their care. Both women were fixated on suicide as the solution to their physical problems. Wantz refused the treatment plan

proposed by both her psychiatrist and doctor, as did Mrs. Miller. Kevorkian also ignored the doctors' advice when he informed all of them of his plan for the women more than a year before he carried it out.

Although the medical examiner called the deaths homicide "because they are . . . the result of a poisoning inflicted upon them," it is not known why the death of Kevorkian's first victim, Janet Adkins, who was hooked to a similar device in June 1990, was not also ruled a homicide. The Adkins murder case against Kevorkian was dismissed when the court found no Michigan law barring assisted suicide. The deaths of Wantz and Miller were proof that Kevorkian violated a permanent injunction handed down after Adkins died, to bar him from helping "any person seeking to end a human life . . . or conducting any acts to help a patient commit suicide." Based on the investigation of the Michigan Bureau of Occupational and Professional Regulation of the Board of Medicine, Michigan Attorney General Frank J. Kelly asked the Medical Board on Nov. 20 to suspend Kevorkian's medical license. This they voted unanimously to do. Kelly accused Kevorkian of violating the state's public health code. The board charged Kevorkian with negligence; incompetence, that is, "a failure to conform to minimal standards of acceptable and prevailing practice for the health profession"; and for "administering drugs for other than lawful or therapeutic purposes." But as his attorney says, Kevorkian doesn't need a medical license to help people kill themselves.

Thompson may hope to use the grand jury to build a better homicide case against Kevorkian. But the people of Michigan ought to watch out, as it is likelier that the soap opera around it will be used to lure them into accepting some form of assisted-death law as advocated by Rep. Ted Wallace (D-Detroit) in his H.B. 5415. Sen. Fred Dillingham (R-Fowlerville) offers some opposition with his modified S.B. 32 which would make assisted suicide a felony, as does Rep. Nick Ciaramitaro's (D-Roseville) H.B. 4038. The heretofore silent Michigan State Medical Society just endorsed Dillingham's efforts, but the bill is stuck in the House subcommittee on death and dying, where all the bills on euthanasia are being debated in statewide hearings.

Two other bills, H.B. 4501 by Rep. Thomas Power (R-Traverse City) and S.B. 149 by Sen. David Honigman (R-West Bloomfield), pose a grave and insidious threat of disarming the opposition, to institutionalize medical murder. These bills call for creating a state commission where medical, legal, and ethical "experts" will study euthanasia issues and recommend state policy. Such commissions claim to build a consensus among diverse groups, but their track record (in New York, for example) is of using their authority to pass and enforce Nazi-modeled euthanasia laws, targeted against any patient population the state sees as an economic burden. The Hemlock Society, one of its members revealed, is named in one Michigan commission bill as an "expert" on death and dying. The society is the main lobby for euthanasia!

# Elephants and Donkeys

by Kathleen Klenetsky

## Puffing Clinton

Bill Clinton, the blow-dried technocrat whose main claim to fame is that, as governor of Arkansas, he introduced stringent welfare cuts in one of the poorest states in country, has been picking up support from some unexpected, as well as expected, corners.

In early December, Sen. Sam Nunn (D-Ga.), the chairman of the Senate Armed Services Committee, gave his imprimatur to Clinton's candidacy. Although Nunn and Clinton are politically close (the two were founding members of the Democratic Leadership Council, a group of party "centrists" founded in 1984), Nunn has traditionally refused to endorse anyone in the primaries.

Clinton reportedly is on the verge of picking up another important endorsement—that of Rep. Stephen Solarz (D-N.Y.), one of the leading members of Israel's "amen corner" on Capitol Hill. According to congressional sources, Clinton has recently "reached out to Solarz for advice" on a wide range of issues, including foreign policy, especially vis-à-vis the Middle East.

Solarz "will probably endorse Clinton in late January or early February," these sources say. This would almost certainly open up rich new lodes of campaign contributions for Clinton, given Solarz's ability to tap into wealthy Jewish fundraising sources.

Clinton's campaign just recruited James Carville, the political strategist who helped engineer Harrison Wofford's come-from-behind trouncing of Richard Thornburgh in Pennsylvania last November.

It's not just Democrats who are jumping on Clinton's bandwagon. Art Laffer, the Republican "supply-side" guru of the Reagan era, went on the

ABC News television program "Nightline" on Dec. 27 to predict that George Bush would be defeated by a Clinton-Cuomo ticket!

Meanwhile, Clinton, who attended Oxford on a Rhodes Scholarship, earned praise from the City of London's *Financial Times* Dec. 30. In an analysis of the U.S. elections, which predicted that George Bush might get the same treatment from the U.S. electorate which was meted out to Winston Churchill when he was voted out of office in 1945, Michael Prowse praised Clinton as "intellectually sharp" and "well placed to challenge Mr. Bush."

"If the electorate focuses on future problems rather than past glories," opines Prowse, "the relative inexperience of a challenger such as Mr. Clinton may not prove much of a handicap. And the Churchill syndrome could claim another victim."

## 'Draft Cuomo' operation under way

New York Gov. Mario Cuomo's Dec. 20 announcement that he would not seek the Democratic presidential nomination has by no means ended speculation that he may still end up on the party's ticket come November.

The day after Cuomo made his decision public, the *Washington Post* editorialized: Cuomo "has said no. He should not now be made into the Elvis of the campaign—a declared non-candidate whose candidacy is believed to live."

But there are some people determined to make Cuomo just that.

Within days of the governor's no-go announcement, former New York State Democratic chairman Domenic Baranello, now Suffolk County (Long Island) chairman, announced plans to enter Cuomo in the New York primary

as a favorite son. "He must be a force in the 1992 convention. He must be seriously considered as a candidate," Baranello said.

Meanwhile, a Chicago-based Democratic political consultant has formed a draft-Cuomo committee, which plans to conduct a write-in campaign in the New Hampshire primary. "Our party should not allow the state Senate Republicans in Albany to hold [Cuomo] hostage," says Philip Krone. "He is our strongest possible candidate." Krone said he received more than 100 calls the first day the committee was announced.

Even after bowing out of the race, Cuomo himself has refused to categorically rule out a potential draft, and has also conceded it would be theoretically possible for him to enter the primaries after New Hampshire.

## Kerrey the hypocrite

Another Democratic candidate who has recently received lavish press publicity, including a big puff piece in *Parade* magazine, is Nebraska Sen. Robert Kerrey.

Not all of the publicity has been positive, however. The *New York Times* ran a front-page article Dec. 28 reporting that Kerrey, despite making access to medical care a big issue in his presidential campaign, runs a chain of restaurants and health clubs in Nebraska that provides health insurance to only 10% of its 1,100 employees.

Kerrey's business partner, Dean Rasmussen, claims they can't afford to pay for coverage. But Nebraska union leaders say Kerrey is being hypocritical. "When he's campaigning, he gives the impression that he is for the blue-collar worker, but he doesn't even treat his own employees right," says Jenney Brown, of the local Hotel Employees union.

## Congress told S&L bailout getting bigger

In testimony before the House Banking Committee on Dec. 11, Comptroller General Charles Bowsher warned that the nation's banks may need more than the \$70 billion in additional borrowing authority Congress just granted them.

"My concern all year has been that the regulators and the administration have said that this was a temporary problem, that the banks needed a loan, and the taxpayers would not be involved," said Bowsher. But, he claimed, he had recognized all along that "it was obvious this was a bigger problem."

At the beginning of January, the Federal Deposit Insurance Corp. announced that commercial banks had earned \$4.3 billion during the third quarter—a moderate decline from the \$4.6 billion earned in the second quarter.

The FDIC said banking troubles spread to California, but claimed that institutions in the Northeast showed signs of "modest recovery." So far, it has been only the savings and loans failures that have cost taxpayers; that cost is expected to reach \$500 billion over 40 years, including interest, but the figure is continually being revised upward at ever-increasing intervals.

But even Treasury Secretary Nicholas Brady has gradually shifted his position, no longer guaranteeing that banks won't also need a taxpayer bailout or that they will ultimately be able to repay their 15-year government loans.

Regulators say as many as 400 banks and S&Ls are likely to fail in the coming year. Although the administration received the \$70 billion it had

sought for banks, Bowsher said they could need more money because economic conditions could get even worse, poor financial reports prepared by bank management could affect the accuracy of estimates of money needs, and the unexpected collapse of even one major bank institution could significantly increase the amount of money needed.

## Lugar demands Ukraine dismantle nuclear weapons

Sen. Richard Lugar (R-Ind.), a pointman for the Bush administration on the Senate Foreign Relations Committee, demanded at a press conference on Dec. 18 in Washington that the dismantling of the nuclear weapons in the former Soviet republics be put on a "fast track."

Lugar said that Secretary of State James Baker should tell Ukrainian President Leonid Kravchuk "that the United States is prepared to work *immediately* with Ukraine" on a plan to tag and inventory all tactical nuclear weapons, to dismantle the weapons and to store the fissionable materials under commonwealth and/or international control. He warned that "this can and should be achieved in a short span of time," since the weapons represented "an awesome threat to United States security and to the quality of life in Ukraine."

"Control and destruction of these nuclear weapons," continued Lugar, "must be our objective in working unilaterally with Ukraine."

Lugar threatened that diplomatic recognition and assistance to Ukraine and to other republics would only be considered "on the basis of their complete assumption of arms control treaty obligations previously negotiated with the Soviet Union, and on the ba-

sis of total cooperation in the rapid, systematic destruction of the tactical and strategic nuclear weapons under the control of the various republics."

Calling the nuclear weapons in Ukraine and the other former Soviet republics "the most serious national security issue we face," Lugar said that the United States should commence a daily countdown on the destruction of these nuclear weapons.

## Gephardt calls for trade war against Japan

One day after the announcement of 74,000 planned layoffs at General Motors on Dec. 19, layoffs which were motivated ostensibly by GM's loss of market share to foreign competition, Democratic congressmen, including House Majority Leader Richard Gephardt (D-Mo.), Energy and Commerce Committee Chairman John Dingell (D-Mich.), and Senate Banking Committee Chairman Donald Riegle (D-Mich.) announced new legislation, the Trade Enhancement Act of 1992, which would place draconian limitations on Japanese imports to the United States.

According to the legislation, Japan would be required to reduce its 1991 bilateral trade deficit with the United States by 20% per year in each of the next five years. The trade deficit reduction efforts would be monitored on a quarterly basis. If Japan failed to meet the targets, Congress would impose specific sanctions on U.S.-Japan automotive trade parts. Such "enforcement provisions" would include establishing a limitation of 3.8 million units in 1992 on the U.S. sale of Japanese automobiles with less than 60% of the value of their components coming from non-Japanese-affiliated auto parts firms, forcing an increase in

U.S. exports of motor vehicles to Japan, and renegotiating the voluntary restraint agreement with Japan to include Japanese assembly facilities in the United States which do not buy at least 60% of their auto parts from non-Japanese-affiliated auto parts firms.

Introduced just prior to President Bush's January visit to Japan, the Gephardt legislation was designed to "stiffen" the resolve of the administration to strong-arm the Japanese. "If the President's actions in Asia next year are insufficient," Gephardt warned, "progress on trade will finally come from the remedies we have written into the Trade Enhancement Act of 1992."

## **N**AFTA supporters admit passage is uphill fight

Congressional supporters of the North American Free Trade Agreement (NAFTA) are warning George Bush that it could be defeated if brought to a vote in 1992.

According to the Dec. 18 *Journal of Commerce*, Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) advised U.S. Trade Representative Carla Hills that it would be a mistake to try to push NAFTA through in an election year.

Sen. Max Baucus (D-Mont.) delivered the same advice to others in the administration.

A congressional staffer cited by the *Journal* argued that it would be "impossible" to draft legislation for both the General Agreement on Tariffs and Trade and NAFTA in the same year. And even if it were possible, he argued, "the votes aren't there."

Another staffer involved in the NAFTA hearings indicated to *EIR* that although some agreement had been made with regard to the problems of

the automotive industry, next to nothing had been done by the administration to allay congressional concerns in the area of environmental and labor conditions. The administration had also promised to provide "adjustment assistance" for any U.S. workers laid off as a result of the agreement, but had given no indication how this would be accomplished.

The staffer also indicated that although the administration may be eager to get an agreement with Mexico quickly, it is afraid of presenting a treaty which would be rejected by the Senate.

The announcement of the massive layoffs by GM on Dec. 18 will only fuel the growing opposition to the treaty. One of the objections to NAFTA has been the fear that U.S. automotive companies would begin producing U.S.-made cars south of the border, with cheaper labor and foreign-produced parts, undercutting U.S. production and U.S. wage levels.

## **P**anetta seeks cuts in Medicare, entitlements

House Budget Committee Chairman Leon Panetta (D-Calif.) is calling for cuts of \$400 billion over 10 years in social services, primarily by limiting the anticipated yearly growth of Medicare.

Abandoning the traditional Democratic support for entitlements for the poor and elderly, Panetta said that benefits for the elderly, including Social Security, cannot be shielded forever. He called for a shift in government social spending away from the elderly and toward the young, i.e., in effect, a triage policy against the elderly, the Dec. 13 *Philadelphia Inquirer* reported.

But even this figure, amounting to \$40 billion in "savings" a year, is only the beginning of what is in store. Under present economic conditions, government costs for Medicare, Medicaid, and other health programs are projected to skyrocket from \$189 billion this year to \$517 billion by 1996 despite \$45 billion in Medicare cuts over five years which were already mandated in last year's budget agreement.

## **D**emocrats sue FEC for rigging campaign funds

The Democratic National Committee has filed suit against Treasury Secretary Nicholas Brady in federal district court for apportioning Federal Election Commission funds so that George Bush's reelection campaign would receive most of the money.

Although no candidate other than Democratic presidential candidate Lyndon LaRouche—who met all FEC criteria for receiving matching funds—was preliminarily declared ineligible for such funds, the FEC is set to deprive almost everybody except Bush from receiving significant funding in time for the early stages of the campaign. Of the \$127 million currently in the FEC fund, the Treasury Department has set aside only \$16 million for the primary election season, leaving \$111 million for the national political conventions.

The Democrats say that the incumbent President could be expected to raise more funds than his lesser-known opponents early in the campaign, thus capturing the bulk of the available funds. DNC treasurer Rep. Robert T. Matsui (D-Calif.) complained to AP that the seven Democratic dwarfs "have low name identification." "They have to get their message out," lamented Matsui.

# National News

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## Boston School Committee rejects cuts

In its last official action on the budget, the Boston School Committee in December angrily rejected a proposed school budget that would have cut \$16.5 million through implementation of 500 layoffs. "I'm not going to sit here and decimate our school system," said one member of the committee.

The cuts, however, will likely be put through anyway because, as of Dec. 31, the elected school committee no longer exists. In collusion with Boston Mayor Ray Flynn, Massachusetts Gov. William Weld got the legislature to pass a law permitting the mayor to appoint a school committee. The committee will now be stacked with "fiscally responsible" members unaccountable to anyone but the mayor and Weld, who are expected will rubberstamp such cuts.

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## N.Y. Democrat ouster called political frame

Mel Miller, Speaker of the New York State Assembly, was convicted Dec. 13 of fraud charges and expelled from the legislature. Miller termed the prosecution against him as "a disgrace. I think it was a political witchhunt," the *New York Times* reported.

Miller was the third out of the four last Assembly Speakers to be indicted.

Republican Andrew J. Maloney, the U.S. Attorney in Brooklyn, denied that his case against Miller was politically motivated, since it grew out of a 1988 investigation by Democrat Elizabeth Holtzman, the Brooklyn District Attorney. The prosecution thus reflects the alliance between Bush Republicans and Anti-Defamation League-tied Democrats; seasoned observers used to call this the "bankers' CIA."

Miller was convicted of carrying out real estate deals as a private attorney and failing to inform some of his clients who might have profited from the deals. According to the *New York Times*, "The trial took an odd turn when Meyer Rosenbaum, described by the prosecution as the principal fraud vic-

tim, testified that he was happy with the way Mr. Miller had, in fact, made money for him. "Another satisfied [prosecution] witness . . . who was supposedly victimized . . . said . . . he would have been 'delighted' if he had known" what Miller was doing.

The prosecution's chief witness was Avi Cohen, who himself participated profitably in the deals. According to the *Times*, defense lawyers portrayed Cohen "as a devils real-estate dealer and wealthy tax cheat, [and] they accused him of arranging the transactions, hiding any fraud from the defendants and then lying about them to obtain immunity for himself."

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## Califano: euthanasia most divisive debate

The debate over euthanasia will stir up the U.S. public in coming years more than any other issue before, predicted Joseph Califano, the former U.S. Secretary of Health, Education and Welfare, at a New York City panel of the German Bertelsmann Foundation in December. "The present-day conflict over abortion will appear lukewarm if compared with that," he said, according to a report in the Dec. 14 German daily *Frankfurter Allgemeine Zeitung*.

Califano's remark came in the context of a debate on the future of "costly, high-tech medicine," which a so-called U.S. medical expert said was challenged by the increasing conflict between "limited resources and unlimited claims." The more resources were put into medical care, the less they were available somewhere else, so that the only consequence would be to put an end to the Hippocratic ethics—"saving a human life irrespective of the costs." He demanded a new definition of basic values.

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## Files show Noriega aided DEA in anti-drug war

Gen. Manuel Noriega collaborated for five years, from 1983 to 1987, with a secret Drug Enforcement Administration (DEA) operation, "Operación Negocio," under which

many of the convicted drug dealers that have testified against Noriega in Miami, were arrested. The information was made public Dec. 15 by *New York Newsday*.

Prosecutors claim they just learned the week before about the operation, "whose existence and last minute revelation could undermine the government's case in the ongoing drug conspiracy trial," reported *Newsday*.

"Well-placed government sources say the prosecution fears it is facing what amounts to sabotage from within the government designed to damage the case and make a conviction impossible," *Newsday* reported. On Dec. 16, *Newsday* reported that "members of the prosecution team have expressed concern that the disclosure of added cooperation [by Noriega with DEA] at this late date could jeopardize the entire case" against Noriega.

According to the Dec. 16 *Washington Post*, the prosecution has failed to provide a "smoking gun" against Noriega and that it all but abandoned efforts to prove one of the original charges against Noriega revolving around his meeting with Fidel Castro. Justice Department officials concede that the new evidence about Noriega's cooperation with the DEA Operación Negocio damages their case.

"Failure to secure a conviction of Noriega, officials concede, would be a public relations disaster for the Bush administration, raising new questions about the President's decision to order a military invasion that cost the lives of 23 American soldiers and hundreds of Panamanians and brought angry denunciations from many Latin American countries," the *Post* reported.

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## Test every American for AIDS, says doctor

Dr. A. T. Hall of Merryville, Tennessee argued that every American should be tested for the AIDS virus in a letter published in the Dec. 10 *Washington Post*. Hall demands what presidential candidate Lyndon LaRouche had called for several years ago.

"I am a medical doctor and I write this to encourage Americans to be tested for the HIV virus that causes AIDS. During the 1940s when syphilis and other venereal dis-



eases were rampant in our Armed Forces and the civilian population as well, the law required serology tests of every man and woman who intended to marry before they could be married. All people who came to doctors' offices or hospitals had admission serology tests. In the case of every positive test, the patient was required by law to reveal all recent sexual contacts and get mandatory treatment for the disease.

"I was at John Gaston Hospital and University of Tennessee Clinics in Memphis, and we had a patient who tested positive. He was told to be at the clinic the next day. He got on a train that evening for Chicago. The police were notified and they met the patient and sent him directly back to Memphis for treatment. These mandatory procedures saved thousands of lives. No one refused. My question is, when we people of the United States and other nations are being exposed to people with AIDS daily, why can't we get all the people tested to protect the rest of the population? I am sure that Magic Johnson would have had the courage to say 'no' if he had been informed that his sex partner or partners tested positive. Are we as a people going to let the embarrassed AIDS carriers continue to condemn to death our whole society?"

## Bush directive will reshape intelligence

A new Bush administration National Security Directive issued Nov. 15 "envisions a reshaping of the nation's intelligence-gathering functions to include a greater focus on shortages of natural resources, global health problems, and other issues that have not previously been considered central to ensuring national security," the Dec. 23 *New York Times* reported.

The directive states that the collapse of the Soviet Union demands a redefinition of priority intelligence tasking from "watching Soviet operational readiness to wondering about the control of Soviet nuclear weapons." It asks, "Will we need more and different intelligence information on international aspects of the environment, natural resource scarcities (such as water), global health problems, international research and devel-

opment efforts and so on? . . . What kind of economic intelligence do we need?"

"The directive has been sent to 20 agencies and departments of the government," the *Times* reported. All bureaus and agencies will respond to the directive by mid-January and submit their recommendations to the NSC for review. Director of Central Intelligence Robert Gates will then present the comprehensive report to the National Security Council on March 20.

## Churches to petition against death penalty

Protestants across Massachusetts will be asked to register their opposition to Gov. William Weld's proposal to restore the death penalty in that state.

The Roman Catholic archdiocese of Boston expects to announce a similar initiative after the Christmas holidays, said Msgr. William Murphy, secretary for community relations and director of the office of social justice.

Petitions will be mailed out to the state's estimated 1,600 congregations right after Christmas, said Rev. Diane C. Kessler, executive director of the Massachusetts Council of Churches, which represents 16 Protestant denominations.

"It's an issue that has been of longstanding importance to the Massachusetts Council of Churches and to many of our member denominations and to many church people," Kessler added.

## Scientists critical of 'DNA fingerprinting'

FBI and Justice Department officials have launched a campaign of intimidation against scientists who have questioned the reliability of "DNA fingerprinting," a forensic method of identification becoming widely used in criminal cases.

Scientists and expert defense witnesses have been threatened, and two were pressured to withdraw a scientific paper from the journal *Science*; their paper shows that the claims of reliability of the DNA method are greatly exaggerated.

## Briefly

● **EL SAYYID NOSAIR**, accused of killing Rabbi Meir Kahane, was acquitted on Dec. 21 in New York City. He was convicted on lesser charges. Defense lawyer William Kunstler argued that Kahane was the victim of internal intrigue inside the Jewish Defense League.

● **WILLIAM GRAY III**, the former House Majority Whip and head of the Congressional Black Caucus, is the target of a probe by the U.S. Attorney's office in Philadelphia, the Dec. 12 *Philadelphia Inquirer* reported. Gray left Congress on Sept. 11, 1991 under threat of a Department of Justice investigation.

● **LIVING WILLS** have increased since a new federal law went into effect Dec. 1 requiring hospitals to inform patients about their "right" to die. The Maryland Attorney General's office reports that about 800 people have requested "living will" forms whereas only about 50 requests would come in during an average week previously.

● **THE MILWAUKEE** National Association for the Advancement of Colored People passed a resolution in December in support of the milk lift by U.S. farmers to aid the starving children in Iraq. The resolution also said that "farmers need a fair price" for their product.

● **RONALD ROSKENS**, head of the U.S. Agency for International Development, will be given a presidential award for his "efforts to combat world hunger." Roskens was removed as president of the University of Nebraska in shadowy circumstances in 1989.

● **LYNDON AND HELGA** LaRouche were named "Couple of the Year" by the November *Voice of Freedom*, a publication of the Friends of Pakistan and of the Southwest Asian Society in Houston, Texas. Publisher Col. John Shike emphasized their fight for freedom and development for the "civilized and underdeveloped world" in announcing the decision.

### *Dream turned nightmare*

1991 was the year when illusions about the United States began to crumble, and not only for the numbers of Americans suddenly faced with the spectre of joblessness. Throughout the region of the former East bloc, the truth has become bitterly apparent: Their struggle for human dignity against the tyranny of communist repression was not only not supported by the United States, but it was the United States—along with the British—who were trying to impose the tyranny of a bankers' dictatorship upon them.

This raises the inevitable question: What happened to transform the United States? How was the American dream transformed into a nightmare?

The motion picture *JFK* goes a long way toward answering that question by its unequivocal documentation of the truth that the assassination of John Kennedy—to be followed by the assassinations of Martin Luther King and Robert Kennedy—was in fact a coup against the United States government, an abrogation of constitutional government. There was a conspiracy to murder President Kennedy, and then an additional conspiracy to impose the myth that Kennedy was killed by a lone assassin, Lee Harvey Oswald.

Oliver Stone's film on the Kennedy assassination will play a crucial part in the political process especially in the United States, with its impact coming to the surface early during the second half of the election year, 1992. While the film focuses on CIA plans to invade Cuba, which were thwarted by Kennedy, and then on Kennedy's unwillingness to drag the United States into a no-win Vietnam War, many of those who see the film will be brought to remember the United States of the early 1960s—a prosperous nation committed to technological excellence.

What the film will not do is to provide a general acceptance of a solution to the mystery of the Kennedy assassination. But it will divide the population, particularly in the Democratic Party, into two factions: those who profess to be true believers in the Warren Commission report, or what is generally construed to be the Warren Commission report; and those who may not necessarily agree on any proposed solution to the mystery, but who agree that there is a mystery, that the

Warren Commission report is not sound, and that the truth must be found.

For this latter group, the perceived degeneration of the United States—as a legitimate world leader, and domestically—will be connected to the destruction of lawful government. For these people, there will also be a strong factor of nostalgia. They will look back to the whole of the policies and direction which characterized the Kennedy presidency, and compare these to the disaster which has befallen us increasingly since then.

This may have an effect on Kennedy personalities, Kennedy factions in the Democratic Party. More specifically, it will have a more insidious influence that will tend to move the process in the direction of a questioning—the way any great drama or work of art tends to do, in shaping the political process to help to influence the direction of new thinking.

In this way, it can affect the election process. George Bush will be defeated in any case. He is going to be defeated by forces unleashed by the economic crisis, notwithstanding the fact that the vicious stupidity which characterizes his administration will make him one of the most hated Presidents in our history. So, too, was Gorbachov really defeated by the magnitude of the social crisis within the former Soviet Union, rather than by the negative effects of his own policies. Bush will be defeated by the collapse of the economy and related processes. The question then is, what will be the alternative?

Will the U.S. electorate simply slide from rejection of Bush to something of uncertain value to replace him, or will there be a crystallization of opinion around a new, positive theme, one which can be used by political leaders to draw Americans into support of positive reconstructive measures? The Stone film should play a useful role in reminding people that dogmas such as the sanctity of the so-called free market were not generally accepted in the 1960s.

In 1992, the presidential candidacy of Lyndon LaRouche, who has insistently called for reversing the wrong policies that ensued after JFK's death, holds out the hope that the American dream that began to turn into nightmare in 1963, can again be realized.

# LaROUCHE

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YOU MAY HATE HIM

**BUT**

YOU'D BETTER

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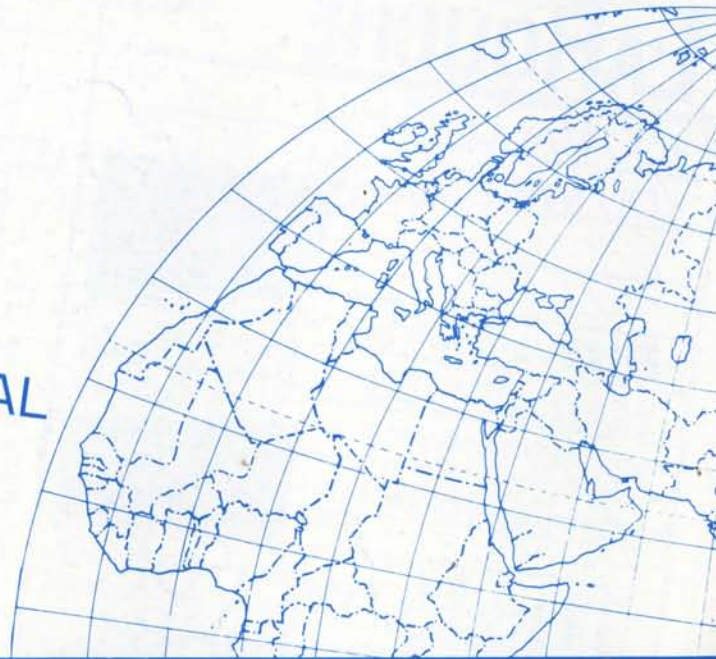
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