

EIR

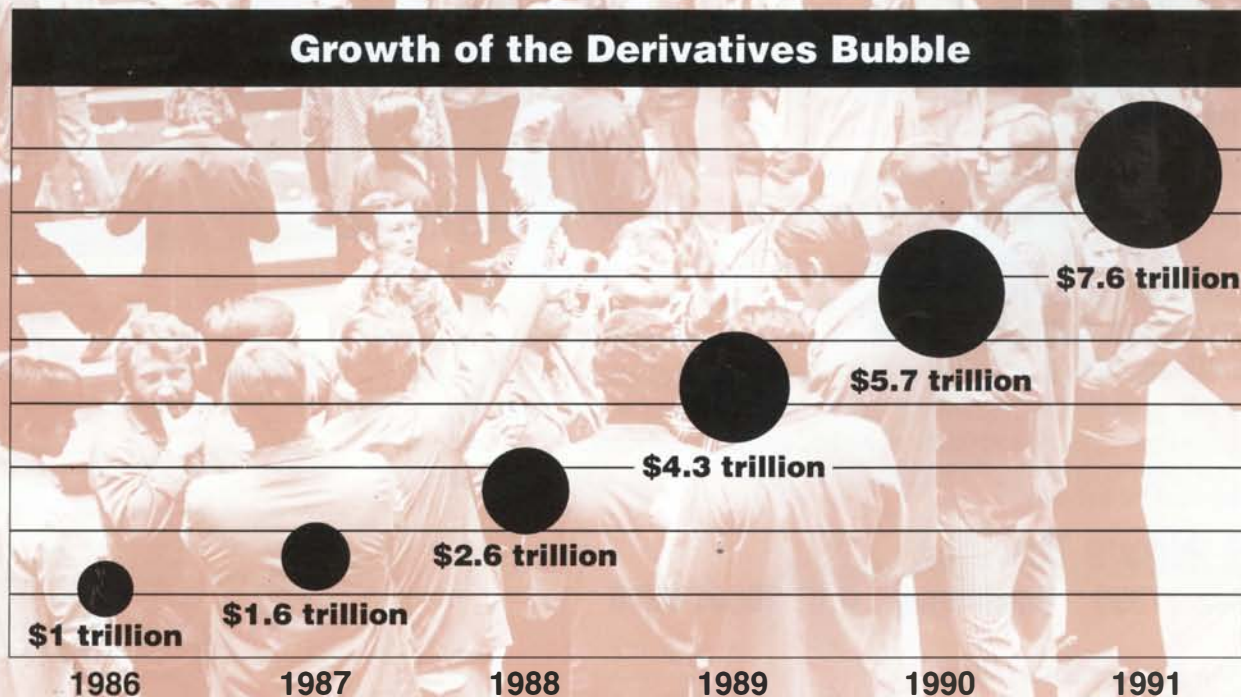
Executive Intelligence Review

May 28, 1993 • Vol. 20 No. 21

\$10.00

B'nai B'rith implicated in killing of Lincoln
A new approach to Russia's economic crisis
Time is running out for U.S. to act on Bosnia

**Finding a cure for derivatives,
the cancer of the markets**



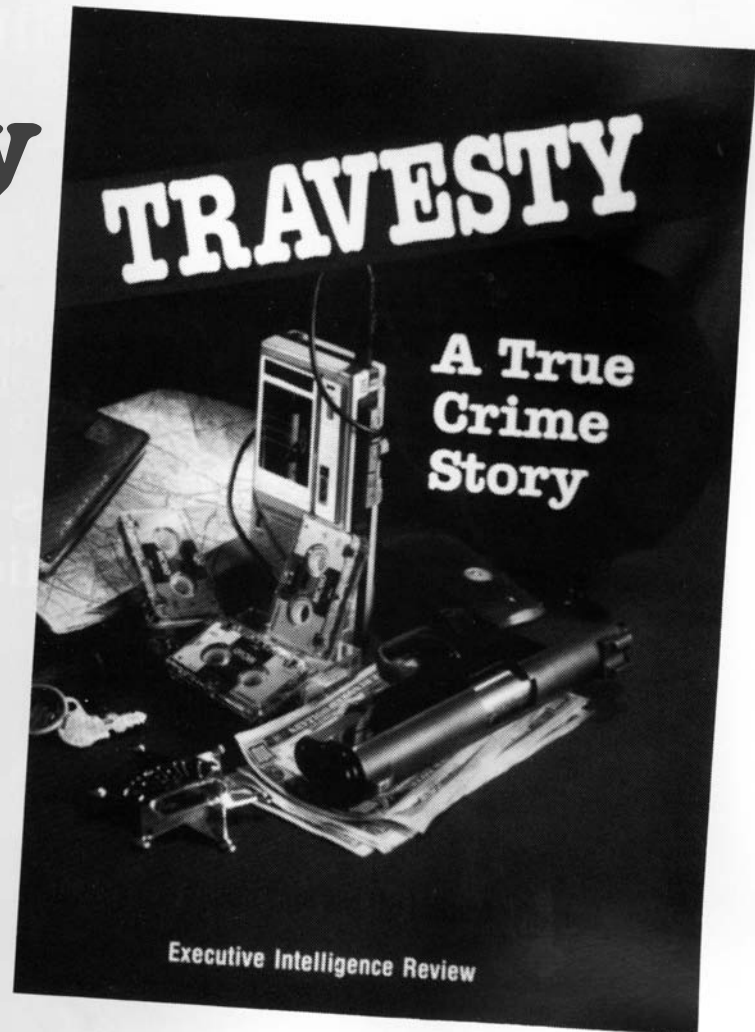
TRAVESTY

A True Crime Story

First time ever in print
The full, unexpurgated story
of the Du Pont kidnap case

Read, in their own words:

- How the kidnapers—members of the criminal Cult Awareness Network—plotted to seduce, kidnap, drug, and, if necessary, kill du Pont heir Lewis du Pont Smith, to stop his association with political leader Lyndon LaRouche; then went scot-free in the same judicial system that condemned LaRouche to life in prison.
- How Ollie North's Vietnam tentmate, a Loudoun County Virginia deputy sheriff, was at the center of a near-miss assassination of LaRouche by sharpshooters during a 400-man paramilitary raid.



\$8.00

Shipping and handling: \$3.50 for first book, .50 for each additional book.

Order today from the publisher:

EIR News Service
P.O. Box 17390 Washington, D.C. 20041-0390

or call **Ben Franklin Booksellers**
(800) 453-4108 (703) 777-3661 fax (703) 777-8287

EIR

Founder and Contributing Editor:

Lyndon H. LaRouche, Jr.

Editor: *Nora Hamerman*

Managing Editors: *John Sigerson, Susan Welsh*

Assistant Managing Editor: *Ronald Kokinda*

Editorial Board: *Warren Hamerman, Melvin*

Klenetsky, Antony Papert, Gerald Rose, Edward

Spannaus, Nancy Spannaus, Webster Tarpley,

Carol White, Christopher White

Science and Technology: *Carol White*

Special Services: *Richard Freeman*

Book Editor: *Katherine Notley*

Advertising Director: *Marsha Freeman*

Circulation Manager: *Stanley Ezrol*

INTELLIGENCE DIRECTORS:

Agriculture: *Marcia Merry*

Asia: *Linda de Hoyos*

Counterintelligence: *Jeffrey Steinberg,*

Paul Goldstein

Economics: *Christopher White*

European Economics: *William Engdahl*

Ibero-America: *Robyn Quijano, Dennis Small*

Law: *Edward Spannaus*

Medicine: *John Grauerholz, M.D.*

Russia and Eastern Europe:

Rachel Douglas, Konstantin George

Special Projects: *Mark Burdman*

United States: *Kathleen Klenetsky*

INTERNATIONAL BUREAUS:

Bangkok: *Pakdee Tanapura, Sophie Tanapura*

Bogotá: *José Restrepo*

Bonn: *George Gregory, Rainer Apel*

Copenhagen: *Poul Rasmussen*

Houston: *Harley Schlanger*

Lima: *Sara Madueño*

Melbourne: *Don Veitch*

Mexico City: *Hugo López Ochoa*

Milan: *Leonardo Servadio*

New Delhi: *Susan Maitra*

Paris: *Christine Bierle*

Rio de Janeiro: *Silvia Palacios*

Stockholm: *Michael Ericson*

Washington, D.C.: *William Jones*

Wiesbaden: *Göran Haglund*

EIR (ISSN 0273-6314) is published weekly (50 issues) except for the second week of July, and the last week of December by EIR News Service Inc., 333 1/2 Pennsylvania Ave., S.E., 2nd Floor, Washington, DC 20003. (202) 544-7010. For subscriptions: (703) 777-9451.

European Headquarters: Executive Intelligence Review Nachrichtenagentur GmbH, Postfach 2308, D-6200 Wiesbaden, Otto von Guericke Ring 3, D-6200 Wiesbaden-Nordenstadt, Federal Republic of Germany Tel: (6122) 9160. Executive Directors: Anno Hellenbroich, Michael Liebig

In Denmark: EIR, Post Box 2613, 2100 Copenhagen ØE, Tel. 35-43 60 40

In Mexico: EIR, Francisco Díaz Covarrubias 54 A-3 Colonia San Rafael, Mexico DF. Tel: 705-1295.

Japan subscription sales: O.T.O. Research Corporation, Takeuchi Bldg., 1-34-12 Takatanobaba, Shinjuku-Ku, Tokyo 160. Tel: (03) 3208-7821.

Copyright © 1993 EIR News Service. All rights reserved. Reproduction in whole or in part without permission strictly prohibited. Second-class postage paid at Washington D.C., and at an additional mailing offices. Domestic subscriptions: 3 months—\$125, 6 months—\$225, 1 year—\$396, Single issue—\$10

Postmaster: Send all address changes to *EIR*, P.O. Box 17390, Washington, D.C. 20041-0390.

From the Managing Editor

Any among our readers who think that a CD is something you play on your stereo, or that a cap is something you wear on your head, may find our *Feature* this week a bit daunting. Sit down, take a deep breath—and welcome to the bizarre world of the commodities speculator.

Something has gone very, very badly out of control. As the graph on our cover shows, in a few short years, the market in so-called financial derivatives has grown at a breath-taking rate, dwarfing the scale of most other financial activity. These financial instruments did not even exist 25 years ago; they are not listed on the corporate balance sheets. They create a tremendous vulnerability to the entire financial system, threatening to fatally disrupt what remains of the productive economy, when the bubble finally pops.

Lyndon LaRouche has a simple plan for bringing the situation under some kind of control: Tax them—all of them! It won't solve the whole problem, but it's a good start. It must be implemented immediately.

In our *Economics* section, you will find important articles on the deeper crisis, the crisis in the productive economy. The report from Mexico on the destruction of agriculture (p. 8) is a shocker. From Russia, Prof. Taras Muranivsky discusses the application of LaRouche's ideas in physical economy to repairing the devastated economies of the former communist states. Professor Muranivsky, during a recent visit to Washington, had the opportunity to discuss these ideas with numerous political officials.

Even with LaRouche in prison, his enemies are furious at how his influence is growing. Morton Rosenthal, the international affairs director of the Anti-Defamation League of B'nai B'rith (ADL), surfaced in Buenos Aires to denounce LaRouche, in talks with top government officials. Rosenthal is apparently worried about whether foreign governments will soon begin to investigate his group's espionage activities, as law enforcement authorities in the United States are now doing. See the *Investigation* for a historical exposé of the B'nai B'rith's role that will make Rosenthal even more apoplectic.

Finally, we join the Venezuelan nation in celebrating the Supreme Court's decision to proceed with an impeachment trial against President Carlos Andrés Pérez. We'll have more on that next week.

Susan Welsh

EIR Contents

Interviews

14 Lyndon LaRouche

From an interview conducted with the economist and political prisoner for the Scottish legal news bulletin *Scolag*. LaRouche discusses the role of a small country like Scotland in his proposed European Productive Triangle.

40 Djenana Campara and Zeljko Milicevic

Two natives of Sarajevo, representing the Bosnia-Herzegovina Information Center of Ottawa, Canada, visited Washington to press U.S. officials to act swiftly to help save their country from destruction.

Departments

21 Report from Bonn

Debt moratorium a moral imperative.

50 Panama Report

"The Panama Deception."

51 From New Delhi

Benazir Bhutto's "principles."

72 Editorial

Karadzic and Kissinger: two of a kind.

Photo and graphic credits: Cover, page 15, EIRNS/John Sigerson. Page 20, EIRNS/Martha Rosen. Pages 25, 47, EIRNS/Stuart Lewis. Page 14, 39, EIRNS/Philip Ulanowsky. Page 55, Prints and Photographs Division/Library of Congress.

Investigation

54 Yes, the B'nai B'rith was implicated in Lincoln murder

ADL International Affairs director Morton Rosenthal claims that LaRouche blames the "U.S. Jewish community" for Lincoln's assassination. True, his own pro-slavery B'nai B'rith was involved, but who says they have ever represented Judaism?

56 Simon Wolf's role in the assassination of Abraham Lincoln

58 Probe into ADL's espionage expands

59 B'nai B'rith gives the international marching orders at Washington meet

61 ADL promotes pagan education for Peru

Economics

4 Citicorp bailout leaves debt as unpayable as ever

Readers of *EIR* have known about the secret federal takeover of Citicorp since November 1991, but the news must have come as quite a shock to those gullible enough to believe the regulators' pronouncements that the banking system is solvent.

6 Russia's economic crisis: a new approach

By Prof. Taras V. Muranivsky of Moscow.

7 Currency Rates

8 Mexican farmers are facing cold-blooded extinction

A new book published in Mexico, *The Likely Effects of a Free Trade Treaty on Mexico's Farm Sector*, by José Luis Calva, reveals that as bad as things now stand, the full effects of NAFTA will be far worse.

12 Clinton weighs renewal of China's 'most-favored nation' trade status

14 Integrate Scotland into the 'Productive Triangle'

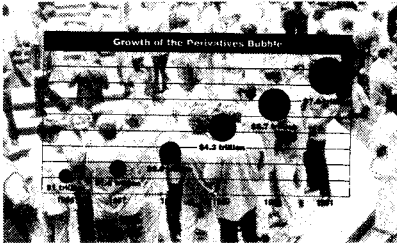
An interview with Lyndon LaRouche.

17 Danes back Maastricht under economic threat

18 Organized crime's link to Indian gambling: the case of Rhode Island

22 Business Briefs

Feature



The derivatives bubble has grown to the point that it is somewhere around twice the total market value of all publicly listed companies in the United States—and none of this is carried on the corporate balance sheets.

24 Finding a cure for derivatives, the market cancer

EIR's economics staff analyzes the bubble of so-called financial derivatives which is threatening to explode, taking the whole economy with it. Lyndon LaRouche has proposed a simple measure to bring the market under control: Tax it!

26 Derivatives: What are they?

30 How financial derivatives became the world's fastest-growing market

34 LaRouche's proposed derivatives tax would solve budget crisis

36 The history of the fight against derivatives

International

38 Time is running out for Clinton to act on Bosnia

The resolve of the Clinton administration to lift the arms embargo against Bosnia and use military force to knock out Serb artillery positions, is wavering, under pressure from Britain, France, and Henry Kissinger.

40 The United States must grant Bosnia the right to defend itself

An interview with Djenana Campara and Zeljko Milicevic.

42 Ditchleyite demands defeat of Serbia

43 Serbian warfare seeks 'murder of cities'

44 Brazilian military slams 'new world order' imperialism

Documentation: From a manifesto by Air Force Commander-in-Chief Lt. Brig. Ivan Moacyr da Frota.

46 Egypt on a short fuse to political blowup as economic crisis worsens

President Mubarak should repudiate the austerity policies of the International Monetary Fund, declare a moratorium on the foreign debt, and reorganize the economy for development, in cooperation with other nations of the region. If he doesn't, he's finished.

52 International Intelligence

National

62 Tax package debate spells disaster for economy

The passage of President Clinton's tax revenue package in the House Ways and Means Committee is almost as disastrous as the defeat of his paltry economic stimulus program a few weeks before.

64 Russian-U.S. SDI cooperation still open; 'end of SDI' is Aspin's conceit

Documentation: From statements by President Clinton, Secretary of State Christopher, Secretary of Defense Aspin, and a Russian commentary opposing a joint U.S.-Russian ballistic missile defense program.

66 Mandatory sentencing laws under attack

68 Congressional Closeup

70 National News

Citicorp bailout leaves debt as unpayable as ever

by John Hoefle

Anyone who still doubts that the government and the news media continue to lie about the disastrous state of the U.S. economy, should take a close look at a May 16 *Washington Post* story, "The Saving of Citibank."

The article, which was featured on page 1, revealed what the paper described as "an extraordinary two-and-one-half-year partnership between [Citicorp Chairman John] Reed and the regulators to rescue the nation's biggest bank and avoid worldwide financial turmoil. . . . The Citicorp saga provides a case study of how financial regulation works in a crisis—subtly, secretly and, in this case, successfully—to nudge a giant bank back from the brink."

While readers of *EIR* have known about the secret takeover of Citicorp since November 1991, this extraordinary effort to bring the giant bank "back from the brink" must have come as quite a shock to nearly everyone else, especially those gullible enough to believe the regulators' frequent pronouncements that the U.S. banking system is solvent.

During the speculative frenzy of 1980s, the nominal assets of the U.S. banking system soared. Citicorp's assets grew by more than \$100 billion during that period, or nearly as much in one decade as it had in the preceding 168 years of its existence. Citicorp was a major lender in nearly every aspect of the bubble, from the real estate market—43% of all the office space ever built in the United States was constructed during the 1980s—to the leveraged buyout boom, which cost the United States hundreds of thousands of jobs; to the massive increase in derivative and other trading activities.

To anyone who understands the difference between financial speculation and the real economy, it was obvious that the banks were lending hundreds of billions of dollars for all sorts of absurd schemes, and that most of those loans could never be repaid.

The 'bubble bank'

Citicorp was in many respects the epitome of the 1980s bubble bank, pouring money into what would become the biggest financial disasters, thus far, of the 1990s. Citicorp was a major lender to Robert Campeau's Campeau Corp., which filed for bankruptcy in 1990. Citicorp was forced to close its Citicorp Scrimgeour Vickers operation in the City of London, after massive losses. Citicorp lent billions to a string of bankrupt real estate developers, including New York's Donald Trump, Atlanta's John Portman, the United Kingdom's Mountleigh and Randsworth Trust, and the biggest failure of them all, the Reichmann Brothers' Olympia & York. Everywhere one finds a disaster, it seems, one also finds Citicorp.

According to the *Washington Post*, the regulators' "co-management" of Citicorp began on Nov. 14, 1990, when Federal Reserve Bank of New York President Gerald Corrigan and Federal Reserve director of bank supervision William Taylor summoned Reed to New York. The U.S. banking system was headed for trouble and so was Citicorp, they told Reed, due to the sharp decline in the real estate market. Were Citicorp's troubles to become widely known, the regulators warned, it could trigger a run that could bring down not only the bank, but the entire financial system.

Citicorp's problems were already well known in the financial community, however. In March 1990, Citicorp had announced that it was dramatically curtailing its lending for large real estate projects, after its admitted bad real estate loans rose 112% the previous year, to \$1.2 billion from \$548 million, and foreclosures rose 66%.

In April 1990, IBCA Banking Analysis, the London-based bank rating agency, declared that Citicorp was "under-capitalized and under-reserved," citing the bank's real estate

problems, its leveraged buyout loans, and its Third World debt. Later in the month, Standard and Poor's downgraded Citicorp, citing the bank's inadequate loan loss reserves. In May, Moody's Investors Services also downgraded the bank.

In July 1990, Citicorp announced its third major reorganization of the year, this time involving dramatic cuts in its foundering global finance division, where problem loans had tripled in one year. The same month, bank analyst Dan Brumbaugh told the ABC News broadcast "Nightline" that Citicorp was insolvent, along with Chase Manhattan, Chemical Bank, Manufacturers Hanover, and Bankers Trust.

By October 1990, investors were so nervous, that a Citicorp auction of money-market securities would have failed, had not the underwriter, Goldman Sachs, stepped in with a bid. Another auction two days later was successful, only because Citicorp paid an embarrassingly high 13% yield.

It was against this backdrop, with the bank insolvent and sinking fast, that regulators stepped in with their November covert takeover of Citicorp, ordering the bank to sell assets, cut expenses, and raise new capital.

Treading carefully

The intent of the regulators to move slowly was obvious in December, when the bank announced it would add a token \$340 million to its loan loss reserves for the fourth quarter. After the addition, Citicorp had reserves equal to 21% of its non-less developed countries, non-performing loans, compared to an average of 50% at the other big New York banks—which were also under-reserved.

Responding to the ignominious seizure, former Citicorp Chairman Walter Wriston, the man most responsible for Citicorp's trip down "bubble lane," wrote a commentary in the Dec. 19 *Wall Street Journal* blaming federal banking regulators for "creating a system to produce bank failures." The article was aptly titled "No Wonder Banks Fail."

During 1990, Citicorp's market value fell a staggering 55% to \$5.4 billion, giving it a market value less than that of J.P. Morgan & Co., despite having twice Morgan's assets.

In January 1991, Reed announced plans to boost the bank's equity capital by \$4-5 billion over the next few years—a 50% increase over the \$8.6 billion in equity the bank claimed at the end of 1990—while slashing expenses by \$1.5 billion. The bank was reportedly seeking to raise \$25 billion through capital infusions and asset sales. "The marketplace feels we are not adequately capitalized, and I would acknowledge that the Federal Reserve thinks we are not adequately capitalized," Reed admitted to a meeting of bank analysts in New York on Jan. 22, 1991.

In late February 1991, Saudi Prince al-Waleed bin Talal, who already owned 4.9% of Citicorp thanks to a buying spree in late 1990, agreed to buy \$590 million of new Citibank preferred stock, and in early March, Citicorp raised another \$600 million from a group of Mideast and U.S. institutions, for a total of \$1.2 billion in new capital in two weeks. The new

stock offerings, which reportedly paid after-tax yields of over 20%, diluted the existing shareholdings by some 17%.

The new capital, however, barely put a dent in Citicorp's growing losses. The bank's non-performing commercial real estate loans, for example, rose to an admitted \$2.9 billion in the first quarter of 1991, more than double the \$1.3 billion reported a year earlier.

Technically insolvent

The bad news just kept growing. In hearings on the Bush administration's banking bill on July 31, 1991, House Energy and Commerce Committee Chairman Rep. John Dingell (D-Mich.) said that Citicorp was "technically insolvent" and "struggling to survive." Dingell also reported that the bank had been borrowing heavily from the Federal Reserve. Dingell's remarks spread rapidly through the financial community, triggering runs against Citicorp in Hong Kong, Pakistan, and Australia.

Citicorp angrily denied the comment, calling it "irresponsible and untrue." Added William Seidman, chairman of the Federal Deposit Insurance Corp. (FDIC), which was involved in the secret bailout, "I don't believe it is insolvent under any standard."

During fall 1991, the Fed dropped its discount rate to record lows to help the struggling U.S. banking system, and Citicorp in particular. This rigging of interest rate spreads has been a central feature of the Fed's massive bailout operation, which continues to this day.

As bad as 1991 was, 1992 was even worse. What was left of Reed's management structure was dismantled. H. Onno Ruding, former head of the International Monetary Fund's Interim Committee, was brought in to head Citicorp's global wholesale business, where he could calm foreign depositors and the derivatives market. W. Neville Bowen, the former head of Hill Samuel's private banking group, was brought in to head Citibank Global Asset Management, which caters to wealthy international depositors. Reed remained, but with no real power.

In the spring and summer, the bank was hit with a series of disasters: the collapse of Olympia & York and Mountleigh; the bankruptcy of Alexanders department store, which the bank had taken over from Donald Trump in March; the writing off of some of the Randsworth Trust losses; and the growing troubles in the Edper Bronfman empire.

In August, a Comptroller of the Currency report showed that Citicorp's mortgage unit was bankrupt, having been run in an "unsafe and unsound" manner, with mortgage delinquencies running four times the national average. The situation was so bad, the report said, that the Federal Home Loan Mortgage Corp. (Freddie Mac) had stopped buying Citicorp mortgages.

Now, regulators and the *Washington Post* would have you believe that Citicorp has been saved and that the U.S. banking system is "back from the brink." They're still lying. Despite the bailout operations, the debt still can't be paid. It just keeps growing.

Russia's economic crisis: a new approach

by Prof. Taras V. Muranivsky

This statement was released in Washington, D.C. on May 13 by Prof. Taras Muranivsky, who was visiting the United States in order to meet with American political leaders, congressmen, and government officials. Professor Muranivsky is the rector of the Ukrainian University in Moscow, and is the scientific editor of the Russian-language edition of Lyndon LaRouche's textbook So, You Wish to Learn All About Economics?

In the statement below, Professor Muranivsky refers to the work of Russian and Ukrainian scientists who are in the same tradition of physical economy as Lyndon LaRouche. See EIR of May 7 for an extended discussion of this topic, presented to a seminar in Germany under the title "Some Ideas and Concepts of Physical Economy in the Works of 19th- and 20th-Century Russian and Ukrainian Scientists."

A growing number of economic scientists in Russia and the other newly independent states (NIS) now reject the "shock therapy" and rigid conditionalities of the International Monetary Fund (IMF) as detrimental not only to the economies of these states, but to the European countries as well. The economic reforms inaugurated during 1992, which were predicated on Adam Smith's "invisible hand," have turned in reality into painful and disorderly kicks from an "invisible foot," with devastating results for production and consumption.

Within this context, Russia is currently suffering from a hyperinflation on the order of magnitude of 2,000%. Industrial production has declined by about 25%. Industry in Russia and the rest of the old U.S.S.R. now looks like a china shop in the wake of a visit by the proverbial elephant. Investment in plant and equipment is virtually at a standstill, while 1992 capital investment in the agro-industrial complex is down by two-thirds from 1991. If this economic collapse continues, social and political chaos will inevitably follow, and a return to East-West confrontation could not be ruled out. This is the path leading to a new world tragedy.

The severity of the crisis has brought awareness that there is much more involved in effective macroeconomic regulation than the mere manipulation of monetary aggregates. Rather, the entire state economic policy ought to be oriented

toward continuous technological growth and the efficient utilization of labor and energy resources. Speculation, usury, stockjobbing, and other parasitical financial games are parts of the problem, not of the solution.

The Bush administration shared Mrs. Thatcher's geopolitical desire to reduce Russia to rubble. Now, with the new administration, American experts are debating how to provide effective inputs to pro-western forces interested in economic modernization and development. Quite apart from the political destiny of any leadership figures, Russia, Ukraine, etc. require assistance to be brought into the world economy as equal and sovereign partners.

The science of physical economy

The new policy criteria must be drawn from physical economics, aiming at rapid increases in productivity and maximizing scientific and technological achievement. This branch of economic thinking was developed by the American economist Lyndon LaRouche. In physical economy, technological development is the motor of economic development. There is an indigenous Russian and Ukrainian tradition of physical economy, associated with names like Sergei Podolinsky, Mikhail Tugan-Baranovsky, Pavel Florensky, Vladimir Vernadsky, et al. This contrasts sharply with all schools of monetarism, which ignorantly assume that money governs the economy.

I propose the following guidelines for the effort which President Clinton has announced.

1) Because of the terrifying strategic consequences of failure, IMF conditionalities must be immediately suspended. U.S. aid and hard-commodity exports must be channeled into concrete development programs. Otherwise, such aid will only feed the mafia and rampant corruption.

2) A serious policy for the economic development of Russia cannot be merely Russian in scope. The economies of Russia, Ukraine, etc. cannot be dealt with competently outside of a Eurasian framework of cooperation and development. Development policy must obviously also address the current world economic depression and the breakdown crises now crippling so many national economies.

3) Infrastructural development is the key to international economic cooperation. New productive investment should be directed as a priority matter into the building of a modern infrastructure inside Russia and the NIS, as well as linking these areas with central and western Europe and other Eurasian points. Magnetic levitation rail technology being developed in Germany, Japan, and the United States would allow passengers and freight to move from Moscow to Kiev in less than three hours, instead of the current 15 hours or more. Each maglev rail line would become a corridor of agro-industrial development, providing prime locations for factories, laboratories, and new cities. These projects would create millions of new highly paid jobs, permitting refugees and displaced persons readily to find work, thus defusing many

simmering ethnic conflicts. Other vital aspects of infrastructural investment include canals and other water management systems, modern electronuclear power grids, and state-of-the-art telecommunications.

4) U.S. assistance can be decisive in fostering the creation of small and medium-sized industrial concerns engaged in high-technology production. One of the best uses for foreign economic aid to Russia would be to fund a special credit facility to provide low-interest, long-term credit on a dirigistic basis for entrepreneurial activity of this type.

5) At the Vancouver summit on April 3-4, the Russian delegation proposed Operation Trust ("Doveriye"), a joint U.S.-Russian experiment in antiballistic-missile defense using microwave generators and other new physical principles to neutralize a long-range missile warhead over the Pacific Ocean through the creation of a plasmoid. Although virtually all U.S. news media have refused to report on this important step, this concept is now under study by a bilateral commission chaired by the Russian prime minister and the U.S. vice president. Such joint development of defensive technologies, which recalls the promise of the March 1983 Strategic Defense Initiative (SDI), would furnish a science driver for world economic recovery, while counteracting the growing danger of a return to nuclear confrontation and a new arms race. In my opinion, the U.S. side should therefore accept this proposal.

All of these measures should be viewed as one integrated package. The concept of Eurasian infrastructure used here was first presented in the 1989 "European Productive Triangle" program, authored by Lyndon LaRouche. LaRouche was also the originator of what was later called the SDI in both its military and physical economic dimensions.

Freedom for LaRouche

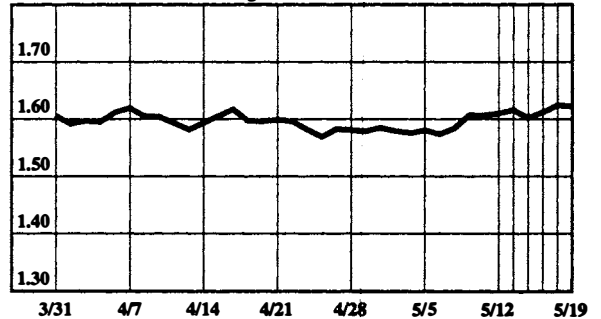
Many of these ideas have now spread far and wide in Russia, even among those who do not know their author. The Russian offer for Operation Trust is congruent with the 1982 LaRouche SDI concept. Some Russian economists favor replacement of monetary indices with new econometrics based on physical economy. In the recent period, LaRouche has gained recognition in Russia. Among dozens of articles about him which have appeared in the Russian press are two published by me in the well-known Moscow daily *Nezavisimaya Gazeta* on May 5 and 7.

But LaRouche, as a result of a political persecution conducted by the Bush administration, is still a political prisoner in a U.S. federal penitentiary. LaRouche is innocent of any wrongdoing and represents a vital resource for humanity. A growing group of Russian scientists and intellectuals around the magazine *Trade Unions and Economy* has joined with the international movement calling on the Clinton administration to free LaRouche. I am personally convinced that LaRouche's ideas are the way to save the Russian economy.

Currency Rates

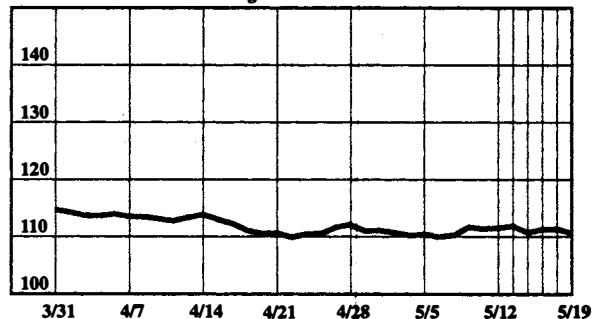
The dollar in deutschemarks

New York late afternoon fixing



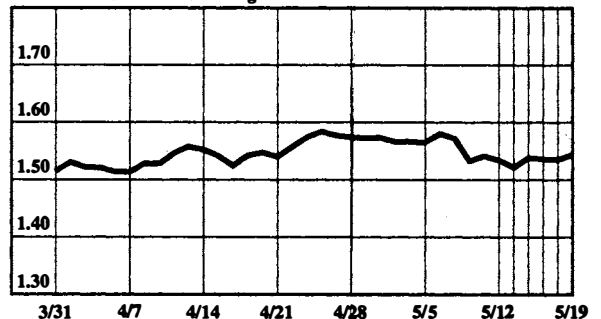
The dollar in yen

New York late afternoon fixing



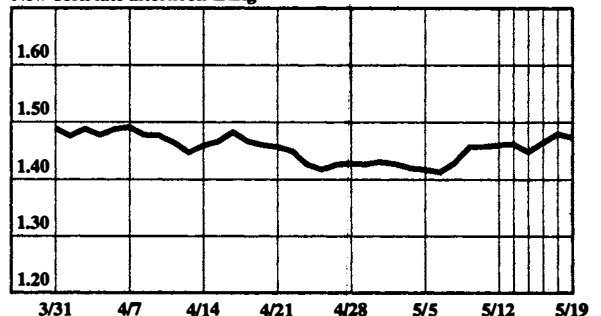
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



Mexican farmers are facing cold-blooded extinction

by Carlos Cota Meza

The recent explosion of anger and protest among Mexico's cattle and milk producers and grain farmers, especially in the northern half of the country, has thrown into clear relief the degree of crisis gripping Mexican agriculture. The protests have most strongly targeted the issues of credit and prices. Interest rates are astronomical; more and more farmers are going bankrupt because they cannot pay their current debts, much less borrow the additional money they need to continue to operate; and prices continue to fall below the point at which many farmers can break even.

There is no lack of information documenting the severity of the situation, but that information is scattered throughout hundreds of reports by the Mexican government, U.S. government, and United Nations. A book just published in Mexico, *The Likely Effects of a Free Trade Treaty on Mexico's Farm Sector*, by José Luis Calva, has usefully pulled together the statistics from countless sources, to reveal that as bad as things now stand, the full effects on agriculture of the North American Free Trade Agreement (NAFTA) will be far worse.

Although Calva pulls his punches when it comes to drawing conclusions about who is to blame, the material he presents nonetheless confirms that the policy of President Carlos Salinas de Gortari's government is the cold-blooded, calculated disappearance from the land of millions of Mexican peasants. This was already suggested by the jiggery-pokery of the General Population Census of 1990, which reported Mexico's population at 81 million persons, the *same figure* that had been reported in other estimates as of 1986 or 1987. At least in terms of the census, and therefore, also, in terms of the budget, the government has already eliminated some 6 million Mexicans.

Calva's book is by far the most complete compendium that exists of statistics on Mexican agriculture, as well as on the economic policies the Mexican government has dictated against this sector. Although he doesn't draw the following conclusion in so many words, one of the major contributions of his book is that it offers proof that the Mexican government is not committing economic policy *errors*, but is consciously committing genocide.

Calva has had to do detective work on the order of that performed in criminal investigations, to uncover the information he presents. Among the non-Mexican sources he consulted are the Agricultural Production and Fertilizer Produc-

tion Annuals of the U.N. Food and Agriculture Organization (FAO), the U.S. Agriculture Department's Economic Research Service, the House Agriculture Committee of the U.S. Congress, and Agriculture and Food Reports of Canada.

The Mexican government reports from which Calva draws a picture of what is happening to agriculture, to the country's producers and consumers, include: "Adjustment Program of the Agriculture Sector," published by the Secretariat of Agriculture and Hydraulic Resources (SARH); "Documentation of the Technical Secretariat of the Agricultural Cabinet," also by SARH; "National Index of Prices of Raw Materials Derived from Agricultural Activity"; surveys of prices, technical coefficients and agricultural yields carried out by SARH; and "Repercussions of the Increase of Fertilizers in the Structure of Costs of the Basic Crops," by SARH.

Other sources of information include: the Bank of Mexico's report "Trusteeship Instituted in Relation to Agriculture"; the National Institute of Statistics, Geography and Information (INEGI) of the now-defunct Secretariat of Programming and Budget; Economic Indicators by the Bank of Mexico; plus reports by the Supply Department of the Secretariat of Commerce, the Cabinet of Foreign Trade, and others.

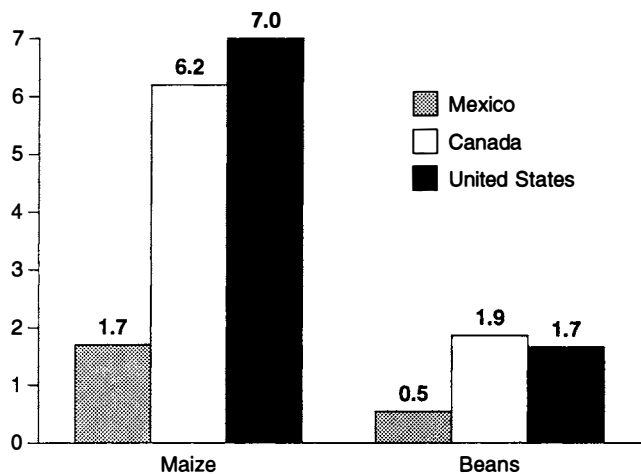
The book, as its name indicates, takes as its purpose "to measure the probable effects" of the forthcoming free trade treaty on each of the most important sectors and branches of agricultural production in Mexico. According to Calva, NAFTA will force 3 million peasant families—8-10 million people—off their land.

Flyweight vs. heavyweight economies

Mexican production already begins with one strike against it: It is far less productive than U.S. or Canadian agriculture, because it employs vastly inferior technology. Add to this factor the high interest rates and the absence of subsidies which burden Mexican agriculture, and it is evident that this sector is totally defenseless against its northern competitors.

During the five-year period 1985-89 (**Figure 1**), Mexico's average maize yield was 1.7 tons/hectare (t/ha.), as against 7.0 for the United States and 6.2 for Canada. Its yield of dried beans was 0.542 t/ha., as against 1.661 t/ha. in the

FIGURE 1
Comparative yields
 (tons per hectare)



United States and 1.865 in Canada. Mexico's average yield of rice was 3.3 t/ha., against 6.2 in Canada.

Yearly production per milk cow in Mexico is 1,365 liters, in the United States 6,224, and in Canada 5,526 (Figure 2). The yield of meat from chicken and other fowl is less than half the yield in the United States and Canada.

The United States uses 1.5 tractors per farmer, Canada 1.6, while in Mexico there are barely 2 tractors for every 100 farmers! And the tractor inventory is *shrinking* every year, having declined from 170,723 in 1985 to 157,844 in 1989. In the United States, there are 209 combines for every 1,000 farm workers, in Canada 332, and in Mexico only 2 per 1,000 farm workers (Figure 3).

From 1981-88, the government-guaranteed price of maize fell from 5,373 (measured in constant 1980 pesos) in December 1981 to 3,097 in December 1988, a 42.4% decline (Figure 4). The price for dried beans fell by 49.9%, and for rice by 41.6%. The terms of trade for agricultural producers (the farm produce prices versus the price of agricultural inputs) fell by 48.7%—the national index of prices of agricultural inputs rose 9,222% over that period, while parity prices rose only 4.734%.

In the United States, the average farmer applied 5.8 tons of fertilizer, in Canada, 4.5 tons, and in Mexico, only 0.1919 tons. In the United States and Canada, 100% of all seeds used are genetically improved; in Mexico, only 20% are improved (Figure 5).

The SARH's own study, "Repercussions of the Increase of Fertilizer Prices for the Cost Structure of Basic Crops," carried out to measure the impact of liberalizing foreign trade on fertilizer production and use, showed that the real, posi-

FIGURE 2
Comparative yields of milk
 (liters per cow)

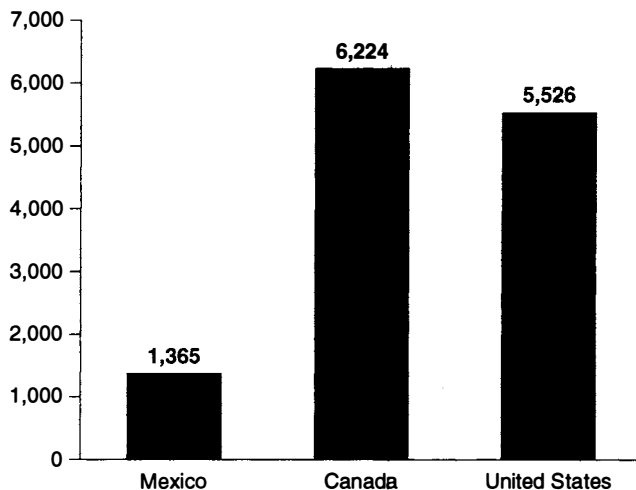
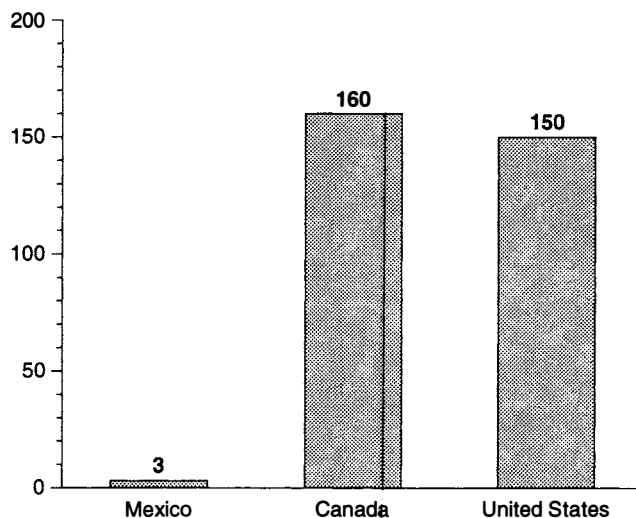


FIGURE 3
Comparative density of tractor use
 (units per 100 farmers)



tive, impact on Mexican costs of production will be negligible: It will lower the costs of production of beans by 0.04%, of maize by 1.07%, of cotton by 0.46%, of wheat by 1.32%, and of rice by 0.51%. The free import of fertilizers has been authorized nonetheless, in order to assist in the dismantling of the former state company Fertilizantes Mexicanos, being auctioned off this year.

FIGURE 4
Mexican parity prices for grains
 (1980 pesos per ton)

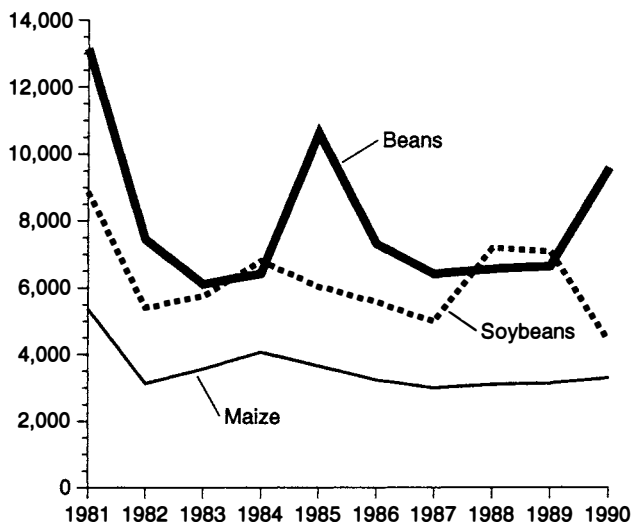
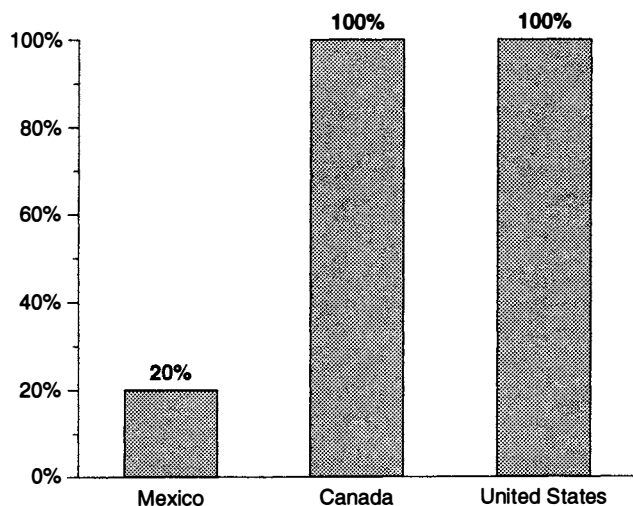


FIGURE 5
Comparative use of improved seed
 (percent of total crop land)

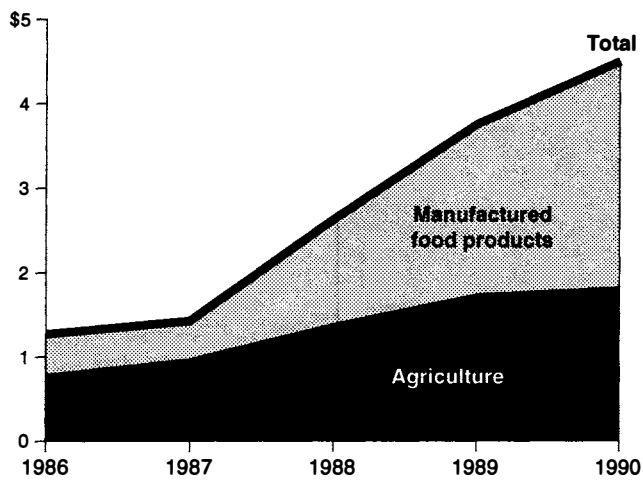


Lowered trade barriers

Since 1986, and in particular since 1988, the Mexican government has carried out a unilateral, indiscriminate, and criminal reduction of trade barriers.

Until 1984, seven hundred and eighty out of 882 agricultural tariff categories, covering 97.3% of the value of all agricultural imports, required permits before there could be

FIGURE 6
Mexican food imports
 (billions \$)



imports in these categories. As of the middle of 1990, only 48 of 526 categories required such permits, and at present, only 33 categories are still subject to this requirement. As of the end of 1990, the average tariff on agricultural imports was only 3.5%.

In 1990, just as the rice harvest was coming in, the government authorized the free import of rice from Southeast Asia, because it was "cheaper" than Mexican rice. In 1990, the announced parity price of dried beans was raised, encouraging production, and at the exact time of harvest, the doors to imports of foreign beans were opened and "cheaper" beans flooded in from Argentina and China. The same year, the national production of soy, sorghum, fruits, meat, and other goods was similarly attacked.

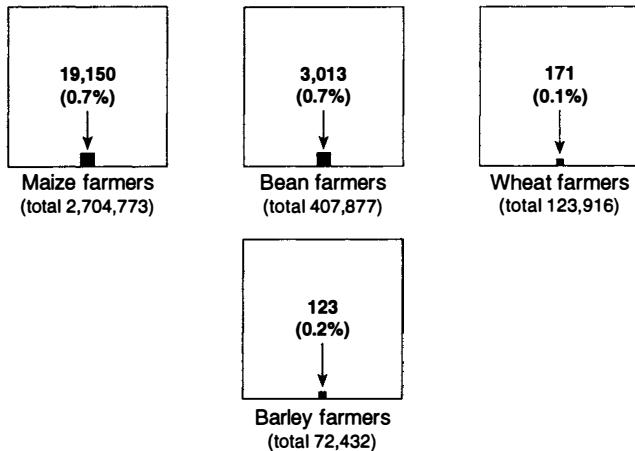
Food imports have soared from under \$1.5 billion in 1986 to \$3 billion in 1988, \$4 billion in 1989, and \$4.75 billion in 1990. The added cost of imports was three times more than the supposed savings reaped by Mexico when it reprogrammed its debt through the 1990 "Brady Plan" (Figure 6).

Targeting for liquidation

Calva presents a detailed analysis of comparative production costs between Mexico and the United States, to try to estimate the effect of unrestricted export of U.S. agricultural products to Mexico (Figure 7). Using SARH numbers that grouped Mexican farmers by segments according to their costs of production (each segment being defined by how many farmers produce at a given cost in dollars per ton of production), it was found that of 3.2 million producers of basic grains, almost none are producing at costs that are competitive with the United States. For instance, of 2.68 million maize growers, a mere 19,150—0.7% of the total—

FIGURE 7

A tiny percentage of Mexican farmers produce at U.S. cost levels



have production costs in the range of the \$170 per ton production costs that prevail in the United States. These 0.7% produce less than 5% of Mexican maize.

For beans, of 404,864 producers, none consistently produce at below \$300 a ton (the U.S. level), and only in exceptional years has a small group of producers with irrigated lands—3,013 in all in a recent year—managed to lower costs of production to below \$300 per ton.

As for barley, only 123 growers out of 72,309, using irrigated land, produce at around \$120 a ton (Canada's production cost), and they account for scarcely 0.17% of Mexican production. Figures for the remaining grains are no better: Only 171 wheat growers, out of 123,745, and 48 out of 18,676 soy producers, can compete with U.S. or Canadian production costs.

In the first three crops mentioned above (maize, beans, and barley), which are primarily raised by medium-sized and small farmers and peasants, only a tiny group will be able to survive unrestricted imports under the coming abandonment of all trade barriers under NAFTA. In 1990, the year studied by Calva, this group was only 19,273 out of 3,161,796 farm families. More than 3 million peasant families will not be able to compete under normal trading conditions against the growers to the North.

Where will the peasants go?

Calva's calculation that 3 million peasant families will have to leave their land after NAFTA is implemented indicates clearly enough the order of magnitude of the social costs of liberalizing free trade in agriculture among the three countries.

This figure is only an estimation, and the argument given by NAFTA's supporters is that all the jobs lost in the rest

of the agricultural sectors (fruit, lumber, milk, pork, beef, vegetables, etc.) will be compensated by other lines of production oriented toward export, such as extensive cattle grazing on the to-be-abandoned lands, sheep and goat raising, and winter vegetables.

But this is another fraud. As documented by the report entitled "Degree That Mexican Vegetable Exports Complement U.S. Production" put out by the Agriculture Committee of the U.S. House of Representatives, Mexican exports will only supply the "winter window" when U.S. production is insufficient. Currently, Mexico supplies 70% of that "window," which is to say that it is already near the limit of that market for vegetable exports, and a flood of Mexican produce is already causing prices to plummet for this narrow and seasonal U.S. market.

Here, Calva gets somewhat off track, saying that the result will be a flood of Mexican peasants into the United States, made desperate by the fanaticism of free trade and unable to find work in Mexico. He cites the millions of Mexicans illegally in the United States now as proof of this.

Two things must be said here: First, many desperate peasants are turning to drug cultivation, given the fact that drug growing and trafficking are increasing with impunity in Mexico. Second, these desperate millions won't be coming to the United States, for the simple reason that they won't be permitted to.

According to Calva's calculations, 9 million are currently unemployed in Mexico, to which, if one adds 3 million peasant families—4.5 million job seekers—one gets 13.5 million potential immigrants to the United States.

It is clear that there is and will be migration north, but it is not the primary factor in the changes taking place in Mexico's demographic structure. The figure of 13.5 million unemployed that Calva uses (a very conservative figure) is his estimate of the probable effects of the implementation of NAFTA. But this number of people—and in reality far more—are *already* unemployed.

Is it possible that among the more than 20 million who are really unemployed, they simply won't "find" the 6 million Mexicans statistically "disappeared" by the 1990 census? The destination of the peasant exodus, and of the unemployed, will be to their graves—if there is anyone left to give them Christian burial—because the Salinas government has already decided on their physical elimination by the year 2000 in order that Mexico's population not exceed 100 million by that date. Let us not forget what U.S. Agriculture Department agronomist William Paddock said in 1975: "The Mexican population must be cut in half. Close the border and let them scream." Paddock added that this reduction would take place "through the usual means: hunger, war, and disease."

This genocide against Mexicans already born—and those to be born—is the true reason for negotiating the North American Free Trade Agreement. José Luis Calva's book offers but the confirmation.

Clinton weighs renewal of China's 'most-favored nation' trade status

by Cho Wen-pin

Each year since 1990, June 3 has marked the deadline for U.S. renewal of most-favored nation (MFN) trade status with the communist regime in Beijing, which is now trying to establish its legitimacy abroad on the basis of cheap goods, assembled in the coastal zones, which then flood the markets of the United States. Each year, the White House comes under congressional pressure to attach conditions on renewing the trade status, demanding that Beijing assure the international community that it will improve its human rights record. Many U.S. congressmen point to massive continuing human rights violations, including the incarceration of many political prisoners arrested after the June 4, 1989 crackdown on the pro-democracy demonstrators at Tiananmen Square, as well as others arrested in the 1979 Democracy Wall movement.

This year, Washington observers are wondering whether MFN will be redesignated "most-failed nation," in recognition of the failed economic policies in both communist China and the United States.

Every April and May, lobbyists representing the Chinese "red capitalists" and American "green capitalists" come to Washington for the annual renewal of the MFN. For the past three years, George Bush, Deng Xiaoping's old buddy, granted their wish, despite overwhelming opposition in the Congress. Now the deal confronts the new President, who campaigned against Bush's coddling of the butchers of Beijing. This will be the first significant decision affecting China to come out of this new administration.

The White House has recently received visits from the Dalai Lama, the exiled Tibetan leader, and Chris Patten, British governor general in Hong Kong. While the Dalai Lama asked Clinton to place human rights conditionalities on the renewal of MFN, Patten, despite the ongoing row between Hong Kong and Beijing over Patten's proposals for more "democracy" in Hong Kong, warned the United States that cutting off China's trade status will deal a heavy blow to the economy of Hong Kong.

China-U.S. trade for the last year generated an \$18 billion Chinese surplus, although China disputes the actual amount. For those who don't admit that the U.S. economy is in a depression, this might be called a Chinese economic miracle. But it is actually a reflection of the American debacle which confuses incompetent economists.

Had not the United States lost its own productive power in industry, China would not be able to increase its trade surplus with the U.S. so rapidly in this way. The effect of losing America's productive capability in this way is twofold:

1) The collapse of U.S. productivity has made the United States less competitive in Asian markets, compared with Japan and Taiwan.

2) As the result of the depression in the United States, the living standard of American middle-class households has dropped. More and more working families must shop in the discount stores like K-Mart, which are full of Chinese exports.

Therefore, the Chinese trade surplus with the United States demonstrates, not a Chinese miracle, but the demise of American industry.

Free trade zones fail

China has the world's largest population, and after more than four decades of communist rule, it has an enormous number of unemployed and often illiterate workers. Now the Special Economic Zones along the coastline, catering to "runaway shops" from the West, are recycling these desperate unemployed through their low-technology export industry.

Under the banner of Deng's slogan, "It is glorious to be rich," Beijing declares that making money is more important than paying workers a minimum wage and maintaining safety standards. No minimum wage requirement is imposed on the local manufacturers. As a matter of fact, there is no national minimum wage guaranteed by law.

While many inland farmers are getting IOUs instead of cash from the government, many have left for the coastal zones to get jobs paying only a dime an hour. A few weeks after the Spring Festival at the beginning of the year, a half-million job-seekers gathered in the Shanghai railway station daily, waiting to find jobs. The abundance of unemployed peasants throughout China, estimated at 200 million, assures the lower wages in the coastal zone plants, where toys, electronics, shoes, and other consumer goods are shipped overseas. With millions of jobless (or "waiting to be employed" as the Chinese government terms them) to replace them if they make trouble, workers are likely to put up with the grimmest of conditions.

Last year, according to *China Daily*, more than 15,146 workers died in industrial accidents. Among them, 7,152 were from township enterprises, up 4.7% over the previous year. These who worked and died for township enterprises, which emerged with Deng's reform, have never received proper training in labor safety.

But are western institutions showing sympathy toward such working conditions in China?

The World Bank has warned against raising workers' salaries in Asia—even in Bangladesh, where the Bank considers that the current minimum of \$14.35 a month is too high, compared with the rate of labor productivity. In the coastal zones of China, the situation is no better. Hundreds of Chinese workers in one of the highest paid Japanese plants are on strike as this article is being written, asking for a raise from \$65 to \$80 a month just to keep up with inflation, now close to 20% in the coastal cities.

In 1992, about 2.84 million people found jobs, a 2% increase in the 147.92 million employed workers across the country. This slow rate of employment growth contrasts with the advertised 12.8% economic growth of 1992.

Efforts to maintain trade with the U.S.

The human rights situation in China is among the least important issues, from the standpoint of pragmatic Washington policymakers. Of greater concern to them are the trade deficit and arms proliferation.

The U.S. government has stated that it has seen "very little progress" in China's implementation of a "market access" agreement reached last year, in which China promised to open its market to U.S.-made products. Also, U.S. officials cited China's failure to abide by pledges on arms proliferation, including recent allegations that Beijing had sold missile parts to Pakistan. Deng reportedly instructed the leadership in China that Beijing would take both "soft" and "hard" measures to offset those charges, which could block the renewal of MFN status.

The May issue of the Hong Kong magazine *Mirror Monthly* reports that Li Lanqing, State Council vice premier, adopted the tactic of "trade against trade" to counter the U.S. threat to attach conditions for renewing China's MFN status. The tactic leads to lucrative deals made with American business groups to lobby for the mainland's interests. U.S. farm groups have also been very nervous about the debate, worrying that Beijing might buy less wheat from them if human rights conditions were imposed on the MFN renewal.

In April, a trade delegation sent by Beijing to the United States signed deals for the purchase of American cars and more than 20 Boeing aircraft worth billions of dollars. China is also threatening to sell weapons to Mideast and other Third World countries.

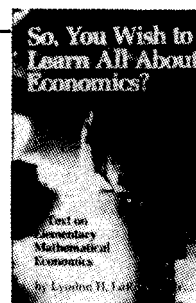
Prime Minister Goh Chok Tong of Singapore, who, together with Singapore's senior statesman Lee Kuan Yew, has been sounding like an agent of China, made it clear to

the United States and its allies on May 13 at a conference in Tokyo that pressure on China over human rights and other issues could backfire. "We should understand that Chinese leaders suspect that the West wants to use human rights as a tool to pressure them and change their political system," he said. "The Chinese leaders could react in many ways that would make life extremely uncomfortable for all of us." He added that Asian countries were concerned about China's potential to become a "military threat."

To the aging communist leadership, the primary concern in "reform" is to maintain the party's control. For that very reason, Beijing has adopted pragmatic foreign policies to ensure its continued rule.

For instance, when North Korea decided to withdraw from the Nuclear Non-Proliferation Treaty, the United States introduced a resolution in the U.N. Security Council to demand that North Korea allow inspection or face sanctions. According to former U.S. Rep. Stephen Solarz (D-N.Y.) on May 6, the U.S. and its allies "hope when it comes to that, China would at least abstain, as it did at the time of the Gulf war, in order to permit the resolution to be adopted." On May 12, as Solarz wished, China did abstain, along with Pakistan, when the 13 other Security Council members voted in favor of the resolution.

China is clearly playing "balance of power," the only game that can ensure continued communist power in Beijing.



So, You Wish to Learn All About Economics?

by Lyndon H. LaRouche, Jr.

A text on elementary mathematical economics, by the world's leading economist. Find out why *EIR* was right, when everyone else was wrong.

Order from:

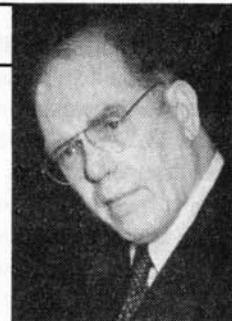
EIR

P.O. Box 17390 Washington, D.C. 20041-0390

Or call Ben Franklin Booksellers: (800) 453-4108

(703) 777-3661 fax: (703) 777-8287

\$9.95 plus \$3.50 shipping for first book, \$.50 for each additional book



Integrate Scotland into the 'Productive Triangle'

The following is part of an interview with American economist Lyndon LaRouche in Rochester, Minnesota, where he is held political prisoner. The interview was conducted on Feb. 6, 1993 by Katharine Kanter for Scolag, a Scottish legal news bulletin; Alan Clayton, a Scots nationalist; and John Carroll, a well-known Glasgow criminologist.

Q: Just how American are you? I mean, how much are you affected by this "Center of the World" mentality which afflicts most Americans?

LaRouche: I don't feel personally much restricted by it. I've been called by my friends the only European American sometimes. But I think that is not unique in American history. Not because people came here from Europe, as such, but because anyone who has had a classical education, or the equivalent, is conscious of being part of European civilization. My closest friends are people who live in my mind, because I have re-experienced their discoveries—people such as Gottfried Leibniz, Pierre Fermat, Johannes Kepler, Nicolaus of Cusa, or Leonardo da Vinci, and so forth—in many fields. And these are people I know, who are closest to me, whose minds I know internally much better than people who would be considered my next door neighbors.

If you eliminate the false, popularized history, the United States was formed by people who represented European ideas, not the myth created about the American frontier. One should remember that the original colonies, in the 17th century, such as the Massachusetts Bay Colony and the Commonwealths of Pennsylvania and of Virginia, were created as autonomous agencies of self-government accountable to the British Crown. They represented European political cultural movements—mediated largely through Britain; to some degree the Netherlands; Germany, to a large degree; and France—which is the principle that the ideas of the Americans which led to the American War of Independence, were the ideas of people associated with Jonathan Swift and Leibniz in England during the late 17th and early 18th centuries. But the strength of the United States comes from that and related kinds of experience, and anyone who is really, culturally educated, who is not off in some chauvinist, existentialist fantasy, is very much aware of this and is very much emotionally attached to the issues of Europe of the 15th, 16th, 17th, 18th, and 19th centuries.

A true American, who is not deprived of a proper educa-

tion, is actually a European; though he have affinities for Asia, he is actually a European. Unfortunately, I admit that there are all too few of us.

Q: Was your decision to base the "Productive Triangle—Paris-Berlin-Vienna" program on Europe, rather than America, due to strategic or economic considerations? Do you see it as an attempt to break the Anglo-American stranglehold on central European economic development?

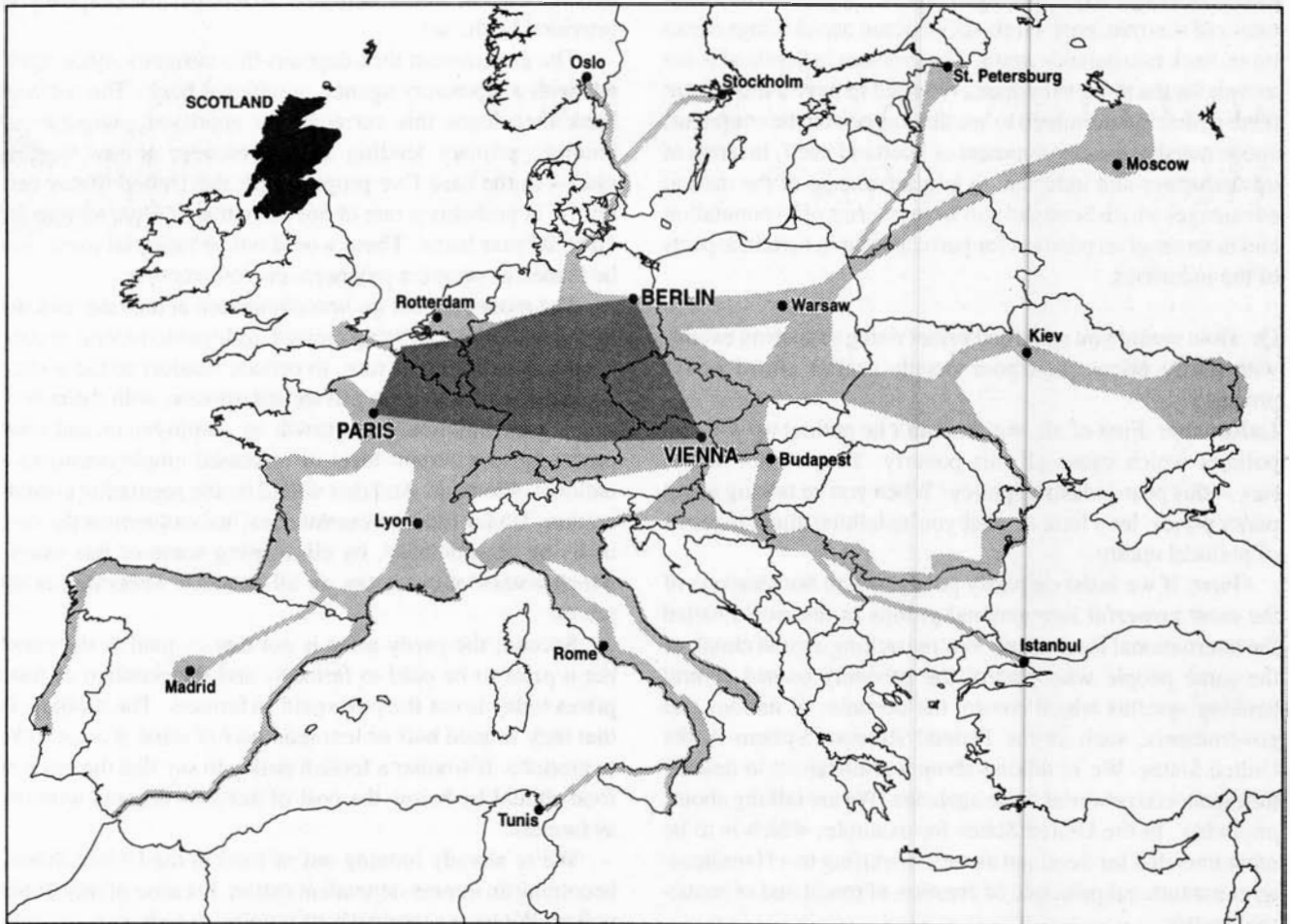
LaRouche: We want to reformulate the problem. First, we go back to the 8th and early 9th centuries. Europe, in its best current form, developed around the influence of Charlemagne, Charlemagne's court. That court prescribed, in particular, a number of development projects involving canals and so forth, which, with all the ups and downs, shaped the development of Europe thereafter. To such effect that, if we take a triangular area from approximately Paris, down to Vienna (I might call it Charlemagne's Vienna), up across Bohemia to Berlin, and through the Ruhr, by way of Lille, again to Paris, we have an area of the world which represents the greatest concentration of accumulated cultural and physical economic potential on earth today.

The other significance of that triangle, is that it is contiguous to the greatest center of world population, Eurasia—most of the world lives in Eurasia. Across the Mediterranean is Africa. Most of the world is greatly underdeveloped. In order to get the greatest number of people involved in development, it was necessary for technical and logistical reasons to focus development on the place in which the highest rate of production and development can occur to spill through communications and transportation into the rest of Eurasia.

If we wish to develop technology, in order to provide the machine tools and other modern technologies to other peoples at the most rapid rate, the place to concentrate development is in the triangle, the area where you get the greatest payoff in terms of technological development per nickel of investment.

Then you must look at the specifications of what I call the spiral arms, which are links of transportation routes for the conveyance of freight especially, by way of inland barges, sea waterways, or by rail to other parts of Eurasia. And to get the most rapid rate of development in Eurasia, and in the world in general, you would use spiral arms radiating from this. This is a historically determined, physical,

Scotland's position in relation to the European 'Productive Triangle' and its spiral arms



logistical reality. It happens that the United States is somewhat broken down; people in the U.K. know better than I what a pile of wreckage, what a formerly industrialized place the U.K. is—neither of these nations are self-sufficient. The United States is a net importer of food at this point.

The U.S. economy is collapsing not because the Japanese or the Europeans were unfair, unless you consider it unfair of the Japanese and the continental Europeans not to be as stupid as we've been for the last 30 years, in going to a post-industrial society. To revive the United States, we have to supply an economic mission to the United States, in terms of other countries, and the United States is not capable autonomously of that mission except as a part of a European development. So the United States, through its own misconduct, has reduced itself so that it must accept the role of merely a partner, although a very important one, of the continent of Europe.

Obviously, the U.K., these islands, must themselves accept the role of partnership, and to some degree a subordinate role, in a general European effort to bring this whole world back into order.

Q: Would Scotland be marginalized?

LaRouche: That is not to be feared if you have rational people running the show. In Scotland, we have people who have some education, some training, some skills, and contrary to the popular delusion, we have a great shortage of skilled labor power in the world today. Scotland also has, and should have more infrastructure. If you wanted to stick some industries in there to produce things, and produce not with some foolish free trade theory but in real terms, you would say that an area like Scotland is needed.

First, we have a great advantage. Let's take two points of reference, because of the relationship to sea travel: the Edinburgh area and the Glasgow area. We can produce today, or will be able to produce very soon, sea-going craft powered by electrodynamic use of water, i.e., forms of propulsion which take seawater passing through a tube or something, acted on by electromagnetic fields, with a number of superconductivity magnets, which will move freight very efficiently and at very high speeds. So if I could produce something near the coast of Scotland, and most of Scotland is near the coast someplace,

get it to a port, we can move products, particularly high-tech products, at a greatly advantageous price, because of the economies of sea-transport. High-speed ocean travel brings ocean travel back into balance again. The problem in Scotland is not to wait for the thing to happen. We need to have a movement there which is determined to see this happen on the continent, and to marshal the development of Scotland itself, in terms of infrastructure and industry, to take advantage of the natural advantages which Scotland will have in terms of its population and in terms of its position for participating in certain aspects of the industries.

Q: How would you stop food prices rising to such an extent, with parity prices, that poor people cannot afford to eat properly?

LaRouche: First of all, we shouldn't be putting up with the policies which cause all this poverty. They're not necessary—this post-industrial policy! When you're talking about parity prices, let's look at what you're talking about in terms of political reality.

First, if we insist on parity policy, we're bucking one of the most powerful international groups in the world called the international food cartel. We're bucking a great chunk of the same people who control the privately owned central banking systems which control the destinies of nations and governments, such as the Federal Reserve System in the United States. We're talking about a political act to destroy the dictatorial power of these agencies. We are talking about, implicitly, in the United States for example, which is to be recommended for Scotland as well, reverting to a Hamiltonian constitutional principle of creation of credit and of monetary power.

This experiment was initiated in the Commonwealth of Massachusetts, a colony back in the 17th century, which worked quite well, though many of us have forgotten that valuable lesson. Currently, the way you get money and new credit in the United States is that some commercial interests will discount paper through the Federal Reserve System. The Federal Reserve System discounting at, say, 3%, will then issue a check to the person who discounted the paper. That check is processed like an ordinary check, for clearing. It is ultimately cleared back to the Federal Reserve Bank, which then puts in the banking system the requisite number of bank notes of Federal Reserve issue. For this creation of money, out of thin air, the financial system pays 3%. To finance our deficits of corporations, of governments, the banking system will then turn around and buy government bonds or similar things, at 4.5% to up to 8%.

So, in order to get money into circulation, we put the federal government into debt, by way of its buying at gross prices, money which is created out of thin air. This is already quite a swindle. The point is that the federal government, under our Constitution, is supposed to issue currency, according to an act or enabling legislation of Congress, which

allows the government to issue certain currency, in certain denominations, under certain restrictions, for purposes as provided by the act.

The government then deposits this currency, once printed, with a repository agency, a national bank. The national bank then loans this currency for approved categories of lending, primary lending of this money, at low interest rates—in the case I've proposed for the United States currently, at probably a rate of not more than 2% per annum for 10 to 20 year loans. These would not be financial loans, but be loaned as progress payments on construction.

The money would go into circulation at the rate (or less) that new wealth was being created, as loans to federal or state agencies for infrastructure, to private vendors to these state agencies, and to certain private enterprises, with the aim of causing an inflation-free growth in employment and total profit, up to a certain level of increased employment, as a national objective. And that would be the regulating consideration. Under those circumstances, we can reduce the cost of living considerably, by eliminating some of this usury, which comes out as a tax on all products imbedded in all prices.

Second, the parity price is not a price paid to the cartel but a price to be paid to farmers, and the problem of food prices today is not the price paid to farmers. The problem is that they're paid half or less than half of what it costs them to produce. It's rather a foolish policy to say that the price of food should be below the cost of keeping farmers working as farmers.

We're already running out of food in the United States, becoming an import-dependent nation, because of this stupid policy. We have a world which is going to go hungry because of this policy. We simply have to adjust our priorities, and apply the parity principle to all prices, and have a policy which encourages sufficient investment so that we don't have this abundance of poverty.

Q: Where would a small country like Scotland get the cash to import the capital goods and equipment necessary to initiate such a project? Do you believe that other countries and organizations will have enough confidence in the Scots pound, or do you think that we should have a siege economy where we try to do everything ourselves?

LaRouche: Cooperation. A program like the Productive Triangle would involve exactly that kind of cooperation. The first thing we do is we start from government expenditures; that's our first point of reference. Only the national governments or local governments can provide essential infrastructure for industry and trade. This consists largely of water management, sanitation, and other things which go with water management; of power production; and of major transportation. It also includes things like a school system, because we require an educational standard, and a health system, which may be partly private, but which should be integrated

with a public concern for everyone to have health care as it is needed.

That generates a certain amount of private as well as public employment activity, and reduces costs to the economy as a whole, which is essential. Then we look at the requirements of the global population. Major export projects, which our region can produce, agreements with other countries—we'll do such and such a product for your market, in such and such a quantity, let's make a five-year agreement. And we'll make certain guarantees, and you'll make certain guarantees.

It's not all done necessarily by governments, but it'll be facilitated by governments, by government intervention into credit insurances and things like that to make sure this trade occurs. It's like bidding on contracts, in which a government acts to facilitate its qualified private firms in going abroad and bidding on contracts, where the government acts in a sense as a helper in getting these contracts. The concern of government should be to try to get the contracts for its own industries, and then on the basis of the contracts, we try to get some credit generated, which is negotiable in the international markets for what we're going to produce.

As a practical matter in the case of Scotland, there are a number of things which the Scots are well able to do, or could be able to do as well as anybody else, and that's the area in which the Scottish factor in international trade should be considered.

On the basis of calculating what the national income is, we can see what the Scots standard of living is, and we can get an estimated budget for national, domestic production—how much we have to import, how much we have to produce locally—and come out with some kind of a sensible result. Then we can get our industry people together on that sort of basis, and sit down and talk about a 7-year, 10-year, 15-year perspective, because our objective is to encourage long-term investment. The function of government in this respect is to negotiate the conditions, and to mediate the establishment of a consensus which creates a long-term consensus and relevant agreements, a climate for those things which we think are suitable long-term investments. Thus, people can invest with confidence, go out and begin to buy the things which represent long-term investment to build up the industries.

One of the problems at present, particularly with the so-called myth of utopian free-market deregulation, is that it is impossible for any entrepreneur, virtually, unless there is some kind of monopolistic or corrupt influence, to make long-term investments. They don't know what the markets are going to be next year or two years from now, and we have to think about creating rationally an agreement about what would be sensible long-term investments and say, okay, that's a national policy, let's stick with encouraging that, and we set our tariff rates, our tax rates, our credit policies accordingly to facilitate the private industries to do just that. And we say go ahead, get on with it boys, now go and do it, if you fail, you fail, but if you succeed, you can succeed.

Danes back Maastricht under economic threat

by Poul Rasmussen

In a referendum on June 2, 1992, Danish voters greatly upset the European elites when they rejected their plans for a monetarist European Union, the so-called Maastricht Treaty. However, rather than immediately embarking upon a plan to obliterate this obstinate land of only 5 million souls from the surface of the earth, which undoubtedly was the initial inclination of the ruling European circles, it was decided to give the Danes a second chance. So finally, on May 18, Danes succumbed to the immense international pressure, and voted in favor of the Maastricht Treaty.

Before the first referendum on Maastricht, *EIR* reported that the treaty would destroy national sovereignty: "National governments and parliaments lose their entire influence over the future of their countries' economic, financial, credit, trade, and budgetary policies. . . . The control of the principal economic parameters by a supranational power structure is total" (see *EIR*, May 22, 1992, pp. 4-7).

One of the major problems in giving the stubborn Danes their second chance to please the establishment, was how to come up with a plausible reason why a second referendum should be held at all. Therefore, at the December European Community (EC) summit meeting in Edinburgh, a set of cosmetic amendments to the Maastricht Treaty was devised solely as an excuse for the Danish government to present the same treaty to Danes for a second time. According to this "Edinburgh Agreement," Denmark would be exempt from the projected European citizenship, closer police collaboration, common defense policy, the European Monetary Union, and the common currency.

Since all of the Danish exemptions actually belong to the second or third phase of the European Union, the Maastricht Treaty was left unchanged. According to the treaty itself, the final formulation of the common European defense policy, the final decisions concerning the Monetary Union, and the time schedule for the implementation of a single European currency, will not be made until 1996, when a new governmental conference is to be convened. Therefore, the Danish "exemptions" as they are formulated in the "Edinburgh Agreement," are exemptions to a policy that does not yet exist. To complete the absurdity, it also means that if and when the policies for the second and third phase of the union are formulated in 1996, the Danes will have to have a third

referendum to finally decide upon the policies they have already been granted exemption from.

Armtwisting, threats, and blackmail

In the May 18 referendum, only 56.8% of Danes voted in favor of the Maastricht Treaty and the amended Edinburgh Agreement. Taking into account the enormous campaign from the government and the Danish establishment to secure a “yes,” it is impressive that 43.2% of the voters still voted “no.”

While the debate leading up to last year’s referendum largely was focused on the actual content of the Maastricht Treaty and its implications for the future of Europe, this year’s campaign was totally devoid of any content. It is no exaggeration to describe the campaign of the Danish government and industry as blatant threats and blackmail.

According to the arguments of the Danish establishment, the real issues of the May 18 referendum were as follows: If the Danes were to say “no” a second time, the remaining 11 member states of the European Community (or 10 states, if England also stayed out) would immediately proceed to form a European Union without Denmark. Therefore, Denmark would be left out of all major European political decisions in the future. In addition, the country would gradually slide away from all the old EC agreements, like the Common Agricultural Program, as these are replaced with new agreements in which Denmark would not participate. After the other Scandinavian countries joined the new European Union, Denmark would become politically isolated.

Obviously, in these days of worldwide economic depression, the most effective scare tactic involved the economic future of the country. Already during last year’s referendum, wild stories were pushed about exploding unemployment in case of a successful “no” vote. But this year, the same stories were followed up by concrete threats of layoffs from a number of leading Danish industries if their employees voted “no.” On top of this, interest rate hikes, devaluation of the Danish kroner, and other gloom and doom predictions were presented as absolutely unavoidable consequences of a new Danish rejection of Maastricht.

It would be wrong to claim that the Danes finally voted in favor of the Maastricht Treaty. They did nothing of the kind: They voted “yes” out of fear of being politically and economically destroyed. The Danes still profoundly dislike the idea of a monetarist European Union. In a survey by Danish Radio published two days before the referendum, 75% of the Danes clearly stated that they preferred a Europe of sovereign nation-states to a federal European Union of the type described in the Maastricht Treaty. The survey also made it clear that a primary reason Danes were voting “yes,” was the fear of the consequences for the country if they voted otherwise.

Intimidation of a whole nation is not a good start for a European Union.

Organized crime’s gambling: the case

by François Lepine

The U.S. Department of the Interior on April 27 placed a moratorium on government lending to Indian gambling casinos. A spokesman for the Bureau of Indian Affairs was quoted by Associated Press saying that in view of the opposition that was developing to the casinos, they felt it was necessary to stop the loans temporarily, pending further discussion. One of the congressmen involved in blocking the loans, Rep. David Obey (D-Wisc.), a senior Democrat on the House Appropriations Committee, objected after the BIA put money in President Clinton’s stimulus plan to finance Indian gambling in his home district.

Today, gambling in America is a \$550 billion business, of which Indian gambling is a small, but growing, fraction. But without the legalization of gambling on the Indian reservations, there would never have been the explosion of riverboat casinos, race tracks, state lotteries, and video poker games that has hit the United States in the past decade. The huge volume of cash transactions in gambling provides a ready vehicle for laundering drug money and other ill-gotten gains—a fact which organized crime has not exactly ignored (see *EIR*, Jan. 15, 1993, “Dope, Inc. Targets Indian Lands for Casino Gambling”).

The BIA has made or guaranteed \$61.1 million in loans to 28 gaming operations nationwide, of which only a small portion has been repaid. In Minnesota, for example, of \$40 million in loans made to eight tribes, only \$2 million has been repaid.

It is past time that the BIA’s aid to gambling casinos be stopped: It is certainly a crime against natural law, when a government agency encourages the destruction of its citizens’ morality in this way.

Since 1981, when a Florida court ruled that the Seminole Indians had the right to have high-stakes bingo, under the pretext that Indians can themselves regulate what is legal on their sovereign reservations, the Bureau of Indian Affairs, and especially Assistant Secretary for Indian Affairs Ross Swimmer, intervened at every point to promote Indian gambling:

- They interpreted a Reagan administration policy paper calling for encouraging private enterprise while cutting the budget deficit, as a “yes” to gambling casinos.

link to Indian of Rhode Island

- In 1983, they helped create the National Indian Gaming Task Force, which would later become the National Indian Gaming Association. The NIGA smears anybody opposed to gambling as an anti-Indian "racist." NIGA leaders packed the congressional hearings of 1986 and 1987 which led to the Indian Gaming Regulatory Act.

- Not only did the BIA lend or guarantee money to management companies, but it also allocated money for hiring lawyers for Indian tribes to sue the state governments that opposed gambling.

- Finally, the BIA, which was responsible for Indian gambling during the slow formation around 1990-91 of the National Indian Gaming Commission, seemed blind to any sign that organized crime was moving in. To this day, no audit has ever been supervised by the government of any gambling operation.

Because of the complex legal situation which exists on the Indian reservations, it is practically impossible for anybody but the BIA to have a nationwide assessment of what is going on. There are good reasons to believe that the role of organized crime in Indian gambling is massive, which makes one wonder not only whether the government money has been lost, but also whether it was used to finance organized crime.

We analyze here the case of two Indian gambling management companies operating on a Rhode Island reservation. These case studies give a hint of the larger dimension of organized crime involvement nationally.

NAB and BAB

In Rhode Island, a nine-year fight is coming to a conclusion in the court case of the Narragansett tribe and British American Bingo (BAB) against the city of Charlestown and the State of Rhode Island, on whether the Narragansett tribe lost its sovereign rights, including to operate a casino, when they renounced their rights as a sovereign tribe in 1978 in exchange for an advantageous land settlement. The fight started on Nov. 8, 1985, when a scandal erupted in the state around a land deal involving the Narragansett tribe. The deal came under attack for three reasons:

- 1) The price of the land had been artificially jacked up

from its assessed value of \$77,000 one week earlier, to \$220,000, through three sales, with the Indians picking up the tab. One person bought the land for \$98,000 and sold it 90 minutes later to one Gary Palmer, who sold it a week later to the Indians; Palmer's Paland, Inc. and Ribo Associates lent the money, at 12% interest.

- 2) The law firm of Manning, West, Santaniello and Pari, which oversaw the deal, had been involved in corruption scandals in the state. Attorney Edouard Manning had been the Democratic Speaker of the House throughout the 1970s, until he was indicted on eight counts of extortion. The day before the deal, he was indicted again for coverup in a case of looting involving the Rhode Island Housing and Mortgage Finance Corp.

- 3) Palmer was rumored to be running several bingo operations around the United States.

Palmer's North American Bingo company (NAB) ran into trouble because of opposition from the town (which has authority over the Indian reservation, according to the 1978 land settlement) and with the majority of the Indians themselves, who opposed gambling. But Palmer, a liar and unscrupulous profiteer, got support from an unexpected quarter—the Bureau of Indian Affairs.

In fact, he got so much support from the BIA, that the Charlestown city council demanded in a letter to the Rhode Island congressional delegation, that it initiate a congressional investigation of the Eastern Bureau of the BIA. The city council contended that Palmer's assistant Edith Travers was present at a meeting to discuss land use, including bingo, at the request of the BIA, and, when asked who she was, lied about her identity. The Rhode Island congressional delegation forwarded the letter to the Department of the Interior and its inspector general, who replied that no violation of ethics had occurred. The department did not answer the charge of conspiracy between the BIA and North American Bingo.

Opposition came from the tribe itself, which in January 1986 elected an anti-gambling faction to its leadership. The BIA refused to certify the election. The anti-gambling faction won again in March, but the BIA recognition didn't come until June. By then, the deal with North American Bingo was dead. A few years later, the pro-gambling faction won, and a new company came on the scene: British American Bingo, a subsidiary of Bass Ale, the leading brewer of England, which runs 56 bingo casinos there, as well as a chain of Breweries Hotels and Restaurants, and now owns the U.S. Holiday Inn chain.

A single operation?

In Rhode Island, a source opposed to gambling confided that he had received death threats, and that to this day he believes that behind British American Bingo is the unscrupulous Gary Palmer and his North American Bingo.

Consider the following facts: The same Edith Travers who created the necessity of an investigation of the ethical



Atlantic City, New Jersey. Mobster Meyer Lansky claimed that he set up his Resorts International casino gambling operation to "help the elderly." So today, the organized crime "friends of the Indians" are moving their dirty money operations onto the reservations.

behavior of the BIA, and who initiated contacts in September 1984 between NAB and the Narragansetts, formerly worked for the Pan American Co. (PAMCO) on the Minnesota Sioux Shakoppee Mdewakanton Reservation, with its second bingo management company. The reservation's first management company was New England Entertainment. PAMCO—which some law enforcement authorities have said is actually the same thing as New England Entertainment, is the company that started U.S. bingo operations in Florida with the Seminole Indians.

These management companies crop up in other bingo casino operations around the country. In Lemoore, California, on the Santa Rosa Rancheria Reservation, New England Entertainment was followed briefly by Palmer's Paland, Inc., and then by British American Bingo. Indians there complained that New England Entertainment and Paland were looting them.

In Arizona, the Pascua Yaqui had many management companies, including PAMCO and British American Bingo. Again, there were complaints that the companies were exploiting the Indians.

So when in Rhode Island, BAB succeeds NAB, one wonders if it is not the same operation that started bingo casinos throughout America with the Florida Seminoles. An investigation along those lines could show that most Indian gambling is connected to organized crime, and that rather than

simply freezing loans to gambling operations, there should be an investigation into whether U.S. government money ended up in the coffers of the mob.

Crime and bingo in California

The broader, national dimension of organized crime activity came out in testimony to a U.S. Senate committee on Indian gaming in 1986 and 1987, when Sheriff John F. Duffy, Sr. of San Diego County, California, the representative of the National Sheriffs Association, explained how several bingo operations operate in his state. He maintained that most bingo parlors were connected to one another, and that most of the management companies that run the bingo games and casinos are connected to organized crime circles.

Since Duffy's testimony, court records have confirmed the infiltration by organized crime of five California reservations: the Barona Reservation and the Sycuan Reservation (operated by PAMCO) by the Genovese, Buffalino, Luchese, and Cavalcate crime families; the Jackson Rancheria Reservation by the Gambino and Luchese families; the Ricon Reservation by Chicago organized crime boss John di Fronzo; and the Cabazon Reservation by organized crime figures Irving "Slick" Shapiro and Rocco Zangari.

Duffy also explained that FBI background checks are not made to stop organized crime from infiltrating Indian gambling.

In San Diego County, a company called American Management and Amusement Co. (AMAC) operated at the Barona Reservation. In his written testimony in June 1986, Duffy characterized their operations: "Prior to their closing, the management company at the Barona reservation said they were grossing \$1 million per month in cash. They were in operation since 1982 and the estimated gross income was in excess of \$35 million; however, there was no visible improvement to the Indian status. In fact, some of the homes on the Barona Reservation still do not have running water. The management company claimed that all the money went to pay for prizes and payroll expenses. The dividends declared by the company were minuscule in comparison to the amount of cash taken in. The management company blamed their closure on the fact that the Indians would not allow them to bring in outside stockholders to bolster the bingo operation. The Barona Indians found that these stockholders were members of the management company [PAMCO, for which Edith Travers worked] which currently operates Sycuan Indian bingo in competition with Barona."

Despite the evidence provided by Duffy, the Senate kept to the line that you can have gambling without organized crime, and went ahead with the Indian Gaming Regulatory Act to "help" Indians. It was not the first time that the pro-gambling factions appealed to philanthropy to legalize gambling; in the 1970s, Meyer Lansky's Resorts International had New Jersey legalize gambling on the pretext that it would "help the elderly."

Debt moratorium a moral imperative

Models for reducing the debt burden are at the center of political campaigning in Germany.

Visitors to Germany are witnessing the unusual spectacle of vigils in front of banks in the bigger cities like Frankfurt, of protesters calling for a moratorium on the debt of developing sector nations. This time it isn't "just the LaRouche people, again," who are attacking monetarism and the International Monetary Fund (IMF), but organizations such as the Association of the German Catholic Youth (BDKJ).

The BDKJ plays an important role among the 1,200 church-linked activists who signed a May 11 call for a debt moratorium for developing sector nations published in the daily *Frankfurter Allgemeine Zeitung* by Misereor, the international relief organization of the German Catholic Church (see *EIR*, May 21, p. 9).

On the eve of the annual shareholders meeting of Deutsche Bank in Frankfurt on May 19, BDKJ spokesman Karl-Heinz Feldbaum recommended a moratorium on at least half of the DM 52 billion (\$32 billion) which developing sector nations owe German banks. Feldbaum called on Deutsche Bank, the flagship of the German banking sector, to follow the example of its own past chairman Hermann J. Abs, who played a catalytic role in the 1951-52 London talks that led to the 1953 moratorium on 50% of Germany's pre-war debt. This agreement, which paved the way for the postwar recovery and reconstruction of West Germany, is one of the rare cases of successful national debt reorganization in the 20th century.

Feldbaum said that the debt of the

poorest among the developing sector nations should be canceled, and the somewhat better-off countries should be granted a moratorium on at least half of their debt.

Meanwhile, momentum for a moratorium is also building for domestic debt: The DST, the official association of the municipalities in Germany, which announced a "debt payments strike" for all east German municipal authorities on May 2, is now considering initiating a "master trial" at the Constitutional Court, to get rid of the so-called "old debt" of the East, which has proven to be a key obstacle to any serious reconstruction in the run-down, formerly socialist part of Germany.

The "old debt" of the eastern municipalities originates in the bookkeeping methods of the pre-1990 socialist regime, which simply reinterpreted centralized transfers of the state to the local authorities as "credit," an interpretation which was not challenged by the government of Chancellor Helmut Kohl, but carried over into the fiscal policy of united Germany.

Originally, there were three main categories of state transfers to the municipal authorities in eastern Germany: 1) funds for the municipal housing sector; 2) support for local housing operations in various cities of industrial combines, which provided and secured apartments for their workers; 3) funds for social and health services, as well as investments, in the cities.

Funds of the municipal authorities were a sub-category of the centralized

state budget, in line with the regime's five-year economic plan. Any nominal "income" of the cities, which in non-socialist societies would be under the control of municipal authorities, such as local taxes, fees, and rents, were a category of state income. Money was collected for the state and redistributed by the state to the regional and local institutions. To speak of "credit," is therefore a distortion of the real process; as numerous representatives of east German institutions put it in discussions with this author recently, it is even considered an "illegitimate invention of something that does not really exist."

The legal action against the "old debt," which will likely be launched after May 30, is only one avenue of protest. The government's attitude, which has so far prevented any sound debate on the debt, has led many debtors to conclude that "without political pressure, nothing will move." Even more radical views have been observed in recent weeks among industrial managers, government officials, labor union officials, and municipal representatives.

There are signs that, in the eastern regions, a broad front of popular dissent against the debt crisis-management policy and austerity regime of Kohl is building. Protest marches by entrepreneurs may be staged along with "payments strikes" and other financial boycotts. It is even possible that joint actions of managers and workers will be launched against the government and its various offices in east Germany, like the Treuhand agency in Berlin which has control over the privatization of the former state sector industry.

Rumor has it that the debt issue may also be put up for a plebiscite, which would put the call for a moratorium where it belongs, namely, into the hands of the voters.

Business Briefs

Russia

Produce more, import less, says prime minister

Russia should import less foreign technology and concentrate on producing more of its own, Russian Prime Minister Viktor Chernomyrdin said during a visit to the north Caucasus region on May 11, RIA news agency reported. Russian companies are capable of producing many types of goods and equipment that are now being bought abroad, he said. "If we don't set up a barrier to technology purchases from abroad, we will never survive."

Chernomyrdin said that Russia was not a "beggar" and should resist attempts to reduce it to a mere exporter of raw materials. "People want to make us a country exporting raw materials, but not producing or processing goods," Interfax quoted him as saying.

"Reform won't work unless we start producing. Not even the harshest monetary and credit policy will stop inflation unless we fill the market with goods."

Chernomyrdin also complained that foreign credits were being offered to Russia only in exchange for oil, gas, gold, and other raw materials which foreigners wanted to ship out of the country.

Monetary Policy

Italian central banker wants to curb derivatives

Mario Fazio, the new Italian central banker, wants to clamp down on the speculative derivatives market, the Italian daily *Corriere della Sera* reported on May 12. Fazio "is a convinced Catholic, who never hid the fact that he fears, more than inflation, unemployment with its social tensions."

Fazio differs with German Bundesbank head Helmut Schlesinger, *Corriere* writes, but "in September, there will be a change at the top of the Bundesbank. Schlesinger will probably be replaced by Hans Tietmeyer, a Catholic like Fazio and close to Opus Dei. . . . With him, Fazio could start a project which has kept his mind busy for a while: to increase cooperation

among the G-7 [Group of Seven industrialized nations] in order to deal with the big capital volumes of international speculation, which nowadays determine the amount of money on the market, independently from the will of central bankers. . . . For Fazio, as well as for Tietmeyer, speculation that creates no development but just moves wealth is an immoral fact."

At the next meeting of central bankers in Kolding, Denmark on May 22, Lamberto Dini will report on the state of derivatives. Dini, *Corriere* reports, will recognize the seriousness of the problem but will propose no solution. "For Fazio, such agnosticism is not enough."

Austerity

Accord with IMF may topple Polish regime

The Solidarnosc union endorsed a vote of no-confidence against the Polish government should Prime Minister Hanna Suchocka and her cabinet fail to meet promises by May 19 for social protection measures against mass layoffs caused by the privatization of state sector industries and for tariff increases compensating the effects of monetary inflation. The Suchocka government faces a new national strike wave, including 300,000 teachers and health sector personnel and miners now on strike in the Walbrzych region. The miners' strike is expanding into other industrial sectors there.

Thus, forecasts that the latest accords which Suchocka signed with the International Monetary Fund (IMF) would accelerate the fall of her government, seem to be coming true. President Lech Walesa, in a statement on May 12, said that he is prepared to appoint a transition cabinet until early elections of the Sejm (Parliament).

The executive of Solidarnosc authorized its parliamentary group on May 13 to launch such a no-confidence vote in the Sejm after May 19. Suchocka's six-party government coalition controls only 180 out of 430 seats in the Sejm and is certain to lose any such vote.

Real Estate

German industry seeks curb on speculation

Legislation against speculation in real estate is urgently required if Germany ever wants to be able to build several hundred thousand apartments and overcome the chronic undersupply of decent housing, the Bavarian association of housing companies said in a statement in Augsburg on May 11.

At present, 50% or more of the average cost of building a new apartment is consumed by real estate costs, which, in the urban areas, has created a situation which makes construction of new homes impossible, the association declared. It charged the government and the political parties in Bonn with not paying attention to the real estate problem, which requires special legislation to bring prices down to acceptable levels.

The association recommended legislation which would enable municipalities to tax the speculative proceeds of real estate transactions.

In the state of Bavaria alone, the association pointed out, there is a housing deficit of at least 250,000 apartments, and it is fast increasing. The association estimates a shortfall of 1.5-2 million flats nationwide.

Whaling

Norway will defy international ban

The Norwegian government will continue whaling, despite an 18-6 vote on May 14 by the International Whaling Commission (IWC) to extend an eight-year worldwide moratorium on commercial whaling for another year. "The government has decided to stick with its decision to carry out traditional whaling," Foreign Minister Johan Joergen Holst told a news conference. "The behavior of conservationist countries in the IWC can create a . . . precedent for large countries to press small nations into refraining from using their right to manage natural resources in a justifiable and scientific manner."

The Japanese representative denounced the vote, after threatening to leave the IWC meeting. "Our anger has grown to its highest level. It is really deplorable that the IWC has become an organization to protect the rights of whales," Japanese commissioner Kazuo Shima said.

A group of Norwegian ministers is urging their colleagues around the world to back the Norwegian government's decision. The churchmen say it is contrary to Christian teachings to compare whales with human beings, the May 15 *Boston Globe* reported.

"Environmentalists see whales as something sacred that cannot be touched, treating them as the human beings of the sea," said Rev. Eiliv Larsen of Lofoten, a whaling and fishing town. "Animal rights movements are in conflict with Christian teachings," he said, citing the Biblical declaration that humans should dominate the earth.

Thailand

Cheap labor policy boosts fire death toll

At least 220 and possibly several hundred more Thai workers were killed in the worst factory fire in history, which burned a Bangkok sweatshop toy factory to the ground on May 10, Agence France Press news agency reported. Another 400 were injured.

The Thai Interior Ministry stated that "hundreds more are feared dead," and it fears that there will be many children among the dead, because many of the women workers brought their children with them rather than leave them home alone. The factory is owned by Kader Industrial, and Kader Holdings of Hong Kong has a 40% stake in the factory. The jerry-built factory, which employed several thousand workers, had no fire escapes and no working fire alarms. This was the third fire at the factory recently.

Such conditions prevail in many other Thai factories making cheap goods for export, and in many of the "Asian economic miracle" countries where many factories are foreign-owned (often by Chinese or Japanese companies) and unorganized workers labor in horrendous conditions for little pay. In Thailand, as in China, many thousands of poor peasants mi-

grating from the interior to the cities provide a huge pool of cheap labor.

The fire is only one of the many economic disasters to hit Thailand's troubled economy recently, including the outbreak of disease among chickens and pigs, forcing mass destruction of the animals and sending meat prices soaring way beyond workers' means.

Kenya

Protracted warfare with IMF is forecast

There will be protracted warfare between the International Monetary Fund (IMF), international creditors, and the present government of Kenya, the Swiss paper *Neue Zürcher Zeitung* forecast on May 8. The paper reported that the IMF is nervous after Kenyan President Daniel arap Moi recently broke all contacts with the Fund for 31 days, ending in March (see *EIR*, April 9). Even though Kenya subsequently professed that it would meet IMF austerity demands, the IMF saw the break as an "alarming signal" indicating "growing resistance."

Tensions between Nairobi and the IMF boiled over, the paper reported, when the IMF team that visited Kenya in February demanded that the government and central bank impose an interest rate of 45% on loans—which the Kenyans said would kill the medium-sized sector and, therefore, the basis for industry in the country. The arrogance of the IMF convinced the government in Nairobi that all talks with the Fund were in vain.

A total international credit and trade boycott against Kenya is certain, economic warfare that will turn into a "terror without end" for the Kenyans, but Nairobi has allies in the economic world, including investors that "still have something to lose there."

The Moi government recently devalued its shilling against the dollar, the third devaluation in four months, the London *Economist* reported. But the IMF has yet to decide to resume lending. The IMF is pressuring Moi to shrink the number of its civil servants by 45,000 from 277,000. By the third week in April, "none of Kenya's oil companies had been able to secure the dollars needed to buy in crude beyond the next month."

● **KYRGYZSTAN** raised the price of bread by two to three times on May 11. About one-third of its annual budget is spent on bread price subsidies. When prices were raised last year, angry shoppers in Naryn smashed shop windows and held demonstrations until the original prices were returned three days later.

● **DEFENSE CUTS** will cost nearly 600,000 manufacturing jobs in the United States by 1997 if spending cutbacks proposed by the Clinton administration go through, according to the Bureau of Labor Statistics. Job losses in coal mining and the production of hardware, refrigeration equipment, photographic equipment, autos, and clothing will accompany direct defense manufacturing losses.

● **TENNECO** has told shareholders that it will drastically cut production of farm and construction equipment. Case, the biggest unit in Tenneco, which accounted for 29% of operating revenues last year, will reduce its tractor product line from 48 models to 16, and cut production capacity by more than 25%.

● **CHINA'S** overall grain harvest is likely to fall by as much as 5 million tons this year from 1992 output, the state-run China News Service reported. An economic survey attributed the shortfall to declining investment in grain production, shrinking acreage for grain-planting, and poor weather.

● **MALAYSIA** gave Iraq a \$5.9 million palm oil credit facility and medical supplies worth \$97,000, during a visit in early May of Iraqi Foreign Minister Saad Abdul Majeed. The offer has been sanctioned by the U.N. Security Council.

● **METAL WORKERS** struck in Germany on May 12, after 80% voted in favor in the three eastern states of Brandenburg, Anhalt, and Saxe-Anhalt. Some 300,000 workers in the east were joined by 180,000 workers in the west.

Finding a cure for derivatives, the market cancer

by Chris White

This *Feature* presents some materials related to the background of so-called financial derivatives, and to jailed economist Lyndon LaRouche's proposed 0.1% sales tax on each such transaction (see page 34).

For clarity's sake at the outset, the following ought to be understood, as background to our assessments of current and recent volume of trading in derivatives, and the effect of the proposed tax. This, because in addition to the revenue-raising potentials of the tax, LaRouche also insisted that the imposition of such a tax would contribute to bringing out-of-control, speculation-driven markets under proper executive control. The imposition of the tax would help reveal the problems to be encountered in doing such a cleanup. Here are some of the problems, and thus some of what has to be brought under control:

1) The bulk of such trading, as is profiled below, the so-called "over-the-counter" segment, is blatantly illegal under present U.S. law. Under standing provisions of the Commodity Exchange Act, it is illegal for banks, or anyone else, to deal in futures contracts outside of commodity exchanges. This is never mentioned publicly by any of the partisans of derivatives. "Over-the-counter" derivatives are only traded safely at this time because of the work of the former chairman of the Commodity Futures Trading Commission, Wendy Gramm (wife of the loud-mouthed priest of financial orthodoxy Texas Sen. Phil Gramm), who was given the right to "waive" existing law.

2) All treatments of derivatives, generated from within the financial and regulatory communities, distinguish between exchange-based and "over-the-counter" trading between banks, as if they were completely separate activities. The distinction is fraudulent. "Over-the-counter" derivatives—for example, a swap between a floating-rate Swiss franc-denominated instrument and a fixed-rate dollar instrument—are consummated and put into effect through exchange-based trading of currency, bond, and interest rate futures and options. The degree to which the growth of the \$1 trillion per day foreign exchange market, or the \$300 billion per



America's vast, rotted-out industrial and transportation infrastructure surrounds the great financial centers, such as New York's Lower Manhattan here, where it's considered cheaper to ruin the economy, than it would be to save it.

day market in U.S. government securities, is conditioned by trading generated as a result of illegal inter-bank "swaps," is unknown.

For these reasons, it is impossible to estimate, to any acceptable degree of accuracy, what the size of the legal market is which would be subject to the tax. And obviously, one would not want to legitimize what is already outside the law, by subjecting such crimes to a tax.

3) Leaving the matter of crime aside, trading volumes, and the rate of turnover of the contracts traded—i.e., the actual, not the notional maturity of the instruments traded—are likewise unknown. This makes *EIR's* previously relatively high estimates of the effect of the proposed tax, and our presently relatively low estimates, equally suspect. They should be understood as hypothetical extremes. The more so, given the fact that the bulk of such trading is flatly illegal. For example:

- No reporting of derivative exposure by banks includes instruments with maturities of 14 days or less; yet the purpose of bank swap arrangements, for example, is to transform nominal medium- and long-term maturity instruments into short-term instruments, such that daily trading subserves a contract which is renegotiated every three months.

- No consolidated accounting exists of activities by bank holding companies and all their subsidiaries, or by so-called non-bank financial companies—e.g., GE Capital Corp. and General Motors Acceptance Corp (GMAC). Volume estimates are based either on particular banks' activities, or on activities of holding companies as such. The reports for both

cover different time-frames. They are neither complete, nor are they compatible. Non-deposit-taking lending institutions (non-bank banks in the present parlance) are not covered at all, because they are not regulated.

Without considering the provisos stated above, the derivatives market, or series of markets, is estimated at some undetermined part of \$16 trillion—the same order as the total financial and tangible assets in the U.S. economy as a whole, according to the Federal Reserve's balance sheet of the U.S. economy. How could such an immense market have come into existence in defiance of existing law?

How does Jack Kervokian continue to get away with murder in the name of "assisted suicide"? The two questions are not so different. With trillions of dollars of liabilities accumulated illegally, it would not be credible to simply say that someone must have been asleep at the switch.

Investigate the Federal Reserve

To find out the truth, it would be sufficient to mount a real investigation of what the Federal Reserve has been doing since 1978, and, specifically, what the Federal Reserve Bank of New York has been doing. The Federal Reserve is supposedly responsible for monetary policy, and through its discount window operations helps set the interest rates which govern the yields sought by the derivatives operators.

Such an investigation ought to focus on three areas:

- 1) Narrowly, how has the Federal Reserve has interpreted its regulatory mandate over stock index futures markets, and

how and why was the Federal Reserve given such a mandate in the first place?

2) More broadly, what does the Payment and Settlement Committee of the Federal Reserve Bank of New York actually do, and what role does the Federal Reserve play in its work?

3) What is the effect of Federal Reserve involvement in derivative-driven markets on credit generation, the banking system, and the economy as a whole?

4) What is the extent of criminal collusion between the Federal Reserve Bank of New York and the eight commercial banks which account for 90% of the activity in "over-the-counter" derivative transactions? The Federal Reserve Bank of New York is owned by the same banks which have systematically been violating the Commodity Exchange Act.

The broader purpose of a cleanup to reimpose order is straightforward:

1) So long as present methods of organizing credit flows within the economy and financial system are continued, there will be no prospect of economic recovery, nor a feasible job creation program, nor any capital- and technology-intensive renewal of the economy.

2) Derivative markets—options, futures options, options indexes, swaps, strips—whether on or off exchange, given the rate of growth in their international volume and turnover, especially in currencies and bonds, have become key in setting financially "acceptable" rates of return, thus interest rates, and thus overall credit flows.

3) Bush administration policy and Alan Greenspan's Federal Reserve commitments to avoid at all costs the spillover of the savings and loan banking crisis into the nation's commercial banks, by increasing spreads between bank lending and borrowing, made the problem much worse than it would otherwise have been. Returns from commercial and industrial loans cannot match the derivative-enhanced yield on the tax-free 4-5% spread they have been given in recent years.

4) To organize a recovery is to create *new wealth*. New wealth can only be created by putting Americans back to work in modern infrastructure construction projects, necessary to support expansion in employment and economic activity, and in technologically progressive capital goods industries, to increase productivity. This increases the tax base without increasing tax rates, and thereby reduces the deficit. Every 1 million jobs created at \$30-40,000 per year gross will add between \$5 and \$6 billion to the Treasury's personal taxation revenue stream directly, and will obviously have quite dramatic additional indirect effects.

5) Unfortunately, the time-frame for achieving project viability, and the discounted present cash value of the returns on such investments, cannot compete with the derivative money-go-round. Therefore, either derivatives and their users submit to an exercise of national will, or the country submits to the continued rule of those who employ derivatives, in violation of its very laws.

Derivatives: What are they?

by Anthony K. Wikrent and Chris White

The textbook definition of a financial derivative is a financial instrument, the value of which is based on the value or values of one or more underlying assets or indexes of assets. Derivatives can be based on equities (stocks), debt (bonds, bills, and notes), currencies, and even indexes of these various things, such as the Dow Jones Industrial Average. Derivatives can be sold and traded either on a regulated exchange, such as the Chicago Board of Trade, or off the exchanges, directly between the different counterparties, which is known as "over-the-counter" (OTC). The textbook explanation of the purpose of derivatives is that they serve to reduce the risk inherent in fluctuations of foreign exchange rates, interest rates, and market prices. Derivatives traded on exchanges also are said to serve as a "price discovery" mechanism.

According to the Bank for International Settlements' October 1992 report, *Recent Developments in International Interbank Relations*, "swaps" are the largest type of derivatives, as measured by the *notional principal amount* outstanding (Table 1).

A generation or so ago, the matter of what derivatives are might have been adequately summarized by contrasting the difference between investment, on the one hand, and gambling or speculation, on the other.

The instruments which "underlie" derivatives—stocks, bonds, commodities, money—represent a claim, usually through ownership, on wealth produced in the economy. Such claims can be purchased. Thus, shares in a company can be bought, as can bonds issued by governments or corporations, or hard commodities produced by agriculture, forest industries, or minerals extractors and refiners.

The instrument so purchased provides a means by which the wealth produced may be turned into money. In the case of stock, this may take the form of the company's dividend payment, the part of after-tax profits distributed to shareholders, or it might take the form of capital gains realized through the appreciation of the stock's value. Formerly, such monetization, or potential for monetization, would have been more or less directly related to the economic performance of the company, in contributing to an increasing overall rate of wealth generation through productivity-enhancing increases in the powers of labor. So too are bonds directly related to

economic activity, though where stocks represent equity ownership, bonds represent indebtedness. The interest paid corresponds, more or less, to the dividend yield of a stock. Moreover, like stocks, bonds can provide capital appreciation.

A generation ago, such financial instruments were the means for transforming economic surplus into monetized net profit. "Hard" commodities are different, because they are part of the materials-flow needed to sustain production and consumption, which ought to be bought and sold so that production might proceed—outputs of production on the one side, are also the inputs for the next level of productive transformation on the other: Wheat becomes flour, flour becomes bread; iron ore becomes steel, steel becomes machinery, buildings, automobiles, and household appliances. Such activities used to contribute to generation of surplus, but their monetization is not part of after-tax profits.

Purchases of stocks and bonds would once have been seen as investment for the long haul. Trade in commodities would have been seen not as investment, but as purchases and sales.

With what are now called derivatives, we move from investment, and purchases and sales of hard commodities, to speculating on the future price or yield performance of what were once investments, and relatively simple, economically necessary transactions.

All derivatives are actually variations on futures trading, and, much as some insist to the contrary, all futures trading is inherently speculation or gambling. Thus until late in 1989, all futures trading, of any sort, was outlawed in Germany, under the country's gambling laws. Such activities were not treated as a legitimate part of business activity. And, who will contend against the observation, that Germany did quite well without them?

There are two types of futures trading; each can be applied to each of the instruments, like stocks and bonds, which, bought directly for cash, monetize what used to be after-tax profits. The first type is, as it were, a second step removed from economic activity as such. This is futures trading per se: contracting to buy or sell at a future date, at a previously negotiated price. Here the presumption used to hold, that commodities, for example, would actually change hands for money, as the agreed-on contracts fell due.

The other kind of futures contract, called an option, moves another step further away from economic activity as such. Now what is bought or sold is the right, but not the obligation, to buy or sell a commodity, stock, bond, or money, at a future price on an agreed-on date.

Where the futures contract speculates on what the price that would have to be paid against delivery will be, the option simply speculates on the price.

At yet another remove from economic activity per se is an index. An index is not the right to buy a commodity or stock in the future which is traded, but the future movement

Hierarchy of financial transactions

Currencies		Bonds		Stocks		Commodities		
CASH								Distance from real physical economy increases ↓
Interest rate	Exchange rate	Interest	Principal	Dividends	Price appreciation or depreciation	Price appreciation or depreciation		
FUTURES								
OPTIONS								
OPTIONS INDEXES								
FUTURES OPTIONS								
FUTURES OPTIONS INDEXES								
SWAPS								

As one proceeds downward in the chart, transactions have increasingly less bearing on processes in the real physical economy.

of an index based on a basket of stocks, commodities, bonds, or whatever.

Futures contracts

In the U.S., futures contracts on corn, oats, and wheat began to be traded on an organized exchange, the Chicago Board of Trade (CBOT), in 1859. "Notional principal amount" refers to the value of the underlying assets in a futures contract. For example, in a corn futures contract to take future delivery of 5,000 bushels three months hence, the notional principal amount of the contract would be the price of a bushel of corn times 5,000. If the price of corn were, for example, \$2.00, the notional principal value of the corn futures contract would be \$10,000. But the actual price of the contract, however, is the *margin* set by the exchange; the CBOT, for example, requires \$270 be paid to purchase a futures contract that on May 15 had a notional value of \$11,637.50.

Since financial deregulation in the 1970s, futures contracts have been developed for things that are not assets or

TABLE 1

Derivatives markets exploded in late 1980s

(notional principal amount outstanding at year end, billions \$)

Instrument	1986	1987	1988	1989	1990	1991
Exchange-traded instruments	\$ 583	\$ 725	\$1,300	\$1,762	\$2,284	\$3,518
Interest rate futures	370	488	895	1,201	1,454	2,159
Interest rate options	146	122	279	387	600	1,072
Currency futures	10	14	12	16	16	18
Currency options	39	60	48	50	56	59
Stock market index futures	15	18	28	42	70	77
Options on stock market indexes	3	23	38	66	88	132
Over-the-counter instruments	500	867	1,330	2,402	3,451	4,080
Interest rate swaps	400	683	1,010	1,503	2,312	2,750
Currency and cross-currency interest rate swaps	100	184	320	449	578	807
Other derivative instruments	—	—	—	450	561	577
Total derivatives outstanding	1,083	1,592	2,630	4,264	5,735	7,598

Source: Bank for International Settlements, *Recent Developments in International Interbank Relations*, Basle, Switzerland, October 1992.

commodities. The first move was the introduction of futures contracts on foreign exchange rates. In May 1972, the International Monetary Market of the Chicago Mercantile Exchange (CME) began trading in the first financial futures: futures contracts on the British pound, Canadian dollar, German mark, Dutch guilder, Japanese yen, Mexican peso, and Swiss franc.

In October 1975, the CBOT introduced trading in the first futures on interest rates, on the Government National Mortgage Association's (GNMA) mortgage-backed certificates. In January 1976, the CME began futures trading in 90-day U.S. Treasury Bills. Trading in futures contracts on 15-year U.S. Treasury Bonds began on the CBOT in August 1977. Trading in such interest rate futures, as they are called, quickly grew to become the most heavily traded futures contracts in the world. On the CBOT, trading in Treasury bond futures and options has risen from 28.3% of total volume in 1981, to 64.4% of total volume in 1991.

In February 1982, futures contracts for *indexes* of asset values began trading, with the introduction of futures contracts based on the Value Line Average Stock Index, on the Kansas City Board of Trade. Two months later, the CME began trading in the Standard and Poor's 500 Stock Price Index, which is now one of the most heavily traded futures contracts at the CME. Trading in this contract is considered so important, that the CME set up a special room in a different building to allow continued trading in the S&P 500, when the CME was forced out of its building by the flooding waters of the Chicago River in May 1992, closing trading in all other futures contracts. Not coincidentally, the S&P 500 Stock Price Index futures contracts is one of the instruments the U.S. Federal Reserve has reportedly used since October 1987 to reverse collapses on the New York Stock Exchange.

Other derivatives

There are other types of derivatives which are not traded on exchanges but are negotiated between contracting parties, usually large banks. These are called "over-the-counter" instruments. "Swaps" are designed to transform a nominally long or medium-term contract into a succession of shorter-term maturities.

For example, swapping a floating rate Swiss franc-denominated obligation for a fixed-rate dollar instrument between banks, involves the Euromarket, the currency markets, the swap market, and perhaps also the interest rate futures and/or options markets. The intrepid might want to try to calculate how far we now have moved from the first level of cash purchases of stocks and bonds.

An *interest rate swap* is a transaction in which two counterparties agree to exchange two different types of interest payment streams based on an underlying notional principal amount. For example, assume that a bank with a portfolio full of adjustable rate mortgages (ARMs) wished to receive an income stream of fixed-rate interest payments. The bank would package together, say, \$10 million of such mortgages, all paying interest currently at 6.5%, and exchange the ownership of the interest payment stream from that package of ARMs with a corporation that would give the bank in return the ownership of an interest payment stream fixed at, say, 8%. The notional principal amount of the swap would be \$10 million, but the actual amount of money that exchanges hands would be limited to the interest payments each counterparty owed to the other over the life of the swap.

Swapping of interest rates is said to have begun in connection with the Eurobond market in the early 1980s, when high interest rates dictated that only the highest quality borrowers could qualify for long-term, fixed-rate financing.

Borrowers of lesser quality, who were excluded from such financing, were able to obtain it indirectly through swaps.

However it was not until the U.S. Student Loan Marketing Association (Sallie Mae), began using swaps in 1982, that they began to be widespread. Sallie Mae was seeking a way to avoid having to borrow longer-term, higher-priced funds, to lend out for shorter terms at lower rates. The swaps used by borrowers in the Eurobond markets proved to be the perfect vehicle for Sallie Mae, which, as a quasi-government agency, is perceived by the markets to be an extremely high-grade borrower. The first swap for Sallie Mae was arranged through an investment bank in the summer of 1982, with ITT as a counterparty. ITT reportedly saved 17 basis points (17/100 of 1%) in borrowing costs in the deal.

Currency swaps

Currency swaps have been used by central banks for decades. The Bank of England, for example, would receive a set amount of dollars from the U.S. Federal Reserve in exchange for a set amount of pounds, in order to have dollars to use on the foreign exchange markets. After a period of time, the Bank of England would return the dollars to the U.S. Federal Reserve, and receive back its pounds. The accepted definition of a currency swap is a transaction in which one counterparty exchanges its principal and cash flows denominated in one currency, for the differently denominated principal and cash flows of another counterparty. At an agreed upon future date, the two counterparties close out the transaction by reversing the swap of the principal.

In the 1970s, a small number of currency swaps were arranged that were not related to central bank activity. A U.S. dollar/French franc swap, for example, was arranged for the Republic of Venezuela to help meet payment obligations arising from the construction of a commuter rail system in Caracas. The details of these swaps were largely kept from the public view, for fear of disclosing proprietary operating information.

After the debt bomb exploded when Mexico threatened a debt moratorium in 1981, however, the World Bank widely publicized a swap arranged by Salomon Brothers between itself and IBM. The motivations of the World Bank and IBM to conclude the transaction made the swap exceptional at the time. The World Bank was seeking to maximize the rate of interest on its debt, and IBM was seeking to hedge its Swiss franc and German mark debt, while at the same time capturing a paper profit from the appreciation of the dollar against both currencies. As Michael Wood, senior manager of International Financial Markets at Dresdner Bank in Frankfurt, noted in the 1992 textbook *Cross Currency Swaps*, by Lehig University professor Carl Beidleman, it was "the first time that a currency swap was used to arbitrage between capital markets, that is, where a capital market issue was done solely for the purpose of swapping into another currency."

And then there are caps, floors, and collars, options on

the anticipated interest rate movements which make up the swap:

Caps, in which the buyer will receive from the seller the difference between current interest rates, and some agreed-upon rate, in the event interest rates should move above the agreed upon rate. In return for thus limiting its exposure to interest rate increases, the buyer pays to the seller a onetime fee.

Floors, in which the buyer is protecting himself from decreases in interest rates. That is, if interest rates fall below an agreed-upon level, the seller is obligated to make up the difference to the buyer, in exchange for the up-front fee paid by the buyer.

Collars, in which the buyer of a cap simultaneously sells a floor at the same time, or vice versa, with the object of maintaining interest rates within some defined band.

Currency forwards are perhaps the simplest derivative instruments, and perhaps the one with the greatest utility for companies involved in producing and shipping goods in foreign trade, given the insanity of floating exchange rates. Assume that Boeing has sold an airliner to Lufthansa. Rather than go through the trouble of converting the deutschemarks paid by Lufthansa into dollars—and being subjected to the risk of changing exchange rates if Lufthansa is paying Boeing back over a period of time—Boeing pays a fee to an intermediary (a swap dealer) to find a German company that has sold something in the United States that is of comparable value to the Boeing airliner purchased by Lufthansa. Let us assume that Siemens has sold some power-generating equipment to a U.S. utility. Under a currency forward, the utility that had bought equipment from Siemens, will pay dollars to Boeing instead of Siemens, and Lufthansa will pay deutschemarks to Siemens instead of Boeing. In other words, Boeing gets Siemens's U.S. income stream in the United States, in exchange for which Siemens gets Boeing's deutschemark income stream in Germany.

Thus, the definition of a currency forward is a contract in which two counterparties agree to exchange differently denominated income streams at an agreed upon exchange rate at some point in the future. There is no swapping of principal involved.

Within the United States, the entire "over-the-counter market" is quite illegal, since by the current version of the Commodity Exchange Act, banks and related agencies are prohibited from engaging in off-exchange futures contracts. Thanks to Sen. Phil Gramm's wife Wendy, former head of the Commodity Futures Trading Commission, regulatory agencies have successively undermined that exclusion through so-called interpretation and exemption, just as the earlier prohibition of options was undermined, or just as the 1930s Glass-Steagall Act, which divided U.S. banks into two, mutually exclusive types—commercial banks and investment banks—is now being disregarded, even though it remains on the books.

How financial derivatives became the world's fastest-growing market

by Anthony K. Wikrent, Richard Freeman, and John Hoefle

According to the October 1992 report of the Bank for International Settlements, *Recent Developments in International Interbank Relations*, "since the mid-1980s, the growth of turnover and of volumes outstanding in markets for derivatives instruments, including over-the-counter (OTC) markets that offer more customized products, has outpaced the growth of most other financial activity." As seen in **Figure 1**, by 1988, the "notional principal amount" (referring to the value of underlying assets) of derivatives outstanding had exceeded the total market capitalization of the New York Stock Exchange. By 1989, the notional value of derivatives outstanding was almost one-third larger than the total market value of all publicly listed companies in the United States. By the end of 1991, the notional value of derivatives was soaring toward being double the market capitalization of all U.S. publicly listed companies.

In other words, if the phenomenal growth rate derivatives exhibited from 1986 to 1991 has continued in the past two years, *the amount of derivative paper outstanding—none of which is carried on corporate balance sheets—is now somewhere around twice the total market value of all publicly listed companies in the United States.*

That financial derivatives have grown to such an extent is all the more amazing, considering that these instruments simply did not exist 25 years ago. The largest single type of derivatives, interest rate swaps, did not get off the ground until the summer of 1982. Futures on currencies did not come into use until May 1972. Interest rate futures first came into being in October 1975.

Oddly enough, there are no official figures available for the *dollar volume* of futures trading in the United States. Not even the Commodities Futures Trading Commission, the federal government agency charged with regulating the futures markets, has figures for the dollar volume of futures trading. Neither do the Chicago Board of Trade or the Chicago Mercantile Exchange, the two largest futures exchanges. The only figures available are for the number of contracts traded (**Figure 2**).

By multiplying the number of contracts traded of a certain basic type—agricultural commodities, precious metals, energy products, currencies, and financial products—by an average price for each basic type, *EIR* has estimated that the U.S. futures markets have an annual turnover of around \$25

trillion. This is a major revision from *EIR*'s original estimate of \$152 trillion, published in December 1992. Still, it demonstrates that the futures markets dwarf the New York Stock Exchange, which had a market capitalization of \$3.713 trillion, and total value of shares traded of \$1.520 trillion in 1991.

The futures markets are also some five times larger than the U.S. Gross National Product, which was \$5.519 trillion in 1991.

These gigantic markets are highly concentrated, with a mere handful of firms completely dominant. A report by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp., and Office of the Comptroller of the Currency, *Derivative Product Activities of Commercial Banks*, issued on Jan. 27, 1993, revealed that the ten largest commercial banks in the U.S. control 95.2% of all derivatives activities by U.S. commercial banks (**Figure 3**).

The same situation probably exists on the investment bank side. In a listing of the 40 largest institutions in the futures markets, ranked by customer equity (the futures markets define equity as the residual dollar value of a futures account, assuming it were liquidated at prevailing market prices), in the March 1993 issue of *Futures* magazine, the five largest were investment banks: 1) Merrill Lynch Futures, Inc. (\$2,176.9 million); 2) Goldman Sachs and Co. (\$1,581.3 million); 3) Shearson Lehman Brothers, Inc. (\$1,527.7 million); 4) Dean Witter Reynolds, Inc. (\$1,120.1 million); and 5) Prudential Securities, Inc. (\$1,106.1 million).

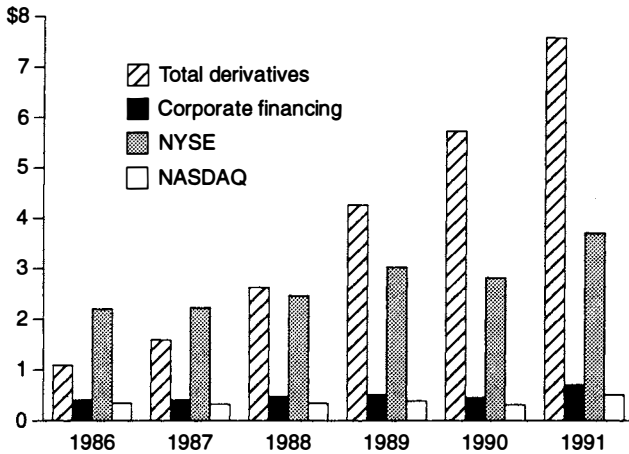
These were followed by 6) Refco, Inc. (\$1,071.3 million); 7) Morgan Stanley and Co. (\$844.7 million); 8) Cargill Investors Service, Inc. (\$804.5 million); 9) Daiwa Securities America, Inc. (\$588.5 million); 10) PaineWebber Inc. (\$576.2 million); 11) Bear Stearns Securities Corp. (\$539.4 million); and 12) Salomon Brothers, Inc. (\$488.6 million).

Of these firms, the three with the largest net adjusted capital (the amount of liquid capital established by Commodities Futures Trading Commission capital requirements) were Salomon Brothers (\$999.6 million), Goldman Sachs (\$963.6 million), and Shearson Lehman (\$859.4 million).

EIR's revision of its estimate of the size of the futures markets means that the largest market in the world remains the foreign exchange, or currency, markets. In March, the Bank

FIGURE 1

Derivatives compared to U.S. corporate financing and stock market capitalizations
(trillions \$)



Sources: Bank for International Settlements; Securities Industries Association.

for International Settlements (BIS) issued a new report, *Central Bank Survey of Foreign Exchange Market Activity in April 1992*, which states that foreign exchange trading increased 42% from 1989 to 1992, to an estimated \$880 billion per business day. This figure includes derivatives trading in currencies (i.e., futures contracts on currencies, swaps, and options), but also excludes offsetting positions. The actual total gross turnover reported by the 26 central banks which conducted the surveys, was \$1.354 trillion a day.

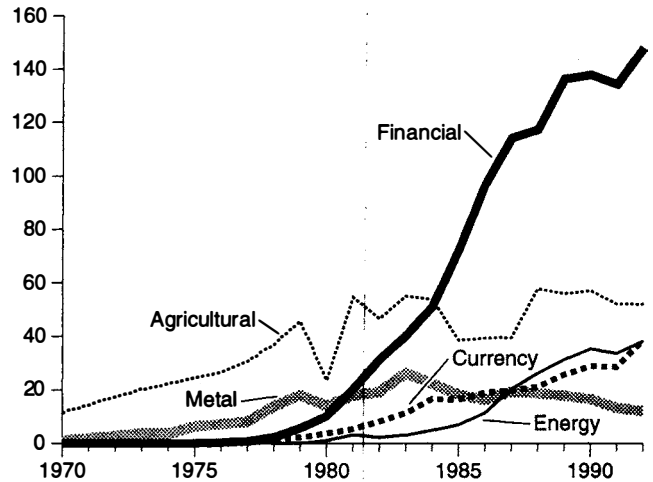
According to the BIS report, London now trades more dollars and deutschmarks than the United States or Germany does. London has increased its share of world trading, from 25% or \$187 billion in 1989, to over 40% or \$300 billion in 1992. Trading in London is also increasingly concentrated, with the 10 most active banks in the City of London accounting for 43% of trading in 1991, compared to 36% in 1986, according to a report issued last year by the Bank of England. That means 10 London banks accounted for 18% of all world currency trading in April 1992 (Figure 4).

The second largest currency market was the United States, reporting a daily volume of \$129 billion in 1989, and \$192 billion in 1993. Japan was the third largest, with daily volume in April 1989 of \$115 billion, and \$126 billion in 1993.

The fifth and sixth largest markets were two key members of the British Commonwealth: Singapore and Hong Kong, with \$76 billion and \$61 billion in daily trading in April 1992, respectively. If the figures for Britain, Singapore, and Hong Kong are added together, it will be seen that the British Empire controlled almost exactly half of the \$880 billion in

FIGURE 2

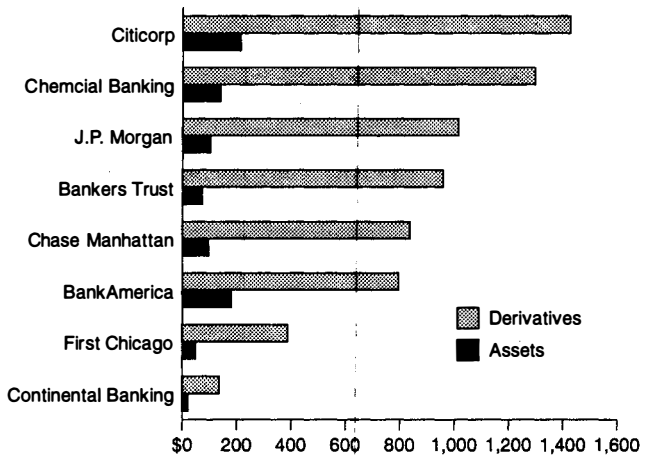
Number of futures contracts traded
(millions of contracts)



Sources: Commodities Futures Trading Commission; Futures Industries Association.

FIGURE 3

Derivatives activities compared to balance sheet assets at big U.S. banks
(billions \$)



Source: Salomon Brothers.

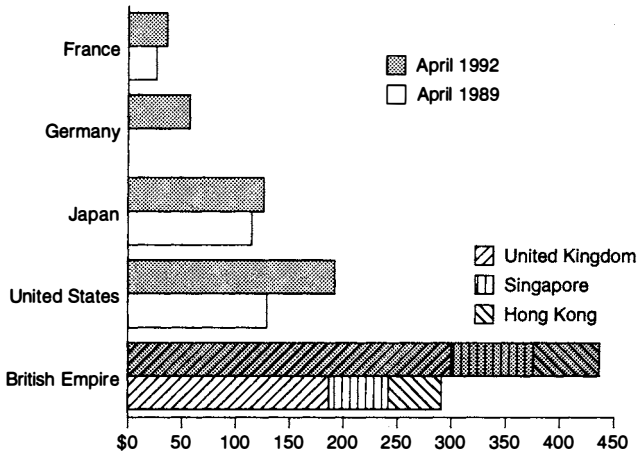
foreign exchange trading that took place every day in April 1992.

In December 1992, for the occasion of the meeting of the finance and bank ministers of the Group of Seven, the BIS issued a new estimate of daily world currency trading, of \$1 trillion a day.

FIGURE 4

The City of London dominates world currency trading

(daily currency market trading in billions \$)



Source: Bank for International Settlements.

Two case studies

Derivatives and agricultural commodity trading

How much does the trading activity on the futures markets contribute to "making the economy more efficient?" Just how many grain futures contracts—covering corn, wheat, oats, soybeans, barley, and sorghum—that are traded on the futures markets, are real, representing the movement of agricultural produce, and how many are purely speculative trades?

Most American farmers will tell you that the agricultural futures markets, whether for grain, livestock products, oil-seed products, orange juice, coffee, or sugar, are the farmers' worst opponents, forcing the price of grain products down below production cost. Only 5-15% of farmers even bother to use the futures market to sell their products.

Normally, in theory, the agricultural futures market would work in the following way. A wheat farmer, at planting time in the spring, might see that the price of wheat is but \$2.25 per bushel. He might buy a September or December wheat futures contract (a "put") that will pay him \$2.75 for his wheat at the month at which the contract expires. This way the farmer has guaranteed himself a minimum price for his wheat when it comes time to sell.

However, most farmers know that the theory does not work out that way in practice. The eighth largest futures trading firm in America, for futures trading of all kinds, is

Cargill Investor Services, Inc., run by the Cargill grain cartel. The 34th largest futures trading firm is ADM Investor Services, Inc., of Archer Daniels Midland. They directly manipulate prices against the farmer.

Consulting the statistics provided by the Commodity Futures Trading Commission, which regulates the futures and options industry, in 1992, there were 17,552,356 grain futures contracts traded. Of that total, only 64,200 were settled by delivery/cash settlement, meaning that the actual grain produce of the contract was taken for physical delivery. That is but 0.36% of all contracts traded.

However, at the level of the farmer selling his grain to an elevator, for each sale of real grain—called a hedge—there has to be an offsetting speculative trade to make the market. So, on that first level, there are 128,400 legitimate trades. Then, the local elevator usually sells the grain to the sub-terminal or terminal, such as in Omaha, Nebraska or Kansas City, Missouri, and sale by the local elevator operator must be offset by a speculative sale. Plus, the sub-terminal or terminal might have to sell the grain one more time. So, there are three times 128,400 contracts which can be considered legitimate. That is 2.2% of all trades; so 97.8% of all trades are purely speculative, having no connection to the real process involving the farmer and his produce. They involve speculators, often linked to the grain cartels, moving paper back and forth, attempting to capture spreads, or drive down the grain price for farmers.

The Bank of New England blowout

The January 1991, failure of the Bank of New England (BNE), which had until its collapse been one of the 10 largest bank holding companies in the United States, provides a good example of the way federal regulators have propped up the banking system, and of the risks faced by banks which play in the world derivatives markets.

The collapse of the speculative real estate market, which virtually wiped out the Texas banking system in the late 1980s, spread to New England by the end of the decade, bringing to a close the speculative bubble known as the "Massachusetts miracle." Boston-based BNE, which had lent heavily in the regional real estate market, suddenly found itself with overwhelming losses on its real estate portfolio. The bank, which had grown rapidly thanks to the real estate bubble, was dying with the collapse of that bubble.

In October 1989, BNE, which then had \$31.4 billion in assets, announced plans to dramatically downsize the bank through massive asset sales and employee cutbacks. The plans included selling some 10% of its branches, closing loan production offices in Chicago, New York, and Philadelphia, and reducing its work force by more than 20%.

In late December 1989, BNE took the extraordinary step of rescinding a previously announced 34¢ quarterly stockholder dividend. The step was forced by federal regulators, who were already making preparations for the inevitable fail-

ure of the insolvent bank. Federal regulators also threw out the chairman of the bank, and replaced him with an interim chairman, H. Ridgely Bullock.

In early February 1990, in an attempt to calm public fears and prevent depositor runs, Bullock declared that the bank was "off the critical list and getting better. . . . We're in a fix-it mode. We're not going to be as big, but we're going to be better."

BNE was not "off the critical list," however; the only thing keeping its doors open was a massive covert bailout from the Federal Reserve. By the time Bullock made his statement, the bank had already received nearly \$1 billion from the Fed.

Beginning in mid-January, the Fed had begun pumping vast amounts of money into BNE via loans from the Boston Federal Reserve. Federal Reserve statistics show that the Boston Fed lent banks in its region \$478 million the week ended Jan. 24, compared to just \$3 million the week before. While the Fed does not reveal to which banks the money was lent, it is clear that most, if not virtually all, went to prop up BNE.

The weekly bank lending by the Boston Fed rose dramatically in the following weeks: \$440 million the week ended Jan. 31, then \$723 million the next week, then \$930 million, and \$1,280 million the week ended Feb. 21. During each of the next seven weeks, the Fed pumped between \$1.5 billion and \$1.85 billion into the bank; by April 11, the Boston Fed had lent \$15.6 billion to its regional banks, the vast majority going to the Bank of New England.

By March, after some \$5 billion of bailout funds had already been injected into the bank, the Office of the Comptroller of the Currency and the Fed issued formal cease-and-desist orders to the bank. The Fed order stipulated that the bank could not pay stock dividends without permission from the Fed—a requirement that had already been in effect for more than three months!

Even more comical was the bank's admission in its second quarter 1990 report to the Securities and Exchange Commission, that it may need government assistance to survive. This, after some \$18 billion had already been funnelled into the bankrupt bank!

The end for the Bank of New England came on Jan. 4, 1991, when Chairman Lawrence Fish told federal regulators that the \$450 million loss the bank suffered in the fourth quarter of 1990, had wiped out its \$225 million in equity, making the bank officially insolvent. At this point, the bank had just \$23 billion in assets, and had fallen from 10th place on the list of largest U.S. banks, to 33rd place.

Not surprisingly, the announcement triggered massive depositor runs at the banks, with long lines forming at its corporate offices. Two days later, on Sunday, Jan. 6, 1991, federal regulators officially closed the bank. Federal Deposit Insurance Corp. Chairman William Seidman estimated the ultimate cost to the agency of the failures at \$2.3 billion, at

the time the second most costly bank failure in U.S. history, after the 1988 failure of First Republic Bank Corp. of Dallas.

Why did federal regulators pump more than \$18 billion into the Bank of New England, and then close it? If they were going to close it anyway, why did the regulators keep the bank open for a year after it was insolvent?

The answer is: derivatives.

The *Wall Street Journal*, in a June 18, 1991, article by Craig Torres, revealed that regulators had propped the bank up for a year in order to unwind its portfolio of "off-balance sheet" derivatives transactions.

"Everybody knew we had \$30 billion in assets" on the balance sheet, BNE head of treasury operations Arthur Meehan told the *Journal*. "But nobody but a small cadre of regulators and analysts knew we had \$36 billion in off-balance sheet activity."

During November and December 1989, before BNE publicly revealed the size of its fourth-quarter losses, BNE chief currency and derivatives trader David Pettit was able to trim his off-balance sheet exposure by \$6 billion; getting rid of the remaining \$30 billion was not so easy.

The bank, under the close supervision of federal bank regulators, began attempting in January to cash out thousands of derivative transactions. However, as word of its financial troubles spread in financial circles, banks all over the world denied BNE credit, and demanded cash up front. Not surprisingly, this is when the Boston Fed began pumping money into BNE.

Having become a pariah on world financial markets, BNE enlisted the help of Shearson Lehman and Prudential Securities to help it unwind its currency swaps on the Chicago Mercantile Exchange's International Monetary Market. By doing so, Meehan acknowledged, "we moved the risk out of the interbank system into the exchanges;" but had we not, he said, regulators would have been forced to take over BNE's trading positions.

By the end of 1990, BNE had reduced its derivatives portfolio to \$6.7 billion. A week later, the bank was closed.

The collapse of the BNE nearly sent the global banking system into "gridlock," the *Journal* warned, adding, "It all sounds far-fetched. But that's just what nearly happened, federal regulators say, in the months before they seized the Bank of New England."

If BNE, with its \$36 billion in derivatives, nearly sent the global banking system into gridlock, imagine what would happen were Citicorp, with its \$1.4 trillion in derivatives, to fail.

"For certain banks there is a lot of exposure" in the derivatives market, a senior examiner at the Office of the Comptroller of the Currency told reporter Torres. "If we had a real problem with one of the larger banks, a meltdown scenario would be a possibility."

That meltdown scenario is not just a possibility. It is, in fact, well under way.

LaRouche's proposed derivatives tax would solve budget crisis

by Richard Freeman

On March 9, Lyndon LaRouche intervened in the economic crisis to propose a plan that is as exquisitely simple and direct, as it is potentially effective in its execution: a sales or transaction tax on the turnover of "financial derivative" securities or financial instruments. Each time such a security or instrument is traded, he said, it should be taxed at 0.1% of its face value, or, as it is called in the derivatives trade, its notional principal amount.

No more than that simple "least action" step is needed.

The tax will raise between \$60 and \$80 billion in federal tax revenues in its first year of application. That is a very handsome sum for the U.S. government.

Although bankers will catalogue why the explosion in financial derivatives since 1986-87 is absolutely essential—"they hedge risk," "they make the markets more efficient" and so forth—their rationalization is *post hoc* nonsense. A financial derivative is a speculative, highly leveraged instrument, capturing interest rate or currency-related spreads. Rates of return on financial derivatives can vary from 10-15%, up to 2,000%, and even higher.

Taken as a whole, the financial derivatives market, orchestrated by financiers, operates with the vortical properties of a powerful hurricane. It is so huge and packs such a large momentum, that it sucks up the overwhelming majority of the capital and cash that enters or already exists in the economy. It makes a mockery of the idea that a nation exercises sovereign control over its credit policy. What good is a U.S. government policy to inject a few billion or even hundreds of billions of dollars of credit into the economy for jobs or other programs, when the financial derivatives market can overwhelm and counteract the effects? One hundred billion dollars is but one one-thousandth the size of the financial derivatives market. It is the financial derivatives market that organizes the overall geometry of, and thus significantly determines, how the U.S. credit system functions.

In his weekly "EIR Talks with Lyndon LaRouche" radio program on April 28, LaRouche told interviewer Melvin Klenetsky:

"This is *sucking the lifeblood*, in the same way that Michael Milken and his raiders were doing, who were stealing from people's pensions and so forth with junk bonds and these acquisitions. It's sucking the lifeblood out of industries, out of pensions, out of households—out of everything—out of

our businesses, out of our farms. These people are thieves."

This vast market in the tens of trillions of dollars is international in scope, although 65% of financial derivatives trading occurs in the United States. But lawfully this international market must melt down. It will follow the path of every bubble in history since the tax-farming pyramiding schemes of the treasury of ancient Babylon and Imperial Rome up through A.D. 300, to the notorious John Law financial bubble in the eighteenth century. The violent effects of an explosion of the derivatives market bubble will far overshadow, the collapse of the leveraged buy-out bubble combined with the October 1987 stock market crash, liquidating one-third the value of the market within weeks, and the \$350 billion expended since 1987 for the bailout of the commercial banks and savings and loan institutions.

Hence, LaRouche proposed that America re-assert sovereign control over its power of credit issuance through the transactions tax. The tax will also introduce transparency: Since each transaction to be taxed will be registered, the tax will act to identify the major players controlling the market. Such tax proposals have been made at earlier periods in the nation's history (see box, p. 36). The financiers fiercely resisted them, and usually prevailed. But this time, the stakes are immensely greater than ever before in history.

How the tax works

To understand how the tax will raise \$60 to \$80 billion in revenue, and how it will bring the derivatives market under control, let us examine the different kinds of derivatives markets that the tax will encounter, and how the tax will apply in each case. These instances simultaneously provide a useful bird's eye view of the incredible levels of deadly leverage at work. We will conclude by showing how the revenue from the tax is calculated.

Currently, the derivatives markets, and other financial markets, *pay zero percent sales tax on trades*. Most states apply a general sales tax of between 4.5 and 9.0¢ on the dollar; that is, a tax is assessed equal in value to between 4.5 and 9% of the value of the purchase (transaction) made at the store. Under the LaRouche tax proposal, each trade of a financial derivatives market instrument will be assessed a "sales" tax equaling just 0.1% of the value of the purchase, far less than the rate citizens pay every day. It is absurd and

dangerous to continuously raise the tax on Social Security and to apply an energy BTU tax, which will devastate every sector of the economy, while the transactions—as opposed to the realization of profit—of the financial derivatives market, which are harmful to the economy, go untaxed.

With a sense of poetic justice, the LaRouche tax will provide *reverse leverage*. As will be shown, the higher the leverage operating in a particular market, the more the LaRouche tax will bite. The less-leveraged markets, such as the stock-equity and the bond markets, which in normal times are helpful to an economy in supplying equity capital or debt for new capital formation and expansion, will be least affected. The tax will help return these markets to their true function.

Applications of the tax

As a simple example of the transaction tax, consider the case of an application of the tax to a stock. Take the random case of the oil giant, Amoco, which at the close of trading May 14 was worth \$55.50 per share. A 0.1% transaction tax would add 5.6¢ to the cost of a share—less than half the value that Amoco stock moves every day in a quiet market. Let us take the case where someone is buying the Amoco stock through a broker. The brokerage commission would be 4 to 8¢ per share traded. The tax adds a small, but real impediment: It roughly doubles the per share cost of purchase to what the brokerage commission fee alone would cost. While the cost is not very large, representing 0.1%, it is important. It makes the purchaser less financially able to rapidly turn over trades in the stock, and makes him hold the stock a longer term for the dividend yield, rather than trading short term for its rapidly changing price.

Next, attention is turned to application of the tax to the futures market. The futures market has exploded, largely through the introduction of trading in financial instruments. All through the 1950s and 1960s, up until 1970, the volume of yearly trading of futures rarely exceeded 10 million contracts. By 1992, however, annual trading volume climbed to 289 million, 29 times the annual level of 1970. The futures market, valued at roughly \$25 to \$30 trillion, comprises the largest share of the dollar value of the entire U.S. derivatives market.

How the tax will function is illustrated by examining its practical application to two of the most powerfully destabilizing and leveraged of all futures contracts.

U.S. Treasury Bond future

Traded on the Chicago Board of Trade (CBOT), the U.S. Treasury Bond future is the single most widely traded futures contract instrument in the world. In 1992, a whopping 71,099,955 contracts in this future were traded. That figure represents one-quarter of all contracts of all types traded on the CBOT, which is the world's largest exchange. The notional principal value of the underlying bond of the U.S. Treasury Bond contract is \$100,000. It is usually a bond of 15 years or longer maturity. The speculator buying this

The John Law bubble gone mad

From LaRouche's March 9, 1993 proposal for a tax on derivatives:

The derivative bubble, by the very nature of these transactions, is a financial bubble in the tradition of the more primitive, more rudimentary, and far less dangerous bubbles of the eighteenth century such as the John Law bubble in France and the South Sea Island bubble in England in the same period of time. This is the John Law bubble gone mad. The vulnerability to the entire financial system, the chaos and destruction of actual physical processes of production, distribution, employment, and so forth is incalculable in potential, and therefore this thing must be brought under control promptly. . . .

The down side that would be argued from certain sources, apart from the wild free market monetarist maniacs, will be that the number of transactions related to any single initiating trade, can be enormous, can be over 100 individual transactions. Fine! Tax them all! "That's a big amount of paper," they will say. Fine! Tax them all! The burden of doing the paperwork will itself prevent you characters from ballooning this market in that way.

contract does not pay \$100,000, but only a fraction of that, which is called the "initial margin requirement." Margin requirements vary from contract to contract, but for this one, the initial margin required is \$2,025. The leverage in this contract is the notional principal amount, or \$100,000, divided by the margin bond requirement of \$2,025. Thus the leverage is a spectacular 49 to 1.

Assume, for a moment, that the bond underlying this contract is a 15-year bond bearing an initial yield of 8%. Assume further that, during the first hour of trading, the interest rate on 15-year Treasury bonds fell marginally to 7.995%. As bond yields are inverse to prices, that would push up the price of the bond to \$100,050. The speculator holding a U.S. Treasury Bond contract has made a \$50 profit (to realize it, he must either take physical delivery of the bond, or sell the contract to someone). That \$50 represents a rate of profit on the investor's original margin investment of \$2,205, of 2.47%.

The reader may think that \$50 is a very small return. Not at all.

First, speculators in these markets play with very large

volumes. A speculator may buy 100 contract units of U.S. Treasury bond futures on the CBOT, meaning that the profit realized in one hour of trading (less commissions, etc.) is $\$50 \times 100$, or $\$5,000$.

Second, the actual rate of return placed on a daily or yearly level is huge. For example, were the speculator to continue to realize this 2.47% hourly rate of profit for a week, his rate of return would be above 85%. Who will invest in steel plants, which return about 5% per year, when spectacular rates of return can be made in the derivatives market in a week's worth of trading?

Now, if LaRouche's 0.1% transaction tax is levied to the $\$100,000$ notional principal amount of the U.S. Treasury Bond contract that has been purchased, the tax would yield $\$100$, and could be collected by the exchange. But, in this example, the tax is a necessary, unbridgeable hurdle: The speculator will pay more in tax ($\$100$) than his profit ($\50). The LaRouche tax makes the deal unprofitable. Just to break even to cover the cost of the transaction tax, the speculator would have to make $\$100$ profit, which represents a rate of profit of 5% on this particular transaction. To go over breakeven, the speculator would have to make $\$150$ or so, representing a 7.5% rate of profit on his investment. The chance that a Treasury bond will move up $\$150$ in an hour is slim, although hardly impossible, especially in a manipulated

market. But markets can turn very suddenly, as speculators very well know. In markets, in which the time it takes to transact a trade is measured in fractions of a second, a speculator can be severely burned if he is constrained to wait in the market long enough for it to realize a full 5-7.5% rate of return. If it doesn't in that time frame, the market jolts the other way, he is doomed. The threshold level for real or net profitability, introduced by the 0.1% transaction tax, will, like a surgical tool, slash trading in this market instrument by at least one-fifth to one-quarter of its volume, puncturing this market, and beginning to dry it out: precisely as the tax is intended.

The stock index future

The other example is the Major Market Index (MMI), which is also traded on the Chicago Board of Trade. The MMI is an average of a basket of 20 leading stocks, such as AT&T, Du Pont, or Mobil, and is the favorite of the program traders. By using the MMI in the Chicago futures market, they can send the Dow Jones Industrial Average gyrating up and down. The MMI was one the chief culprits behind the October 1987 stock market crash. The notional principal of the underlying MMI contract is calculated by a formula, which is 500 times the MMI index's closing price. On May 13, the MMI index closed at $\$356.40$, so the notional princi-

The history of the fight against derivatives

The fight to institute Lyndon LaRouche's proposal for a one-tenth of 1% tax on financial derivatives comes after intense warfare over this issue by many nations that were fighting to preserve their national sovereignty. In the United States, trading in options on agricultural commodities had been banned in 1936, and the ban was not officially lifted until 1983.

Farmers had opposed the highly destructive effect of options, one of the earliest forms of the derivative market, starting in the 1920s, long before they became as large as they are today; even then, farmers still exercised significant influence within the United States. In 1933, an attempt was made to manipulate the wheat futures market using options, which resulted in an opportunity for farmers to force the U.S. government to ban trading in these options. There were attempts to re-introduce trading in agricultural options during the 1970s, but the plan met with only limited success.

It was only in January 1983, when President Ronald Reagan signed the 1982 Futures Trading Act, that the ban was officially lifted. This was a major feature in the

disastrous Reagan-era deregulation of the U.S. economy.

Contrary to the "free enterprise" argument that options markets are essential to agriculture, because they make the market more efficient, American agriculture has demonstrated its ability to function and thrive without options trading for the three and a half decades since the ban in 1936 through 1983.

Moreover, America had, for a short time, a small financial transaction tax, and the fight to impose a larger financial transaction tax was very intense in the late 1980s.

Throughout the 1950s and early 1960s, the United States had a low-rate transaction tax—called a stamp tax—on the issuance and transfer of stocks and debt. The tax was repealed in 1965.

Rumblings from Congress

However, in the late 1980s, the fight broke out more intensely for a transaction tax of a greater size. In 1987, Speaker of the House Jim Wright of Texas called for a transaction tax on the financial markets. Wright's proposal called for a 0.5% tax on both the seller and the buyer in the same transaction, thus, effectively, amounting 1%. For six months, there was a heated public debate over Wright's proposal. Wright was soon driven from office in what is generally agreed to be an overblown scandal. The

pal amount of the MMI futures contract was \$178,200. The initial margin requirement that a speculator must commit to buy an MMI futures contract is only \$5,400. The leverage built into this contract is 32 times.

Assume that the MMI index trades upward for the day by 25¢, which, multiplied by 500, per the formula, makes a profit on the contract of \$125. However, the 0.1% transactions tax for the single trade in the Major Market Index will yield \$172. Thus, once again, the tax level is higher than the anticipated profit. A trader in the MMI contract would have to make more than 3.2% on his margin investment to go over breakeven. Again, the trading volume of the market in this destructive contract will shrink.

A sizeable revenue

This is how the tax acts to exert reverse leverage. The higher the leverage of the transaction, as in the case of the U.S. Treasury Bond futures contract, the more bite the derivative tax takes, thereby shrinking the markets. In the case of stocks traded on the New York Stock Exchange, the effect is important, but less remarkable. The tax is applied in similar fashion to every section of financial derivatives markets, such as currency and interest-rate swaps held by the banks in the United States.

If one adds up the value of the annual transactions in all

the diverse segments of the financial derivatives market—the many and varied derivatives in currencies, stocks, bonds, interest-rate futures, commodities, etc.—the sum of the notional principal value traded is between \$80 and \$100 trillion. A precise figure does not exist, in part because the different trading exchange and government regulatory bodies have not compiled figures for the different segments of the market—and do not want to—because it would expose how large the markets have become. It can be assumed that the tax will reduce trading volume and, in parallel, a roughly corresponding dollar volume, in all the financial and financial derivative markets by at least one-fifth to one-quarter. This reduction will occur within a matter of weeks of the application of the tax, so that the derivatives market against which the LaRouche tax can be applied will be reduced to a low of \$60 trillion or a high of \$80 trillion. A tax on this range of 0.1% range will yield \$60-\$80 billion in annual revenue. After the first year, because the tax is, in part, a “sin” tax, the tax revenue will be smaller. However, as every congressman and senator caught in the budget debate will admit, such a tax produces a very, very large revenue figure.

Most importantly, the tax harms nothing essential in the physical economy, while lancing a growing malignancy. It constitutes a crucial step toward restoring America’s sovereignty.

Oct. 16-19, 1987 stock market crash confirmed Wright’s warnings of the instability of the financial markets.

Also in the 1989-90 period, during discussion of the 1990 Budget Reconciliation Act, Sen. Lloyd Bentsen, then chairman of the Senate Finance Committee and now secretary of the treasury, raised a proposal for a transaction tax on selected financial instruments on the floor of the Senate.

In February 1990, partly in response to the furor over this issue, the Congressional Budget Office, in its report “Reducing the Deficit: Spending and Revenue Options,” had a section on pages 388-89, entitled “Impose a 0.5% Tax on the Transfer of Securities.” Its analysis of the tax reported that “the tax would have to be broad-based, applying to stocks, debt, options and trades by Americans on foreign exchanges.”

What other nations have done

Various nations have taken action to tax and/or ban some of the instruments traded in the financial derivatives market, in an attempt to assert sovereign control over their national credit and finances.

- In 1986, the government of Sweden doubled its equity transaction tax, which is the tax on trade of stocks on the Swedish stock market. In 1989, Sweden extended

the tax to futures and options trades. The effect of this new tax was to substantially reduce the trading of futures on Sweden’s Stockholm market. Furthermore, the tax closed the Swedish Option and Future Exchange (SOFE) for two years. But in 1990, apparently under pressure from financiers, Sweden abolished the derivative tax, and trading in the derivatives market exploded, helping to deepen Sweden’s financial problems.

- Until as late as 1989, the German government held firm and refused to legalize the trading of some financial derivatives within the country. As a result of pressure from the trading of German government bond futures in the London markets, amendments to Germany’s gambling law in 1989 made changes and permitted retail participation in derivative markets, followed by the opening of Germany’s first financial exchange, Deutsche Terminbörse in 1990.

- At present, derivative taxes are assessed in Finland, France, Hong Kong, and Japan. These countries assess a transaction tax on various securities at rates 3-6 times larger than the LaRouche-proposed tax. In France, the fee is only used to finance the annual budget for CMT, the French regulatory body for the futures and options markets. Once the CMT’s budget requirement is met, the fee is no longer levied.—*Richard Freeman*

Time is running out for Clinton to act on Bosnia

by William Jones

As the Bosnian Serbs voted overwhelmingly on May 15 to reject the Vance-Owen peace plan, the resolve of the Clinton administration to lift the arms embargo against Bosnia and move with air power to knock out Serb artillery positions, seems to be faltering. The visit of Secretary of State Warren Christopher to Europe to “confer” with the allies on the Clinton policy has apparently thrown a monkey wrench into the proposed military action. The strident objections of the Anglo-French “Entente Cordiale” have undoubtedly dashed any hopes that President Clinton may have had about convincing the allies about the effectiveness—and morality—of his policy.

Anglo-French-Russian maneuvers

As Christopher returned to Washington, it was clear that the Anglo-French objections, with perhaps some important backing from the Russians, had created some hesitation in the administration about quickly following through on its plans for military action. Military action was put on hold for the sake of once again following the “diplomatic track,” which has been so successfully used to stall any real action up until now. At a photo session in Washington with Thai Foreign Minister Prasong Sunsi on May 17, Christopher said that “our allies have particular ideas of their own that they want to pursue at the present time,” although “all the options are on the table,” including the option of military action.

At the same time, Russian Foreign Minister Andrei Kozyrev began a tour of western capitals in a new effort to weave a “coordinated policy” on Bosnia. Kozyrev’s attempt to call a U.N. Security Council meeting on May 21 with four of the permanent members, Russia, France, Britain, and the United States, fell apart, however, as U.S. officials responded that Christopher wouldn’t come. Kozyrev and the Entente Cordiale still seem prepared to try to pump life into the corpse

of the Vance-Owen plan, which would carve Bosnia up into ethnic cantons.

After the Bosnian Serbs voted against the plan in a referendum, their chieftain Radovan Karadzic, undoubtedly heartened by the failure of the United States to carry through on its threat of military action, happily announced that “the plan is dead.” Karadzic now insists that the only viable solution is to create three separate states out of Bosnia-Herzegovina. Calling his conquered territory the “Republic of Srpska,” Karadzic thumbs his nose at the impotent West. “We are going our own way,” he said defiantly, “We have our own destiny.” When asked what the borders of this new state were, Karadzic responded, “They are what they are today, held by Serb nationals.”

Kozyrev met with Christopher on May 21 at the U.S. State Department, to discuss a “common plan.” Christopher will then meet with his British and French counterparts in further attempts to find “common ground.”

The forces of the Entente Cordiale are trying to browbeat the Clinton administration into sending U.S. troops into Bosnia as peacekeepers, something the Clinton government, rightly fearful of U.S. involvement in a ground war that would become a quagmire, has refused to do. The U.N. peacekeepers have simply served as a stumbling block in the way of any substantive military assistance for the defenders of Bosnia-Herzegovina, and the British and French are continually carping about the safety of their own peacekeepers, as an excuse to deter any moves to lift the arms embargo against Bosnia. Keenly aware of this, the Bosnian government asked that the U.N. withdraw its peace-keeping forces, the Unprofor. In Croatia and Bosnia, the Unprofor has simply provided the Serbian occupation with legitimacy, often even collaborating with the occupying Serb forces.

The vacillation on the part of the administration has led



Djenana Campara (center) and Zeljko Milicevic (right) are interviewed by Webster Tarpley in Washington for "The LaRouche Connection" cable TV show. The two Bosnian leaders, one of Muslim descent and the other of Croatian, gave the lie to Henry Kissinger's assertion that Bosnia is a political fiction, and called on the Clinton administration to give Bosnia the means to defend itself.

the opponents of the Clinton policy to go for the jugular. Henry Kissinger, who has brokered more than one crisis into the abyss of continual warfare, raised his ugly head in a commentary in the *Washington Post* on May 16, giving credence to the lie that "endemic ethnic rivalries" among Croats, Muslims, and Serbs are responsible for the war, and ridiculing the nation of Bosnia-Herzegovina as a political fiction not worth defending.

Refuting Kissinger's lie

Kissinger's lie—the primary argument which is allowing the tiny multi-ethnic nation to be swallowed up in a Greater Serbia—was thoroughly exposed in the visit to Washington of a multi-ethnic Bosnian delegation, working with the Bosnia-Herzegovina Information Center in Ottawa, Canada. The visit was organized by the Schiller Institute. One member of the two-person delegation, Mrs. Djenana Campara, is a Bosnian of Muslim background and the first cousin of Hakija Turajlic, the late deputy prime minister of Bosnia, who was assassinated in January by Serbian Chetnik gunmen while under United Nations protection. The other member of the delegation, Zjelko Milicevic, is a Bosnian of Croatian descent.

In a series of meetings and interviews May 17-21, they explained to congressmen, administration officials, and others the real nature of the multi-ethnic Bosnian state. "Ethnic rivalries are not endemic to Bosnia-Herzegovina, but have been created in Belgrade," Mrs. Campara explained (see accompanying interview).

The two explained to officials—some sympathetic, some skeptical—how the ultimate result of the Vance-Owen plan or any such "cantonization" of Bosnia-Herzegovina would simply be the introduction of an apartheid system in the heart of Europe. They countered the arguments against lifting the arms embargo and air strikes by showing how the failure to move militarily would inevitably lead to more, not less,

bloodshed, whereas the opposite course could provide a speedy conclusion to the conflict.

"The success of the Serbian aggression has fueled Croatian ambitions," warned Milicevic. Mate Boban, the Bosnian Croatian leader waging war in Bosnia-Herzegovina against the Muslims, "may think he will become leader of a new kingdom carved out of Bosnia with the help of the Serbs, but he himself will become a victim of 'ethnic cleansing.' Because when the Serbs have 'cleansed' the Muslims, they will then begin to 'cleanse' the Croats. They want the Croatian coast for their Greater Serbia."

The delegation also explained the weakness of the Serb position, and emphasized the readiness of Bosnian troops to fight, provided they receive the necessary arms. "Every Bosnian male has undergone military training in the old Yugoslavian Army," Milicevic explained. "We don't need and don't want U.S. ground troops in Bosnia. We have the capability, but we must have the weapons. Then we can defend ourselves. Air strikes would be needed only to eliminate the Serb superiority in artillery."

This is also what President Clinton has said. But unless it happens soon, it will be too late. Mrs. Campara warned of rumors of a mooted "Orthodox pact" among the Serbs, the Russians, and the Greeks, a pact aimed at Albania, Kosova, and ultimately Turkey. If such a pact is formed, combining Serb ethnic policy with Russian nuclear capabilities and Greek knowledge of NATO strategy, President Clinton would face a crisis far beyond one simply demanding surgical air strikes. In order to preempt a more acute crisis of this nature, the U.S. must act quickly—with or without allied or U.N. consensus. Kissinger-style "geopolitics" has always led to a quagmire. Decisive action by the United States, showing that it can and will take leadership in a morally just cause, by lifting the arms embargo and by air strikes, could in fact prevent such a quagmire from developing.

The United States must grant Bosnia the right to defend itself

The following is an excerpt from an interview conducted by Webster Tarpley for "The LaRouche Connection" cable television program on May 18. Djenana Campara and Zeljko Milicevic, both natives of Sarajevo, represent the Bosnia-Herzegovina Information Center of Ottawa, Canada, and were in the United States to speak with U.S. government officials about what the United States must do to end the war in their nation.

Mrs. Campara is a Bosnian of Muslim background, an electrical engineer who worked for Energoinvest in Sarajevo, one of the largest European electrical equipment suppliers. She is the first cousin of Hakija Turajlic, the late deputy prime minister of Bosnia, who was assassinated in January of this year by Serbian Chetnik gunmen while riding under alleged United Nations protection in a French armored personnel carrier.

Mr. Milicevic is a Bosnian of Croatian descent, who worked as an export manager near Ljubljana in Slovenia. From 1983 through 1986 he was a director of industrial development for the Canadian national capital in Ottawa.

Q: Please tell our listeners what the U.S. government ought to do and could do to save your country and also to put a stop to a spreading war that might engulf many nations, including this one.

Campara: First, the United States has the power to stop, as we say, World War III. One of the things that they *should* do, and they shouldn't *hesitate* to do it, is to equip our ground troops in Bosnia. Give us the right to defend ourselves and equipment to do so. The second thing is air strikes, so that while they are equipping themselves, they have air cover for that.

We don't require U.S. ground troops. We don't require anybody to die for us. We have our Bosnian ground troops.

Q: The question that comes up about the arms embargo is training. Do you have the makings of an army to defend Bosnia?

Milicevic: Absolutely. The people have been trained as a matter of principle since 1945. Military conscripts have to spend about 18 months in service and to update that experience about a month every year after that. So they are highly trained and on modern equipment. They know how to use it.

They know what they need. They have a shopping list. They're ready to use it. The equipment exists. The United States can either sell it from here and get paid by other countries or other countries can ship it directly to Bosnia-Herzegovina.

Q: This would be weaponry for self-defense?

Milicevic: Exactly. According to the United Nations Charter.

Q: What kinds of air strikes would be needed?

Milicevic: If you're going to arm the people, you need to have strikes to make room to send in the arms. The first air strikes should be forward defenses, so to speak. At the same time, the second wave should go in to knock out the strategically located, fixed batteries, which are easily identifiable.

Q: Figures in the Pentagon say that the Serbian forces are guerrilla fighters running around in mountainous and highly wooded areas and almost impossible to find. Does that make any sense?

Milicevic: We cannot talk about guerrilla fighters. This is by no means an organized army. The only advantage they have is the heavy equipment. They have no command, control, and communications intelligence in the field. *These are bands of mass-murderers.* The air strikes alone could end this whole thing in three days, because these people cannot fight a well-equipped, sophisticated, forceful armed force.

Q: You have Serbian artillery placed around Sarajevo. If those were bombed, the siege would collapse.

Campara: We shouldn't forget that these Serbo-Chetnik gangs actually recruited Serbian civilians and put them on the front line. I was in Croatia two months ago when I met several Bosnian soldiers there. They said, "It was amazing. We threw out grenades and we just saw that so many people were killed. When all was done and finished, we went there and we saw 10 people chained to each other. They'd been *chained* to fight at the position—Serbian civilians."

Q: So the first victims of this campaign have actually been the Serbian civilians?

Milicevic: What these bandits are doing is dragging the whole nation of Serbia into the basement of European civilization.

Q: Can you comment on the terrorist potential of the Serbian government and military leaders?

Campara: Don't forget that Mr. Milosevic is the son of suicidal parents. Both parents committed suicide. Mr. Karadzic is a very sick man, mentally ill.

But there is one further point we would like to stress: terrorism in the rest of the world, which is going to be done by Serbian people.

The Canadian government did not break diplomatic relations with Serbia, even after Serbia was expelled from the U.N. and was charged with genocide by the International Court of Justice in the Hague. They still have an embassy in Belgrade. And they announced measures in July 1992, to welcome refugees from ex-Yugoslavia to come to Canada. We have learned that zero Muslims and zero Croats have entered, and a few thousand Serbians. The Canadian Embassy is in Belgrade, issuing landed immigrant papers. None of the Muslims, none of the Croats can go to Belgrade to ask for landed immigrant visas. They would be killed on the border right away.

Q: Then these immigrants can come across the U.S. border any time without a visa. Have you seen cases of actual documented war criminals who have tried to make that connection?

Campara: These people are escaping justice. What is going to happen is that the Serbian people now here can be organized as a terrorist group. They've already committed crimes. Two weeks ago we were warned that Nikola Kojlovic asked for an entry visa to Canada. He was the second person on the list of the Bosnia-Herzegovina government charged with genocide, the same list submitted to the United Nations. We reacted and [the Canadian Ministry of] External Affairs refused to give him an entry visa.

Q: It sounds like Nazi war criminals fleeing to Latin America at the end of the Second World War, except this time there's a pipeline being developed during the course of the Balkan war that's now spreading. Does this have something to do with the policy of Prime Minister Brian Mulroney?

Campara: If we may say so, Mrs. Mulroney. Her background is Serbian, and her father was expelled from Yugoslavia because of his political orientation.

Milicevic: He was a member of the Royal Chetnik units during the Second World War.

The official Canadian policy, as I was quoted directly by the senior adviser to the minister of external affairs, was, "Canada shall never wage war against Serbia."

As to the British and French, it was they who created the

first Yugoslavia in 1918 with the Treaty of Versailles. They re-created it at Yalta in 1945. And it is the British and French, and especially the British now—you have Lord Owen, Lord Carrington, drawing and re-drawing the maps that the electoral majority of Bosnia-Herzegovina legally sealed last year in the referendum.

Q: The election in which you both voted. It created a perfectly legitimate democratic government.

The Vance-Owen plan is a dead duck, but if it lives on, it calls for American ground forces to go to Bosnia-Herzegovina as the *enforcers* of a partition plan . . . the auxiliary for the Serbian aggressors,

Milicevic: The only ones who have the moral and legal authority to draw or redraw the map of Bosnia-Herzegovina are the people themselves. This Vance-Owen plan map is a recreation of Yugoslavia. It will go on to bleed toward the Adriatic. It creates "safe havens" for people who will be stuck among the enemy so they can hate one another for another hundred years. It only seals in the ethnic hatred which is now being created, but which had not existed.

The plan for a Greater Serbia calls for the coastline of Croatia up to and including Zagreb. We are talking about 1,000 miles of coastline, just facing Italy across the sea.

Q: People in the United States are very confused about what life was like in your country in the pre-war period. Henry Kissinger talks about the "centuries-old ethnic hatred."

Campara: That's ridiculous. We've lived together for many, many decades, centuries. My best friends are Serbs, Croats. I didn't even know who they were. I can't tell by names. I didn't recognize Muslim names.

There are 30% mixed marriages in Bosnia-Herzegovina. Most families include at least two of the groups.

Milicevic: And a child.

Campara: My family is completely mixed. We have Serbs, Croats, Jews, and originally we were Muslims. How can we talk about hatred here?

Milicevic: Let me give another example about this nonsense about ethnic hatred. In my family I have a marriage between a Jew and a Muslim.

Q: So you're talking about a model of an integrated, peacefully coexisting, multi-ethnic society that would have a lot to teach the United States about tolerance, civilization, and culture.

Campara: And now they want to divide us by ethnic lines. They want to make three ethnically clean zones. My marriage is mixed. My husband is a Serb. Unfortunately, I'm divorced. What is my child? Where should I go when I go to Bosnia. Do I go to the Serbian side, with my daughter? Do I go to the Muslim side? Where do I go, and what do I say to my daughter? Who is she? If the Bosnian nation is destroyed, she will be nobody.

Ditchleyite demands defeat of Serbia

by Mark Burdman

Sir Reginald Hibbert is a dissident voice, from within the higher echelons of the British establishment, on western policy toward Bosnia. A former director of the Ditchley Foundation and former British ambassador to France who had served with the Special Operations Executive in the Balkans during the Second World War, Hibbert strongly disagrees with the Anglo-French Entente Cordiale policy of appeasing the Serbs. He backs decisive military action to inflict a military defeat on the Serbs, whom he holds responsible for having begun the current war already back in 1981, by their massive repression against the Albanians in Kosova. Hibbert blames the British, French, and other European governments for undermining President Clinton's stated policy of ending the arms embargo to the Bosnians and unnecessarily creating a rift in the European-American relationship.

Speaking to *EIR* on May 17, Hibbert stated: "Things are now taking the predictable, logical path they must take because of the failure to have done what should have been done. Until we do, there is no solution in the Balkans. At some stage, the Serbs, who express an ideological expansionist nationalism, comparable in a small way to Hitler's Germany, have got to suffer military defeat. This is simply a technical problem: what means do we need to do it? All this talk of needing 50,000, or 70,000, or 100,000 men is patently absurd!"

Sound policy for success

Hibbert insisted that any sound policy must begin with arming Serbia's neighbors, including not only the Bosnians and Croats, but also the Albanians and perhaps the Hungarians. "This, obviously must be carefully monitored and dosed. But it is a straightforward political problem: How do we check the Serbs? To do that, we have to use the military. In the whole of history, there has never been a force checked by outside military intervention, without engaging the front lines. The only question worth asking, is what are the most economic means of inflicting military defeat on the Serbian forces? The first most obvious means toward this end, is to let the neighbors of Serbia defend themselves."

Hibbert summarized his view: "I'm not pleading for massive intervention, because it's not necessary. We need to take a cool look, to find the most economical and effective way of imposing a military reverse on Serbia. Then we ask, Where, how, and who? But the first thing, is letting the adversaries defend themselves. I never knew a war to be fought, in all

of history, other than on the front lines. If that fails, we can bring in other means, like air strikes or other moves."

Hibbert stated that official British and French policy "is based on a very false intelligence appreciation of the situation, an appreciation that is fundamentally wrong, that has been reached in London as well as in Paris, perhaps for different reasons in the respective cases. Our people have approached the problem as if it were a localized civil war, and that's *precisely* what it is *not!* It is a branch of a general *Balkans* war, as anybody who knows the Balkans would immediately be aware. To stop it, requires containing the Serbs." He noted that that "false intelligence appreciation" was shaped by various "wishes and prejudices" toward the Balkans area.

Within Britain, Hibbert blamed "excessive sympathy for the Serbs," which goes back decades, because of diplomatic and other ties. This pro-Serbian mood has been nurtured, in recent years, by a vocal and influential pro-Serb lobby in Britain, including such figures as Lady Nora Beloff and historian Michael Lees.

Hibbert expressed disagreement with the notion of "sanctuarization" enunciated by French Foreign Minister Alain Juppé, whereby various Bosnian towns would be declared U.N. "protected zones." Said Hibbert: "This is based on assuming [that] this is a localized conflict. In fact, the whole recent history of this present war started in Kosova in 1981, when the Serbs imposed a very unpleasant reality on the Albanians there. There will be no peace in former Yugoslavia until this is settled."

In this respect, Hibbert's analysis is correct: The war did begin in 1981, when the Serbs began a campaign of political intimidation, murder, and mass arrests against the Kosova Albanians. From then on, it was clear to other ethnic groups that their turn would come next.

Why have the Europeans made such a fuss?

Hibbert expressed astonishment at the way the Europeans have decided to confront the United States over the Bosnia issue, doing everything possible to box in a new American President. "Why have the European powers made such a terrific fuss about what is, ultimately, a secondary issue in the world as a whole, compared to other more fundamental problems? Serbia, after all, is a small country, that must be checked. I would have thought the western powers would have found a way, even if not ideal, to stop Serbia. There are many ways, after all, of killing a cat, as we say here. It is astounding that a relatively minor issue has become such a source of dispute." He said that European posturing had "damaged NATO, the European Community, the United Nations, and the balance in the world," and had "played into Russia's hands," giving the Russians a favorable diplomatic position in the region. The Russians would never have been in a position to counter decisive western military intervention into Bosnia, he said.

Serbian warfare seeks 'murder of cities'

The underlying cultural-historical factor in the war in former Yugoslavia is the battle between "city lovers and city haters," with the Serbs playing the role of modern-day "Huns" committed to "the ritual murder of the city," writes former Belgrade Mayor Bogdan Bogdanovic, in an article that appeared in English translation in the May 27 *New York Review of Books*. Bogdanovic was the mayor of Belgrade from 1982 to 1986. He is described by many of Serbia's most bitter opponents as "one of the few truly honorable and courageous Serbian centers of resistance" against the Milosevic-Karadzic clique.

He writes that he "cannot comprehend why military strategy should make the destruction of cities a main—if not *the* main goal," in the fighting in former Yugoslavia. He says that "the civilized world . . . will never forget the way we destroyed our cities. We—we Serbs—shall be remembered as despoilers of cities, latter-day Huns. The horror felt by the West is understandable; for centuries, it has linked the concepts 'city' and 'civilization,' associating them even on an etymological level. It therefore has no choice but to view the destruction of cities as flagrant, wanton opposition to the highest values of civilization."

Bogdanovic goes on: "What makes the situation even more monstrous is that the cities involved are beautiful, magnificent cities: Osijek, Vukovar, Zadar, with Mostar and Sarajevo waiting their turn. The strike on Dubrovnik—I shudder to say it, but say it I must—was intentionally aimed at an object of extraordinary, even symbolic beauty. It was the attack of a madman who throws acid in a beautiful woman's face and promises her a beautiful face in return. That it was not the work of a savage's unconscious ravings, however, is clear from the current plan to rebuild Baroque Vukovar in a nonexistent Serbo-Byzantine style, an architectural fraud if there ever was one and a sign of highly questionable motives.

"Were our theologians a bit more imaginative, I might interpret their vision of a Serbo-Byzantine Vukovar to be the parable of a heavenly city coming to earth as a temporary, tangible sign of the heavenly Serbia to come. But if we take a more prosaic look at the idea of forcing the willfully destroyed Vukovar to change its face, we see it as no more than a wild military fantasy, like the [Nazis'] one of razing Warsaw's Old Town and erecting a new Teutonic Warsaw from the ashes."

Manichean battle

"For years," the former Belgrade mayor continues, "I had been developing the thesis that one of the moving forces behind the rise and fall of civilizations is the eternal Manichaeon—yes, Manichaeon—battle between city lovers and city haters, a battle waged in every nation, every culture, every individual. It had become an obsession with me. My students enjoyed hearing me go on about it, but also smiled at one another as if to say, 'He's at it again.' Then came the moment when I realized to my horror that 'it' was our day-to-day reality.

"Together with ritual murder as such I see the ritual murder of the city. And I see the murderers of the city in the flesh. How well they illustrate the tales I told in the lecture hall, tales of the good shepherd and the evil city, of Sodom and Gomorrah, of the walls of Jericho tumbling down and the wiles of Epeios and his Trojan Horse, of the Koran's curse: that all cities of this world shall be destroyed and their wayward inhabitants transformed into monkeys. Today's grand masters of destruction take pleasure in expounding their motives; they take pride in them. After all, from time immemorial cities have been razed in the name of the purest of convictions, the highest, strictest moral, religious, class, and racial criteria.

"City despisers and city destroyers haunt more than our books; they haunt our lives. From what depths of a misguided national spirit do they rise and where are they headed? On what muddled principles do they base their views? By what images are they obsessed and in what morbid books do they find them? Clearly in books that have nothing to do with history. For the savage has trouble grasping that anything could have existed before him; his idea of cause and effect is primitive, monolithic, especially when it takes shape during coffee-house confabulations.

"The phenomenon I am trying to describe may in the end defy description. I therefore ask my readers to accept these thoughts as a bleak attempt to combine cognition and intuition and get at the roots of the savage's ancient, archetypal fear of the city. But while in ancient times that fear was a 'holy fear' and therefore subject to regulation and restraint, today it represents the unbridled demands of the basest mentality. What I sense deep in the city destroyers' panic-ridden souls is a malicious animus against everything urban, everything urbane, that is, against a complex semantic cluster that includes spirituality, morality, language, taste, and style. From the 14th century onward the word 'urbanity' in most European languages has stood for dignity, sophistication, the unity of thought and word, word and feeling, feeling and action. People who cannot meet its demands find it easier to do away with it altogether.

"The fates of Vukovar, Mostar, and Sarajevo's Bas-carsi-ja—the old Turkish center of the town—bode ill for the future of Belgrade. . . . Cities fall not only physically, as a result of outside pressure; they fall spiritually, from within. . . ."

Brazilian military slams 'new world order' imperialism

by Valerie Rush

Commander-in-Chief of the Brazilian Air Force Lt. Brig. Ivan Moacyr da Frota, reflected the nationalist sentiments of a broad section of that country's Armed Forces when he issued a manifesto on May 12 accusing the world's superpowers of using demilitarization stratagems, separatist movements, and technological apartheid to condemn developing-sector nations like Brazil to the "humiliating status" of permanent underdevelopment.

His 11-page manifesto was published in both the March and April issues of the Air Force Ministry's magazine *Revista Aeronautica*, and in full in the leading daily *O Estado de São Paulo*. It was also the subject of innumerable editorial commentaries in newspapers across Brazil and, significantly, in Argentina, whose Armed Forces are also facing the threat of dismemberment.

Brigadier da Frota blames the major industrialized nations for embracing this "new world order" imperialist strategy, and identifies the existence of "international interests" which are manipulating these developed nations for their own insidious purposes.

Although he does not mention it, the architects of the new world order are also intent on dismembering developed nations. For example, a recent book by George Kennan, a top Anglo-American mouthpiece, names Brazil, among others, as a country which is too big and (racially) diverse to rule as a single nation. Kennan *also* urges that the United States, which he characterizes as another ungovernable "monster country," be broken up into separate self-governing units ("New England," "the Old South," etc.). These are the same arguments used by the British-sponsored Confederacy in the last century to try to destroy the unity of the American republic.

'The final bulwark'

Entitled "The Armed Forces: the Final Bulwark," da Frota's manifesto warns of an imperialist plot to replace the old East-West confrontation with one between North and South, where "the main strategic aim" of the "principal" countries is to weaken and ultimately destroy the armed forces of so-called "secondary" countries like his own, which he insists are "the final bulwark" in defending national sovereignty.

This destabilization, says da Frota, is to be accomplished through deployment of internationally manipulated separatist movements, the deliberate strangulation of strategic industries, and repeated political and economic challenges to the role of the military today.

Da Frota specifically charges that the spreading separatist tendencies in southern Brazil are a "highly serious threat" because they are "directed from abroad." The Brazilian press reports that on May 23, separatist activist Irton Marx will declare the creation of the "Pampa Gaucho Republic" in southern Brazil. Marx said that declaring the new republic's existence does not mean immediate secession; that will occur after a plebiscite to be carried out by the assemblies in three southern states.

Although no date has yet been set for any such plebiscite, reports of separatist movements in southern Brazil are provoking strong concern, especially from the Catholic Church in Brazil. Dom Luciano Mendes de Almeida, president of the Catholic Bishops Conference, condemned the propagation of separatist ideas as racist, and said they could cause Brazil to disintegrate. Dom Aloisio Sinesio Bohn, bishop of Santa Cruz del Sul in the southern state of Rio Grande do Sul, warned that "there is a risk of civil war if we don't deal with this." He charged that international interests are behind the separatism, which he too called a reflection of racism.

In another indication of unrest within the Brazilian military, on May 11, the daily *Jornal do Commercio* reported that Navy Reserve Cmdr. Dario Giordano was ordered jailed for 10 days for "insulting the President." In an open letter, Giordano denounced President Itamar Franco for telling the Mexican daily *Excelsior* during a recent visit there that Brazil's vast foreign debt was due to the "excesses" of previous military regimes.

Knowing full well that his decision to "break discipline" would prompt disciplinary measures against himself, Giordano nonetheless wrote: "Your Excellency, you could only have the guts to tell that lie in Mexico. Here, people know perfectly well that it is the corrupt political class that is destroying Brazil." Giordano's letter is being distributed throughout military circles inside Brazil.

Documentation

The following are excerpts from a manifesto by Air Force Commander-in-Chief Lt. Brig. Ivan Moacyr da Frota, published in the Air Force Ministry magazine Aeronautica.

In recent years, the Brazilian Armed Forces has been the victim of constant assaults on its moral capacities, unleashed through a professionally run campaign by specific factions of the national and international news media. The strategic goal is that of systematic demoralization, to significantly weaken or totally destroy the national military institution.

Noteworthy is the fact that these pressures come both from internal entities and from certain interests of the international community, both pursuing the same end but for different purposes.

In the international sphere, the rich countries (Group of Seven) continue to implement their "new world order," a philosophy that divides nations into two groups—principals and secondaries—where the latter are condemned to permanent underdevelopment without any possibility whatsoever of competing on the international market.

This philosophy assigns priority to resumption of the old North-South conflict (in place of the extinct East-West conflict), where the basic strategic aim of the "principal" countries is the weakening of the armed forces of the "secondary" nations for the purpose of making them easier prey for their discriminatory goals. The basic policy of this project is to impose an attitude of subservience on the "secondary" countries, so that they resign themselves to the humiliating status of social, economic, political, and military underdevelopment, meekly resigned to their roles as sources of strategic reserves for the "principal" countries, and of mere consumer markets and furnishers of raw materials and less qualified services.

To facilitate achieving this Machiavellian objective, one of their most important strategic objectives is the destruction of national will and pride, since it is known that the Armed Forces are one of the few groups with the knowledge and strategic vision to identify and denounce, as well as to oppose these maneuvers . . . of the international colonialist power. It is therefore obvious that the ultimate aim is the total destruction of the national military institutions of these countries.

Thus, the media campaign to cut the budgets and question the future of the Armed Forces, as well as to strangle military industries and to stop the technological projects of these countries, among others, has been systematically unleashed.

Regarding the Brazilian military industry, this was completely turned into junk because international pressures, backed by sectors of the national communications media, prevented us from continuing to export simple quantities of that material minimally necessary to keeping that strategic capaci-

ty, so essential to guaranteeing the sovereignty of any country, alive. Meanwhile, the rich countries continue to produce and to perfect their weapons industry, thereby distancing themselves irrevocably from the less developed countries.

Backed by international entities, which manipulate them for their own purposes with casuistic philosophies such as the recently proclaimed right of interference, the "principal" countries arbitrarily continue to intervene with their overwhelming military power against the defenseless governments and populations of the "secondary" countries, whose only fault is to struggle for their irrevocable right to be able to determine the future of their own nations. . . .

Internal separatist movements constitute another highly serious threat that must be faced with determination and constancy. These movements, run from abroad through special projects, use the ambition and indifference of false Brazilians who lend themselves as spokesmen to these treasonous initiatives.

It is important to understand that Brazil finds itself at the top of the target list of the managers of the "new world order," keeping in mind that it is a country which is marvelously well endowed with immense natural resources and one of the only nations with real possibilities of becoming an international economic power in the 21st century. These exceptional conditions have simultaneously awakened both the greed and the concern of the "principal" countries, a fact that today is made more serious because this immense nation is today sick and disorganized, making this a propitious moment for an attack by circling vultures who await the ideal moment for their fatal assault.

On the domestic front, the terrible economic and financial crisis, associated with lack of understanding by the political sectors of the nation, has caused the disenchantment of the "silent majority" of society which, disorganized, allows itself to be led by the egoistic and individualist interests of a well-organized and active minority. It is from this analysis, and within this context, that I stress the urgent need for the Brazilian nation to realize that its Armed Forces are being literally asphyxiated, which could lead to the annihilation of one of the few organized institutions that provide real protection for our beloved fatherland.

To those who question the priorities of the Armed Forces in today's world, or who allege that international political détente . . . does not justify greater military allocations, I offer the indestructible argument that the armed forces practically sustain the sovereignty of any nation, such that it is "the greatest social service that a government can provide its people, keeping it alive and free." . . .

Instead of plebiscites and casuistic movements which only seek to increase even further the power of certain political groups, the people must directly and firmly make themselves heard to urge the men and organizations governing this country to come to reason.

The nation that is not proud of its Armed Forces does not deserve to be free.

Egypt on a short fuse to political blowup as economic crisis worsens

by Muriel Mirak-Weissbach

Egypt, the most populous Arab country and the West's most faithful Arab ally, is about to blow sky high. Unless a radical policy change is effected within Egypt, and from the West, especially the United States, vis-à-vis Egypt, it is only a matter of time before the Mubarak government is overthrown and a radical Islamist wave overwhelms Cairo, thence sweeping across the Maghreb.

The situation in which Egyptian President Hosni Mubarak finds himself is akin to that of Shakespeare's King Lear; on the malicious advice of evil counsellors, he has disowned his only worthy following—the Egyptian people and the Arab nation—and in return is being subjected to a process of progressive stripping of his following. The International Monetary Fund (IMF) and World Bank, like Lear's unworthy, flattering daughters Goneril and Regan, are insatiably dwindling his resources and alienating his following until he stands near naked on the heath. And the storm is just commencing. What else can he do, but blame "the gods" and lash out in impotent fury?

Egypt today is in a state of undeclared, yet virtual civil war. For the past year, Islamic militants from the radical groups el-Gamaat el-Islamiya and Jihad, have staged terrorist attacks against government buildings and personnel, as well as innocent civilians, including tourists, whose foreign currency has become a major source of revenue in the gutted economy. Mubarak's response to the insurgency has been to lay the blame on "outside forces," specifically on Iran and Sudan, accusing them of backing an "Islamist fundamentalist" drive to erect a Khomeini-like regime. This was the gist of comments he made to the press during his late March-early April tour through Europe and the United States, which included his statement that "there are powers outside the country, who want to exploit the negative effects [of economic reforms], to destabilize the country."

He has also backed up his allegations with actions. In mid-March, Egyptian security forces sent back several Sudanese citizens travelling to the country through Libya, and arrested hundreds of others. "These measures have been taken in the wake of information that the military regime in Sudan and Iran are involved, through assisting and training

terrorists, in the implementation of attacks against tourists," an Egyptian security official told the London *Times*. Days earlier, the Egyptian press reported on Mubarak's threats to move militarily against Sudan if Egypt's southern neighbor were to allow Iranian warships port rights at Port of Sudan. "I will not be mild in facing threats to our country," Mubarak was quoted as telling the official newspaper *Al Jomhourijya*. "If Iranian warships enter Port of Sudan, they will be attacked." Then, in late April, Sudanese government officials denounced the existence of a plot hatched in Cairo to mount a coup against the Sudanese government of Lt. Gen. Omar Hassan Al Bashir. Special Egyptian units were to land in Port of Sudan with helicopter support and move on the capital. At the same time, Egypt heated up an age-old border dispute by moving military forces into the oil-rich Halaib region, historically administered and inhabited by Sudanese, but claimed by Cairo. Khartoum responded with a declaration of general mobilization. Further escalating tensions with their southern neighbor, Egyptian military units reportedly began maneuvers as if in preparation for aggression.

Force has not curbed terrorism

Mubarak is indeed facing a crisis unparalleled since the 1981 assassination of his predecessor Anwar Sadat. Irregular warfare attacks do occur almost daily, tourists are targeted, as well as military personnel and police. Last October, a British subject was killed and two others wounded when extremists shot a tourist bus in the Assiut region; in November, five German tourists were shot at in another bus. In 1992, about 116 people are reported to have died in the spiralling violence. March of this year has been the bloodiest month to date, with bombs going off at central cafés, museums, and pyramids—all tourist sites—in Cairo, Aswan, and elsewhere. Tourism has dropped by 50% as a result.

Yet Mubarak's response domestically, to treat violence with violence, has been to no avail. Although security forces have carried out raids over the last months in Alexandria, Cairo, and Upper Egypt, killing or wounding hundreds and throwing thousands of suspected terrorists into jails, where torture is alleged, the insurrectionist forces have not given

signs of weakening. Even the gunning down of 29 suspects in Cairo, and Mubarak's more recent decision to sentence seven to death, has not stopped the uprising.

Thus, Mubarak is caught in an ostensibly inextricable bind: He is damned if he does continue to defend his regime with police-state measures, and damned if he doesn't. As region specialists point out, the "law of revenge" which rules particularly in Upper Egypt, will guarantee that thousands of Egyptians, even those not formally associated now with the Islamist movements, will flock to their cause, even at the risk of death, to join in avenging deaths meted out by the security forces. "Mubarak has responded with blood," said one Arab analyst, "and he will get blood." If he were to opt for military aggression against Sudan, in hopes that this would rally nationalist support for his regime, all hell would break loose, perhaps providing conditions domestically for opposition elements in the Army, the bulwark of the state, to replace him.

Seeking outside help

Mubarak knows this only too well. His response has been to seek outside assistance to keep his fragile regime in place. Thus his trip via Bonn and London, to Washington, where he held the distinction of being the first Arab leader to meet the new President. What he offered in exchange for further financial and political backing from Europe and the United States, was mediation in the Middle East "peace talks," a subject he discussed before leaving Cairo with Syrian President Hafez al-Assad and Palestine Liberation Organization leader Yasser Arafat. Following that trip, Israel allowed repatriation of a group of Palestinians who had been denied that right for 25 years. Although this was played up as a significant "concession" on the part of Israel and enhanced the PLO's standing, it could only fuel further rage among the Islamist Palestinians, as 400 of their leading representatives, deported to southern Lebanon in December, have still not been allowed to move. The peace talks, which reopened April 20, have yielded no significant results.

Mubarak got from the Clinton administration part of what he wanted—continuing foreign aid to the tune of \$2.1 billion a year, which nearly matches the \$3 billion a year Israel officially receives. The Egyptian leader was greeted with massive press coverage and Clinton lent him verbal support against the Islamist opposition, stating that the United States and Egypt were "determined to counter Iranian involvement in terrorism and its active opposition to the Middle East peace process." Mubarak echoed this, saying that he discussed with the new President "ways of strengthening our cooperation in combatting . . . terrorism." According to insiders, this refers to a contract already in existence among the CIA, the Egyptian government, along with Algeria and Tunisia, to train personnel in Israeli counter-terrorism techniques, to combat militant Islamists. (The bill is reportedly footed by the Saudis.)



President Hosni Mubarak: If he wants to save his political neck and his nation, he must declare a debt moratorium.

Apparently not satisfied, Mubarak embarked on a second trip in May, this time to the rich Persian Gulf states, with two demands: that they join Egypt in a Desert Storm-style coalition against Iran, held to be behind the Islamists worldwide, and that they, particularly the Saudis, cease financial flows into the opposition groups. It is known that the Saudi dynasty has supported the Islamists in an attempt to undermine Egypt's role. Similar demands had been raised by the Egyptians and Tunisians at a foreign ministers meeting of the Organization of Islamic Conference (OIC) in Karachi. The tour was, however, inconclusive, as many Gulf powers do not want to alienate Iran.

By the time Mubarak returned to Cairo in mid-May, conditions had worsened, not improved. Although, apparently on the suggestion of the CIA, whose chief James Woolsey visited Cairo, Mubarak had sacked Interior Minister Abdel Alim Moussa and replaced him with Gen. Hassan al-Alfi in a cosmetic move to allay the opposition, the violence has not abated. In fact, the new death sentences were issued following this reshuffle.

If Mubarak seems committed to strapping himself onto a bucking bronco and lurching left and right to stay in the saddle, some strategic policy centers in the West may be rethinking their policy toward his regime, because of the implications not only for Egypt, but for Algeria, Tunisia, and the Islamic world most broadly. As the *International Herald Tribune* editorialized, commenting on Clinton's first

100 days in office, Washington had pledged continued support for Mubarak, seeing him as a bulwark against a geopolitical threat: “an Islamic world united under the banner of Iranian-style fundamentalism in essential struggle with the infidel West. Egypt is key to this Saladin versus the Crusaders project. As the largest and most important Arab state, Egypt’s fall would precipitate the transformation of the Islamic world into a zone of constant conflict with the West.” Thus Clinton’s continued backing.

British bailing out

The same can not be said of British Prime Minister John Major, however. The signs of British rethinking were evident when Mubarak stepped onto the stage in London. Instead of welcoming him as a staunch western Arab ally, the media panned him, and the authorities did not even organize a press conference for him. The *Independent* asked bluntly: “How long will the President survive?” The British, according to the *Independent* on April 3, blamed Mubarak for having failed to open a political dialogue with his Islamist opposition. The government-linked *Telegraph* was more explicit: though torn over its desire for political stability in the oil-rich region, the West was also “concerned” about the lack of “democracy” there. The military coup which had halted the Islamists’ rise to electoral power in Algeria had made that country a “tinderbox” and now Egypt under Mubarak was making the same errors, by refusing to grant the relatively moderate Muslim Brotherhood status as an electoral political party. “Yet it is with such moderate forces,” the *Telegraph* editorialized, “that a democratic future for the Middle East lies. By his intelligent handling of the Brotherhood, King Hussein of Jordan has set an example to his Arab neighbors.”

The gist of ongoing British policy deliberations seems to be that the time has come for the West to examine options for the heretofore unthinkable eventuality that Mubarak may not survive the conflict. The *Independent* was straightforward in suggesting an alliance with the “moderate” Islamists against the radicals: “The Muslim Brotherhood may not be the ideal mechanism for this—but one of its first tasks should it ever acquire power would be the crushing of el-Gamaat.” A piece in the May 15 London *Economist* floated another option. Citing broad popular discontent with Mubarak’s government, including within the advisory board known as the Shura Council, the British magazine forecast that Mubarak may be forced to call in the Army. It comments: “Some Gamaat activists hope that the Army will decide that Mr. Mubarak himself is the source of instability. In this fundamentalist dream, the generals would then depose the President and, lacking public support, would seek to legitimize their coup by making Egypt a theocracy like Iran.” Duly noting that the “Army’s thinking is unknown,” the *Economist* concludes with an ominous observation that the Egyptian President, “alone on top of the pyramid,” has so isolated himself as to have failed to designate a successor. “This

disregard for the succession could turn out to be the most destabilizing factor in Egyptian life. . . . If something should happen to him, there might be no institution prepared to take over. Other than the Army.”

Although such policy option debates—whether to back the “moderate” Islamists, or the Army (as they did in Algeria), or stick with Mubarak’s untenable rule—denote awareness that the current deadlock cannot hold over time, none of the wise strategists in London or elsewhere have given signs of willingness to recognize the underlying dynamic which has created the current dilemma for Mubarak. They are playing with political forces as one would play with chess pieces, without realizing that the game has changed.

The demonization of Islam

There are two fundamental processes fueling the dynamic in the Islamic world. One is the demonization of Islam, inaugurated in Desert Storm and carried to genocidal proportions in the Serbian war of aggression against Bosnia. As former German military intelligence head Gen. Paul Albert Scherer (ret.) warned in a May 11 policy statement: “Were the West to tolerate the destruction of the Bosnian state and the mass slaughter of its citizenry, this is likely to become the trigger of a new wave of Islamic anti-western feeling that goes well beyond anything we have seen so far. It would not be a cheap piece of anti-western propaganda, but it would address the truth of western complicity in the slaughter of an Islamic people on the European continent.”

The other, more fundamental process, is the erosion of the physical economy as a direct result of western-imposed International Monetary Fund conditionalities on countries like Egypt and Algeria. Islamist forces here, as well as in Tunisia, Jordan, and elsewhere, have swelled their ranks over the past two years not only in response to the outrage perpetrated against Iraq in Desert Storm and against Bosnian Muslims, but most importantly because they have become identified as the resistance against economic exploitation by those privileged partners of Hosni Mubarak: London, Washington, and the looting mechanisms of the IMF. The Muslim Brotherhood in Egypt had virtually taken over leadership in the major professional associations, the guilds of doctors, lawyers, and engineers, because of its appeal to economic and social justice. The el-Gamaat el-Islamiya had succeeded in virtually establishing a dual-power situation in Egypt’s cities, by organizing social services to meet the needs of a population abandoned by a corrupt, bureaucratic, and inept state apparatus. It is this economic dimension which is, indeed, the lead player in the Egyptian drama, a player that none of the would-be protagonists, whether in Cairo or in Washington and London, will acknowledge. To grasp the real, underlying dynamic of developments in Egypt (as in Algeria and so forth), to understand why Islamist movements have come to embody the hopes of the disinherited masses, one must face the hard facts.

Who destroyed the Egyptian economy?

Egypt, contrary to the poor image its cities and countryside present today, is a rich country, or had the potential to become one. Over the past 20 years, the International Monetary Fund has wrecked it. In the 1970s, Egypt was self-sufficient in food production, whereas today, it imports 60% of its requirements, one-half of that from the United States. As the Wehrkunde publication *Europäische Sicherheit* in its first quarter 1993 issue remarked in a feature on Egypt, "The food deliveries from the United States make sure that the Egyptian population does not starve." Thanks to IMF intervention, the policies introduced under the Nasser Institute of Land Reform, which had enhanced agricultural production, were reversed, fostering the return of large private landholders. In addition to taking over the role of grain supplier to Egypt, the United States apparently edged the Egyptians out of the cotton market as well. Statistics show that in 1981-82, Egypt exported 899,000 bales of cotton, but in 1989, the figure dropped to 196,000. During the same period, American cotton exports rose from 12,000 bales in 1981-82 to 425,000 bales in 1989-90.

The "reforms," to which Mubarak often refers as "creating difficult adjustments," were standard IMF fare: State subsidies to productive sectors, as well as to crucial social services, were cut; interest rates were jacked up, creating runaway inflation. In May 1990, prices on basic food items, including rice, flour, cooking oil, electricity, and domestic gas and petroleum products rose 10-100%. The inflationary tendency was further fueled by a 10% sales tax. One social reflection of collapsing living standards is the 70% illiteracy rate; another is unemployment, estimated at up to 85% in some cities.

The only sector of the economy which the IMF and World Bank have shown any interest in developing is tourism. World Bank financing has been made available, in fact, for "infrastructure," like luxury hotels, etc. Thus the concern in financial circles about terrorist attacks on tourism. As the Madrid daily *El País* reported, the massive losses in foreign exchange tourist revenues due to the political violence, "will have dramatic repercussions on the economic reform program which the IMF is demanding. Without reforms, says the IMF, the monumental poverty of Egypt is destined to become irreversible."

As a direct result of IMF looting policies, per capita income for Egypt's 59 million citizens has dropped from \$750 to \$600 a year. In 1983, when the figure was \$750, Egypt ranked in 110th place worldwide. Before the Persian Gulf war, Egypt's foreign debt was \$49 billion. Even though \$20 billion was written off, as a payoff for Egypt's role in the "coalition" against Iraq, the country now is carrying \$32.2 billion in foreign debt, with only \$3.8 billion in export earnings, and a whopping \$11.8 billion in imports. The IMF strategy is to fill the gap with revenues from tourism, which accounts for about \$2.6 billion, and was expected to rise to

twice that by 1991-92, had the violence not broken out. Other revenues come from canal fees (about \$2 billion) and remittances from workers employed abroad. The Gulf war, which led to over 1 million Egyptian workers leaving Iraq and other Gulf states, dealt a heavy blow to Egypt's financial accounts.

There can be no doubt, given the facts, that the agency responsible for pulling the string that has unraveled the fabric of Egypt's economy, and society, is the IMF, backed up politically by the same forces in the United States and Europe who are in a bind as to what to do to prevent social instability from jeopardizing continuing payment on their usurious debt.

No choice but a debt moratorium

In this situation, neither a cosmetically "Islamicized" moderate government, nor a military junta per se can solve the problem. The question is not who will rule Egypt, but what policy will be implemented. If it is the IMF whose policies have created the economic dislocation in Egypt, within which Islamists have gained political credibility—precisely because of their resistance to IMF usury and their attempts to create a social net to provide services which the central government can no longer offer—then the IMF must be held to account and the source of the problem eliminated. Mubarak could, if he were of the stuff of a Nasser, challenge the IMF and rid his country of servitude. Like Shakespeare's tragic character Lear, Mubarak actually knows who is responsible for the ills that have beset him. It was the same Hosni Mubarak who shocked the world years back by declaring publicly that the IMF conditionalities had been responsible for the utterly unnecessary deaths of over 500 million people.

To save his political neck and his nation from further IMF devastation, Mubarak would have no other choice but to declare a moratorium on the foreign debt and reorganize the entire Egyptian economy around sovereign national banking structures, in cooperation with other nations of the region. He would have to create credit, not for tourism, but for rebuilding industrial and agricultural productive capacities. Judging from past performance, however, there is virtually no reason to believe that the Egyptian leader will do so. As Arab insiders have reported, when Mubarak was presented with the option of agricultural cooperation with Sudan to turn the two countries into the breadbasket of Africa, his response was, "Who will buy the American wheat?" Indeed, the remark points to the other horn of the dilemma: If Egypt were to shift policy toward defense of national interests, it would require that the United States abandon its commitment to IMF, malthusian policies, and promote economic recovery policies, domestically and worldwide.

Washington would do well to examine the Egyptian crisis more intelligently, with the thought in mind, that as goes Egypt, so goes Algeria, Tunisia, Morocco, and, yes, perhaps even Saudi Arabia.

'The Panama Deception'

As the award-winning film sparks calls for a probe of Bush's invasion, the puppet regime puts nation's defenders on trial.

Barbara Trent, director of "The Panama Deception," winner of this year's Academy Award for best documentary film, said that it is sparking calls to investigate the 1989 invasion ordered by former President George Bush. "There was no need to send 26,000 U.S. soldiers to Panama just to capture Gen. Manuel Antonio Noriega," Trent said at a news conference in Panama City, the May 6 *La Estrella de Panamá* reported. "The true aim of the American government was to destroy the Panamanian Defense Forces" (PDF).

As soon as the fighting ended, the U.S.-installed President, drug banker Guillermo Endara, ordered the dissolution of the PDF, and the media launched a campaign to brainwash Panamanians into believing that they should amend their Constitution to forever bar their own Army and, instead, depend on the U.S. military occupation army. But, in a plebiscite last Dec. 16, over two-thirds of those who voted rejected the military emasculation of Panama.

Undeterred, the regime has now put former President Manuel Solís Palma, Benjamín Colamarco, Enrique Thompson, and Arturo Marquín on trial on charges of "conspiring against the international personality of the state," for their role in the creation of the Dignity Battalions and the Committees for the Defense of the Fatherland and National Dignity (Codepadi).

Solís Palma, who is in exile in Venezuela, is being tried *in absentia*. He said that while he didn't order the establishment of the Battalions or the

Codepadi, he was honored by their creation. "I was totally in agreement that during my administration those instruments for the defense of the nation were created, because I believe that it is the duty of all Panamanians to defend their nation, just as it is the duty of the patriots of any country to defend their nation anytime it is threatened by an invasion by a foreign power."

Colamarco, who commanded the Dignity Battalions and who has been imprisoned since the 1989 invasion, said just before the trial started on May 19 that he was proud of the role played by the civilian militias. "No Panamanian can ever accept that the U.S. has even the most minimal right to interfere in our internal affairs, and much less can justify, regardless of the pretext, the criminal military invasion by the American Army and the massacre" of thousands of people.

An estimated 4,000 Panamanians were killed during the invasion, and more than a score of Americans lost their lives. The invading forces used Panama as a testing ground for a number of sophisticated weapons, including the "Stealth" plane, which was used to bomb a PDF that lacked even the most primitive air defense capability.

"The Panama Deception" may lead to a U.S. congressional investigation on the number killed in the invasion, according to Trent. A report released last year by the House Armed Services Committee claimed that no more than "500-odd" Panamanians were killed. The film tends to support the higher estimates of independent observers, with footage on the exhu-

mation of bodies from at least one mass grave. Regardless, the Pentagon admits that 75% of those killed were civilians. And there are now more drugs and drug money-laundering than ever in Panama, says the U.S. Government Accounting Office.

As Trent said, according to *La Estrella*, "True democracy can never be installed using foreign troops."

For a while, the Endara regime banned the documentary, claiming it "denigrated the image" of Panama. Similarly, the U.S. correspondent of the daily *La Prensa*, touted as a paragon of free speech by the U.S. media, circulated petitions against it. But these efforts ended once the movie won the Oscar. The documentary has become a box-office success in the United States, but it has been shunned by PBS, the U.S. public television network, and by the major commercial networks.

In her speech accepting the Oscar last March, and in her recent visit to Panama, Trent reiterated her harsh criticism of the U.S. media for their complicity with the Bush administration in deceiving the public into supporting the invasion. Panama's Journalist Union gave her an award for her attempt to bring out the truth.

"The Panama Deception" does have its flaws. It makes the absurd claim that Noriega fell because his "protectors," John Poindexter, Oliver North, and William Casey, were weakened by the Iran-Contra scandal, when in fact it was Poindexter who launched the attack against Noriega by feeding dirt to *New York Times* "investigative reporter" Seymour Hersh. Still, it is a good visual account of the invasion, and one of the few sources to note that it wasn't until Noriega moved against their drug money-laundering with "Operation Pisces," that the U.S. got his opponents in Panama to actively push for his overthrow.

Benazir Bhutto's 'principles'

First ousted, and her husband imprisoned, the former premier is now making rotten compromises with her oppressor.

Following the dismissal of the elected government of Pakistani Prime Minister Nawaz Sharif on April 18, it came to light that the all-powerful President, Ghulam Ishaq Khan, needed 11th-hour help from Benazir Bhutto. In August 1990, her government, too, was sent packing by Ishaq Khan, and she was threatened with prison for corruption. Notwithstanding, she held a tête-à-tête with the President hours before the axe fell on Sharif. She assured him that members of the National Assembly belonging to her Pakistan People's Party (PPP) were all ready to resign to lend credibility to the President's prepared charge that the National Assembly, following the mass resignation, is no longer valid.

In return, Bhutto had sought the rehabilitation of her husband, Asif Zardari, in prison under charges including kidnapping and extortion, and the dismissal of the provincial assemblies in order to ensure a free and fair election 90 days later. When the media asked why she had chosen to side with her onetime enemy, she replied that her decision was based on "principles."

After Ghulam Ishaq Khan sacked the Bhutto government on Aug. 6, 1990, she took to relentlessly chanting, "Go, Baba [Old Man], Go" in one public rally after another. In those days, she was not only upset with the President for bringing down her elected government, she had also accused him of rigging the November elections on behalf of Nawaz Sharif and his "instant political party," the IJI.

In the ensuing period, which saw yet another government thrown out 30

months later, a host of charges were filed against her and her husband, of which finally nothing came about. Nonetheless, because of the extreme harassment, she had no hesitation in pinning the blame on the "Baba."

Beginning in 1991 and throughout 1992, the PPP's bastion in Sindh had come under violent attack from its arch-enemy, the Mohajir Qaum Movement (MQM), a political grouping widely acknowledged as the handiwork of Gen. Zia ul-Haq to destroy the PPP in Sindh. Worse, the President appointed Jam Sadiq Ali, a former PPP leader from Sindh who had turned violently anti-PPP, as the caretaker chief minister of Sindh. Jam Sadiq, in close collaboration with the state's security chief (and Ishaq Khan's son-in-law) Irfan Marwat, was let loose on Bhutto and her party. The turmoil unleashed caused the death of hundreds of PPP activists and even the rape of a very close friend of Bhutto's, allegedly committed under the supervision of Marwat to send a message to Bhutto herself. Finally, the Army moved in and saved the PPP from a complete rout.

Surprisingly, Bhutto began to show interest in a dialogue with Prime Minister Nawaz Sharif after the PPP had spearheaded the campaign to oust him in October 1992, which reached a high point with a "long march" to the capital on Nov. 18. Calling for an "honorable dialogue," Bhutto had lent support to the Sharif government proposal in the National Assembly for the repeal of the controversial Eighth Amendment to the 1973 Constitution. The amendment, dating from 1982

under the Zia ul-Haq regime, has been used thrice already to topple governments and dissolve the National Assembly. Bhutto later backed out from the proposed alliance, reportedly because the "Baba" himself had stood in the way of the rapprochement with Nawaz Sharif.

Now, having secured the necessary help from Bhutto, President Ghulam Ishaq Khan, after laundering Asif Zardari back into the honorable position of a junior minister in the caretaker cabinet, has shown no inclination to dissolve the provincial assemblies. In fact, by manipulating the ouster of the Sharif faction in the Punjab Provincial Assembly, Ghulam Ishaq Khan has sent the message that he wants to keep the provincial assemblies intact. Naturally, whenever the next elections are held, these provincial assembly members will return the President's favor by allowing him to rig on behalf of his favorites.

Bhutto has now reassessed her weak hand and has hastened to "renew her contacts" in Washington, which, in 1990, gave Ishaq Khan the nod to oust her and frame her up on all kinds of charges, including sedition. Bhutto is now urging the Clinton administration to talk to the President and help her to get back to power. As a signal, Bhutto, from Washington, has joined the U.S. State Department in praising the Pakistani Army for staying above politics recently and has urged the military to supervise the next elections.

Bhutto's "principles" have taken her far, no doubt. In 30 months, from the point of being incarcerated, she is now jockeying for power. And as far as the PPP goes, what dirty tricks by Zia ul-Haq, Ghulam Ishaq Khan, and others could not accomplish, Bhutto's "principles" are fast achieving. The PPP is becoming an empty shell dependent on the military and Washington.

International Intelligence

U.N. admits 'doing Serbs' job' in Bosnia

A senior United Nations official in Sarajevo admitted to Reuters on May 16, under conditions of anonymity, that "we are doing the Serbs' job for them to a certain extent." He said that by establishing "safe areas" and disarming the Muslims, U.N. forces in Bosnia are "effectively tying down Muslim troops with our peacekeepers and pacifying Muslim pockets instead of Serb soldiers having to do it."

The U.N. source added, "The Serbs are relatively short of infantry so they look for anything which enables them to use their troops more effectively. Safe areas can do that."

Reuters also quoted Col. Jovar Divjak, deputy commander of the Bosnian Army: "The [Serbs'] territorial objectives are clear: They want all of eastern Bosnia and a corridor of land to Serbs in the west. They will accept the Vance-Owen plan, but not the maps that go with it. We expected them to use cease-fires and discussions about safe areas as a camouflage for further aggression. That's what they're doing."

Scottish paper features ADL espionage scandal

The Edinburgh newspaper *Scotland on Sunday* on May 9 ran a story titled "Spy Scandal Rocks U.S. to the Core." The scandal, according to the paper, is "centered on two shadowy figures in San Francisco who sold information to South African intelligence agents and to a politically powerful Jewish group, the ADL [Anti-Defamation League]."

The paper quotes anti-apartheid activist Anne Poirier, a plaintiff in a lawsuit against the ADL: "Irish, Palestinians, Armenians—to what extent is there a security front cooperating at an international level with the South African government, the British government, or whomever?"

The weekly also mentions that the police raid against ADL offices resulted in the sei-

zure of "notes from infiltration of meetings including one at which recently assassinated black South African leader Chris Hani spoke in Los Angeles."

Khasbulatov warns of Russian 'Balkanization'

One of Russian President Boris Yeltsin's chief political rivals, parliamentary chairman Ruslan Khasbulatov, warned on May 15 that Russia is being pushed into a "Balkanization" scenario under western influence, and that Yeltsin's "dictatorial" attempts to bypass the legislature in drafting a new constitution could produce anarchy and "disintegration."

Khasbulatov warned that "attempts to solve the present crisis . . . by anti-constitutional means will lead irrevocably to the collapse of Russia—something which influential international political, financial, and industrial circles are striving for in the most open manner. The time has come when not only deputies and ministers, not only regional authorities, but all citizens should recognize the danger facing the country of death, war and subjugation. The danger to Russia of 'Balkanization' is a real one."

Speaking to foreign journalists, Khasbulatov threatened that if Yeltsin flouts the Constitution, there will be anarchy in the country, "and that means that those nuclear, biological, chemical and other . . . weapons that are very dangerous to the environment and to other states may end up out of control."

Russia and Turkey sign defense pact

Russia signed a defense cooperation accord with Turkey on May 11, a defense ministry statement said. It stated that Russian Defense Minister Pavel Grachev and his Turkish counterpart, Nevzat Ayaz, signed a memorandum of understanding calling for cooperation in military training and defense industries.

Grachev, who arrived in Turkey on May

10 for a five-day visit, told reporters that the accord would help boost ties in other fields. Ayaz, describing the signing as a historic moment, said that the memorandum would implement part of a \$300 million cooperation agreement signed by Prime Minister Suleyman Demirel and Russian President Boris Yeltsin a year ago in Moscow.

In a related development, Turkish, U.S., and Russian officials are planning to meet soon to discuss a peace plan aimed at ending the five-year-old dispute between Azeris and Armenians concerning the Armenian enclave of Nagorno-Karabakh, the Anatolian News Agency reported on May 12.

Turkish foreign ministry sources said they would discuss Armenia's rejection of the peace plan proposed the week before. Armenia charged that the plan was in the interests of Azerbaijan.

A western official in Paris said that the Conference on Security and Cooperation in Europe (CSCE) would send 600 peacekeepers to Nagorno-Karabakh if Armenians and Azeris agreed to a cease-fire there. This would be the first military force ever fielded by the CSCE.

Arafat hits treachery by U.S. and Israel

The Palestine Liberation Organization announced on May 10 that it had slashed from 14 to 3 the Palestinian team at the Middle East peace talks because of the U.S. and Israeli failure to fulfill their promises to the Palestinians. PLO Chairman Yasser Arafat said in a message to the 2 million Palestinians of the Occupied Territories that the United States and Israel had reneged on the promises in an attempt to damage the PLO's credibility.

"U.S. promises carried to us by brother [Arab] and friendly parties . . . were not implemented, in an attempt to damage the PLO's credibility," Arafat charged. He added that maneuvers by the Israeli delegation in the first two weeks of the ninth round of negotiations "and the criminal, willful escalation [of violence] against our people in the Occupied Territories constitute devel-

opments which put things again at a dangerous crossroads."

The Palestinian delegation also dismissed Israel's offer to allow home 25 more of the Palestinians it deported in December. "They know very well that in order to make a difference they will have to double or triple the number. . . . This is actually reneging, because we were talking about sizeable numbers, numbers that would make a difference," said spokeswoman Hanan Ashrawi. "We neither have the time nor the inclination to deal with this not even inch-by-inch, but millimeter-by-millimeter approach."

U.N. general backs 'ethnic cleansing'

Major General Lewis Mackenzie (ret.), former commander-in-chief of U.N. forces in former Yugoslavia, favors a soft "ethnic cleansing" to end the conflict. Mackenzie expressed this view during a conference on the future role of Canada in international peacekeeping, held at the Parkdale Collegiate Institute in Toronto on May 12.

In an interview given to *L'Express*, Toronto's French weekly newspaper, journalist Charles-Antoine Rouyer characterizes the general's view: "Only one solution is possible. It consists of regrouping each ethnic community in distinct geographic zones, 'separate them with barbed wire,' [says the general] and let time do its work."

"A 'redistribution of the population' is the term that the general uses cautiously, a synonym nonetheless of 'ethnic cleansing.' 'People associate this expression with 'genocide,' which is totally inexact.' The expression has been associated through error, according to him, with the camps and the atrocities reported in the media."

Mackenzie's line was not well received by some in Toronto. "Is he a lobbyist for the Serbian side?" asked Member of Parliament Alex Kindy in the House of Commons. According to the *Commons Debates Journal*, Kindy put a question to his own government on the issue:

"I have a question for the minister of national defense that she should be able to answer. Who is paying for Mr. Mackenzie's

trips? Is he a lobbyist? Is he a lobbyist for the Serbian side? These are questions that I think are very legitimate. He has been meeting with Serbs. He has had a special relationship with a Serbian leader in Bosnia. So these are questions that should be answered by the Minister of National Defense. What is Mr. Mackenzie's function? Is he in a conflict of interest situation? He was a commander of the United Nations and now he is a consultant apparently to the Serbians in Bosnia. So these are the questions that arise."

Mackenzie is being sought by the Bosnians, based on eyewitness testimony, on charges of having personally taken four Muslim women out of a Serbian rape camp and raped them himself.

Kozyrev sees 'decades' of war in the Balkans

The world may have to get used to the idea of the Bosnia crisis continuing on for decades, just like the Arab-Israeli conflict, Russian Foreign Minister Andrei Kozyrev told the French daily *Le Monde* in an interview published on May 14.

Kozyrev said that he had just had several telephone discussions with French Foreign Minister Alain Juppé and with Danish Foreign Minister Niels Petersen, and that he is in regular contact with U.S. Secretary of State Warren Christopher.

Kozyrev said that "nobody is putting forward any concrete proposition. Other than under the form of questions to debate, nobody is lining up clearly behind a solution. Neither am I; I am not ready to advance propositions that rely on the use of force."

Pressed on the issue of using military force, Kozyrev replied: "Is it necessary to do something at any price? The simplest thing is to launch an atomic bomb, we have lots of them, the Americans also. Or to drop bombs. Or to attack Sarajevo. . . ."

"Meanwhile, it has been 45 years that they have been debating a Middle East solution. [U.N.] Resolution 242 itself is 30 years old; that is not a little girl, but a woman in the flower of her years."

Briefly

● **'FRANCE** Is Betting on Milošević,' was the headline in the Paris daily *Le Figaro* on May 14. In the view of the French government, "the Serbs of Belgrade, being very largely responsible for the nationalist fever in Bosnia, are now obliged to bring their wayward brothers to reason."

● **SERBIA** blew up two ancient mosques in Banja Luka, Bosnia on May 7. The Fehrad Pacha Mosque, dating from 1579, was destroyed first, followed a few minutes later by the Arnaudijia Mosque (1584). The Imam of Bosnian Krajina, Hadzi Ibrahim Halilovic, said that he did not weep, because "those who have destroyed 800 mosques in Bosnia since this war began are men without humanity, without religion, and without culture."

● **SOUTH AFRICAN** Foreign Minister Pik Botha will visit Egypt on May 24, on the first official trip to Cairo by a senior South African official for 35 years. An Egyptian foreign ministry official said that the two states have no schedule to establish diplomatic ties, however.

● **PROSTITUTION** will help to finance the Greenpeace ecological-terrorist group in Germany, according to the daily *Bildzeitung* of May 13. A prominent Berlin brothel is collecting donations for Greenpeace from its clients, in a public relations bid to capture a sizeable chunk of the DM 12 billion which German men are expected to spend on prostitutes this year.

● **MOROCCO'S** King Hassan denounced Amnesty International, following its release of a report charging Morocco with human rights violations. The king called Amnesty "an old and completely faded thing that has no further use. . . . It was taken over by leftist movements. . . . I don't see why it comes to put its nose in our affairs."

Yes, the B'nai B'rith was implicated in Lincoln murder

by Joseph Brewda

“Rabbi Pays Discreet Visit to Olivos House,” read the headline of the Argentinian newspaper *Clarín* on May 14. The paper reported that Rabbi Morton M. Rosenthal, the international affairs director of the Anti-Defamation League of B'nai B'rith (ADL), had been in Argentina for the previous four days meeting with President Carlos Menem, Foreign Minister Guido Di Tella, and the Archbishops of Buenos Aires and Córdoba, to warn them about the influence of U.S. political prisoner Lyndon H. LaRouche. “Rosenthal,” reported *Clarín*, “mentioned the case of the campaign being carried out within the country [Argentina] by the United States ultraright-wing organization led by economist Lyndon LaRouche.” Rosenthal stated that the alleged anti-Semitic campaign “has as its main target the Anti-Defamation League,” and that LaRouche had “imputed diverse crimes to the United States’ Jewish community, among them the murder of President Abraham Lincoln.”

Amazingly, the ADL leader’s visit to Argentina was co-sponsored by the U.S. State Department through its U.S. Information Agency, at a time when that same ADL is under criminal investigation for espionage.

As we shall document in the investigative report that follows, the B'nai B'rith was implicated in the assassination of President Lincoln. Moreover, the ADL—the B'nai B'rith’s public relations arm—was implicated in the 1984 assassination of Indian Prime Minister Indira Gandhi, among many other crimes.

Freemasons, spies, and mobsters

It is typical of the ADL to falsely identify itself with the Jewish community; it has, after all, also claimed that attacks against its organized crime associates such as Meyer Lansky

are “anti-Semitic.” In reality, the B'nai B'rith and its ADL arm are not Jewish, but rather *freemasonic*. The B'nai B'rith’s mother organizations are the Grand Orient of France, the Supreme Council of the Scottish Rite Southern Jurisdiction, and the United Grand Lodge of England. It was these freemasonic organizations that orchestrated the treasonous revolt of the Confederacy, killed Lincoln, and established the racist Ku Klux Klan. The same cults imposed the Hapsburgs’ Emperor Maximilian upon Mexico in order to make all of Ibero-America into colonial slave states.

That the ADL is currently a target of law enforcement investigation for espionage on behalf of Israel and South Africa (see p. 58), is part of the reason for Rosenthal’s anxiety. It is increasingly likely that other governments might begin formal investigations into ADL espionage and subversive activities.

The B'nai B'rith had established the ADL in 1908 as its “public relations department,” after the New York City police commissioner had begun far-flung investigations into Jewish organized crime. This, the B'nai B'rith said, was “anti-Semitic.” Since its inception the ADL has been closely associated with mobsters; and the mob, Jewish and otherwise, has vast dealings in the Caribbean and South America. If South American governments investigated B'nai B'rith and ADL operations in their nations, evidence of their involvement in organized crime might come out.

But the most important crime of the ADL is its role as an arm of the B'nai B'rith, a freemasonic organization at the service of the Scottish Rite of Freemasonry, responsible, LaRouche charged recently, “for every atrocity which the United States ever committed against its friends and neighbors to the South.”

The assassination of Mrs. Gandhi

Indian Prime Minister Indira Gandhi was assassinated on Oct. 31, 1984 by two Sikh separatists who had infiltrated her bodyguard. The assassins were followers of Jagjit Singh Chauhan, the head of the World Sikh Organization of London, who had publicly called for her assassination in the months before his own murder, and he took public credit for her killing at the time.

A career British intelligence operative, Chauhan frequently traveled to the United States to meet with congressmen and others on behalf of the "Sikh cause," prior to and after the murder. The sponsor of his trips was Robert Speller, who had advocated destroying India through fostering cults and separatist warfare—the motive for the Gandhi assassination—ever since he had been executive assistant to CIA director Allen Dulles. Rabbi Morton Rosenthal, the ADL's director of international affairs, has been a decades-long associate of Speller, and his business partner. One of their joint firms, Transglobal, included Julian Amery on its board, a top British intelligence specialist on India.

Under the cover of promoting "religious freedom," the ADL had long been involved in the Sikh project, through its inter-religious affairs department, run by Rabbi Leon Klenecki. Klenecki met regularly with Sikh terrorists before the Gandhi assassination; his ADL project was funded by the Lilly Endowment, an organization involved in far-flung intelligence operations.

Following the assassination of Mrs. Gandhi, then-U.S. Assistant Secretary of State for Inter-American Affairs Elliott Abrams attempted to relocate the headquarters of the Sikh terrorist movement to Ecuador, by inducing the Ecuadoran government to provide them vast agricultural plantations. Abrams is a protégé of Morton Rosenthal, who was then the Latin American affairs director of the ADL; Rosenthal was reportedly instrumental in securing Abrams his job.

The ADL has continued its commitment to destroy India through religious war. In the fall of 1991, it sponsored the trip of L.K. Advani, the leader of the Hindu fundamentalist Bharatiya Janata Party (BJP), to the United States, as it earlier aided Jagjit Singh Chauhan. Advani heads the cult which destroyed a mosque in the Indian state of Uttar Pradesh, in December 1992, triggering riots which killed thousands. This project of fostering Hindu-Muslim discord is part of a British plan to foster an Indo-Pakistani war, which, if it comes, might be nuclear.

B'nai B'rith and the Young Turks

The role of the B'nai B'rith in the 1908 "Young Turk" revolution in the Ottoman Empire provides another case study of the way these freemasonic operations work. It was the Young Turk regime which led Turkey into the Balkan wars, thereby creating the conditions for World War I, while also setting the conditions for the destruction of the empire. The Young Turk leaders were entirely masonic; many were



President Abraham Lincoln's funeral cortege winds through the streets of Philadelphia in 1865, following his assassination by John Wilkes Booth. Booth was a member of the treasonous freemasonic grouping around B'nai B'rith chief Simon Wolf and Confederate spymaster Judah Benjamin.

also leaders of B'nai B'rith. It was the Young Turks (not the Turkish people collectively, as is falsely claimed) who were responsible for the slaughter of the Armenians in World War I, a slaughter which the B'nai B'rith denies to this day was a "Holocaust."

The Young Turks had been organized by a Salonica lodge of the Italian Grand Orient Masons, led by Emmanuel Carasso, operating on behalf of the Venetian banker Giuseppe Volpi di Misurata, who later patronized Benito Mussolini. Carasso and Volpi were Masons of Jewish descent. Operating under British intelligence, and in coordination with the Scottish Rite Southern Jurisdiction, the Young Turks overthrew Sultan Abdul Hamid, in part to facilitate the creation of the state of Israel, giving the British Masons control over Jerusalem's holy places.

Turkish B'nai B'rith leader Joseph Niego, a close associate of the Young Turk leadership, emphasized the B'nai B'rith's masonic foundations in speeches at the time, identifying the Grand Orient of France as a mother organization. He went so far as to identify the B'nai B'rith District XI, which he led and which oversaw the entire Middle East, as the "Grand Occidente," so named, he said, because of its dependency on masonic societies in France, among other locations in Europe and the United States. The Turkish B'nai B'rith leaders were also members of the Scottish Rite of Turkey, whose grand master, Talat Pasha, was the Young Turk dictator of Turkey.

Simon Wolf's role in the assassination of Abraham Lincoln

by Anton Chaitkin

In the May 14 issue of the Argentine newspaper *Clarín*, Rabbi Morton Rosenthal, director of international affairs of the Anti-Defamation League of B'nai B'rith, alleged that Lyndon LaRouche has "imputed diverse crimes to the United States' Jewish community, among them the murder of President Abraham Lincoln last century."

Responding to the allegation, on May 17 a spokesman for LaRouche said that in fact it is Rosenthal's own B'nai B'rith, and not "the Jewish community," which was implicated in the murder of President Abraham Lincoln.

The B'nai B'rith was founded and developed during the 1840s and 1850s as a project of the slave-owners' and slave-traders' Scottish Rite of Freemasonry. During the 1860s U.S. Civil War, most U.S. Jews were pro-Union and anti-slavery, differing from the leaders of B'nai B'rith, who adhered to the Southern Confederacy. The small faction of apostate Jews was led by Confederate Secretary of State Judah Benjamin, who directed the Confederate secret service.

Simon Wolf (1835-1923), longtime chief of the B'nai B'rith's Washington, D.C. office, was specifically an operative of Confederate General and Scottish Rite Masonic Commander Albert Pike, who founded the Ku Klux Klan after the Civil War. Wolf was arrested early in the war by the U.S. Secret Service as one of the coordinators of Confederate espionage in the national capital. Much later, in 1901, Wolf, who had risen to the presidency of international B'nai B'rith, was a featured speaker at the gala dedication ceremony of the statue of Pike which had just been erected in Washington, where it remains standing today as an insult to all those who believe in the principles for which Lincoln fought and died.

Wolf and John Wilkes Booth

John Wilkes Booth shot President Abraham Lincoln on April 14, 1865, while other assassins simultaneously attacked Secretary of State William Seward. Lincoln died the next day.

The United States National Park Service maintains the Lincoln murder site at Ford's Theater in Washington as a national monument. Park Service historians tell tourists that John Wilkes Booth was not a "regular" agent of the Confeder-

ate Secret Service. Some months before he shot Lincoln, Booth in fact deposited funds in the Montreal bank used by the "regular" operatives of Confederate Secret Service head Judah Benjamin. John Surrat, who confessed to being a "regular" Benjamin agent and to plotting with Booth to abduct Lincoln, admitted to using that Montreal bank for Benjamin's funds. Yet the Park Service says that Booth did not "ordinarily" go to Canada for Benjamin, and that he could not be a "regular" operative, because Booth's name does not appear on the payrolls of the Confederate government!

The Ford's Theater permanent display, however, contains a piece of evidence which flies in the face of the "lone assassin" theory: a decoding sheet, found by police in John Wilkes Booth's trunk, and alongside it, a matching coding device which was found in the office of Judah Benjamin.

At the time when John Wilkes Booth shot President Lincoln, Booth's old acquaintance Benjamin Peixotto was international president of the B'nai B'rith. Only hours before going to Ford's Theater to shoot the President, Booth met with his old friend Simon Wolf for a confidential discussion over some drinks.

Wolf's brief description of this meeting is carried in his memoirs, *Presidents I Have Known*. Wolf's laudatory biography, *Simon Wolf: Private Conscience and Public Image*, published in 1987 by Esther Panitz, explains the case as follows: "Wolf remembered that he had met Booth once again at the Willard Hotel, on the morning of the day Lincoln was shot. There, at the bar, Booth explained that Sen. John P. Hale's daughter had just rejected his marriage proposal. Wolf attributed Lincoln's murder to this personal tragedy in Booth's own life. Wolf himself was not present at Ford's Theater that fateful evening in April, only because his wife Caroline did not care for [the leading lady's] acting talents."

Subsequent official testimony on the assassination proves, at the very least, that Simon Wolf's rationale for the Lincoln murder was incredibly, hysterically false. Thus, just what Booth and his heart-to-heart confessor Wolf did discuss, as Booth prepared his attack, ought to be of deep interest to those seeking to unravel the great tragedy of the 19th century.

B'nai B'rith and the Confederacy

Let us trace backwards from that event. Its official history, *B'nai B'rith: The Story of a Covenant*, by Edward E. Grusd (New York: Appleton, 1966), teases that "B'nai B'rith's relationship to the Civil War presents something of a mystery. . . . The record itself is almost completely silent on the subject of the Order's participation [in the war] as a national agency." Though "virtually all" of the Order's lodges were "in the North" and most American Jews were pro-Union and anti-slavery, this secret society in fact worked for Britain and the British-sponsored Southern Confederacy in the effort to break up the American Union.

British Foreign Minister Lord Palmerston and his masonic manager Giuseppe Mazzini ran an assortment of insurrectionary projects around the world, going by the names "Young Italy," "Young Germany," etc. The birth of "Young America" was first announced in an 1845 public address by Edwin DeLeon, scion of a South Carolina Jewish slave-trading family. In that address, DeLeon promised a "great civil convulsion," with its "source originating in some quarter . . . unsuspected and obscure." DeLeon later became the Southern Confederacy's chief propangandist in Europe, intimate adviser to Confederate President Jefferson Davis, and a notorious spy.

The International Order of B'nai B'rith, part of this Palmerston "Young America" effort, was founded in 1843 in New York City by 12 Jewish Freemasons. By 1850, Ohio had become a second center, and B'nai B'rith's District 2, headquartered in Cincinnati, overlapped with the "Copperhead" pro-slavery, secessionist political machine.

In 1854, the Scottish Rite Freemasons created the pro-slavery secessionist Knights of the Golden Circle in Cincinnati, spreading it from there down the Mississippi Valley to Alabama, Mississippi, Louisiana, and Texas. The top, ostensibly Jewish, Scottish Rite operative in Cincinnati was Isaac M. Wise, B'nai B'rith's Ohio chief. Wise was busy spreading the B'nai B'rith's District 2 organization southward along precisely the same route to the same southern states, at precisely the same time as the paramilitary Knights were doing so.

In eastern Ohio, B'nai B'rith was run by Benjamin F. Peixotto and his intimate friend Simon Wolf. Peixotto edited the *Cleveland Plain Dealer*, a uniquely pro-slavery newspaper in an abolitionist area. (Public outrage eventually shut the newspaper down during the Civil War because it so virulently supported Ohio's Copperhead boss Clement Vallandigham.) Masonic attorney and Democratic Party operative Wolf worked at the 1860 Democratic national convention as an agent of party sponsor August Belmont, the official U.S. representative of the British Rothschild family of bankers.

In Cleveland in the 1850s, Peixotto and Wolf ran a Young Men's Hebrew and Literary Society, which sponsored theatrical performances. The young actor John Wilkes Booth per-

formed in their amateur plays, and became their friend and Wolf's confidant. Wolf reportedly "bore an uncanny resemblance" to Booth, who was two years Wolf's junior.

Peixotto later became B'nai B'rith international president from 1863 to 1867, operating from Belmont's New York. Wolf moved to Washington in 1862, and ran the Order's relations with the U.S. government for the next 60 years.

Wolf's arrest for espionage

Soon after Wolf's arrival in wartime Washington to head the B'nai B'rith capital operations, he was arrested by the U.S. government and jailed as an operative of an enemy organization: the B'nai B'rith. Wolf's authorized biography explains that Chief of Detectives LaFayette Baker "accused Wolf of being an agent for a disloyal organization that aided rebels and assisted blockade runners. What Baker had in mind was the International Order of B'nai B'rith. . . . Wolf was arrested for having secured the release of imprisoned Southern Jewish refugees. He was held at the Carroll Street Prison."

Wolf was soon "declared innocent of any involvement with blockade runners," and was released. The official B'nai B'rith history puts it this way: "The chief of the War Department's Detective Bureau was Col. LaFayette Baker, notorious for his cruelty and ruthlessness. He had a young lawyer, Simon Wolf, arrested solely because he was a member of B'nai B'rith. . . . Wolf was defending several Southern Jews arrested in Washington and charged with being Confederate spies."

Wolf's Scottish Rite Masonic chapter in Washington gave its allegiance to the Albert Pike Supreme Council headquartered in Charleston, South Carolina. This was the very seat of treason, the leadership body for the "fire-eaters" of secession and national suicide since British Commander Augustine Prevost planted the Rite in South Carolina during the Revolutionary War. August Belmont's chum Sam Ward, representative in New York for Britain's Baring Bank, was also a member of the Pike Southern Jurisdiction Supreme Council.

Throughout the war, Wolf was one of a handful of intermediaries between the Confederate capital of Richmond, Virginia, and its backers in the elite New York salons of August Belmont and others. One other prominent go-between was the Gustavus Myers family of Richmond, and their business partners, the Moses Myers family of Norfolk. Gustavus Myers, Judah Benjamin's closest personal friend in Richmond, was a political boss whose grandfather, Moses Michael Hays, co-founded the Scottish Rite of Freemasonry by pulling together a group of millionaire slave-traders. The Moses Myers house, on Norfolk's Freemason Street, was the British consulate for several generations. This Virginia masonic power reached into Maryland, and eventually forced Rabbi David Einhorn, the leader of the anti-slavery Jewish community, out of his Baltimore congregation.

Probe into ADL's espionage expands

by Jeffrey Steinberg

Official inquiries are now under way in Portland, Oregon and Los Angeles, California into the Anti-Defamation League of B'nai B'rith. The ADL has been the target of an eight-month probe by San Francisco police, who uncovered a vast spying operation in which 20,000 American citizens and over 950 political, religious, and ethnic groups were illegally surveilled and targeted for harassment by the League.

Some of the spy data gathered by the ADL was funneled to the governments of South Africa and Israel. The South Africans paid an ADL undercover operator at least \$16,000 for confidential information about anti-apartheid activists. The ADL passed government information and surveillance data to Israeli officials, and in return received confidential Israeli files on American citizens.

One member of the current spy operation, former San Francisco police officer Tom Gerard, was indicted in early May on five felony counts for illegally passing confidential government data to the ADL. San Francisco District Attorney Arlo Smith has promised that there will be other indictments in the case before June 15. His office has identified the ADL's national Fact-Finding Director Irwin Suall as a prime target.

Sources close to the San Francisco probe have expressed to *EIR* their fear that a massive arm-twisting campaign by the ADL to quash the criminal investigation might block investigators from getting to the heart of the operation. The fact that parallel investigations have now been opened in two other jurisdictions, as the result of documents initially uncovered in the San Francisco probe, is seen by San Francisco prosecutors as virtually assuring that the investigation and indictments will not be short-circuited.

Portland probe forced

When San Francisco Police Inspector Ron Roth filed a search warrant affidavit on April 8, 1993, he appended over 700 pages of evidence, including inventory of documents seized in the initial Dec. 10, 1992 raids on the ADL offices in San Francisco and Los Angeles, and the homes of ADL sleuth Roy Bullock and Gerard. The inventory of documents taken from the San Francisco ADL office included scores of Portland police intelligence memos on a wide range of white supremacist groups.

In early May, *Oregonian* reporter Phil Stanford was able to review those police files, which Portland police officials had claimed were public documents. The material passed on

to the ADL included name, address, and other personal data on individuals with no proven ties to any organizations under criminal investigation. When Stanford broke the story on May 12, he reported that Multnomah County District Attorney Mike Schrank had announced that his office had "launched an official review of the police intelligence files."

Stanford noted: "In 1981, in order to prevent a recurrence of the Red Squad operations conducted here during the '60s and '70s, the Oregon Legislature approved a law forbidding law enforcement agencies from collecting or maintaining information about 'political, religious or social views, associations or activities of any individual or group . . . unless such information directly relates to an investigation of criminal activities.'" The Portland police files passed on regularly to the ADL appear to have contained information forbidden under that law.

According to sources close to the Portland probe, the district attorney is looking into illegal surveillance by the Portland police, possibly in conjunction with the ADL.

Los Angeles, a hotbed of ADL spying

On May 10, Ronald C. Banks, deputy chief of police of Los Angeles, wrote to Khushro Gandhi, a Los Angeles leader of Lyndon LaRouche's political movement, that the Los Angeles Police Department had initiated a probe of the ADL spy operations in southern California. The letter was written in response to a March 30 request by Gandhi for the LAPD to launch just such a probe.

According to San Francisco police investigators, confidential files from 20 different police agencies from California were found in the raids on the ADL offices. According to former Los Angeles ADL "fact-finder" David Gurvitz, several Los Angeles police and sheriff's officers were regular sources of data for the ADL. It is a felony in the state of California for private citizens to possess confidential government data, including Department of Motor Vehicle records. When police raided the home of Bullock and seized computer files, they found DMV records on over 1,300 California residents.

The Banks letter to Gandhi read in part: "In your correspondence, you expressed your concerns regarding the Anti-Defamation League and requested an investigation to determine the extent they have corrupted the Los Angeles Police Department and other local law enforcement agencies. Let us assure you that when concerns of this nature are brought to our attention, they are taken very seriously. Accordingly, Chief of Police Willie Williams has ordered an investigation into this matter. It is his intent to ensure that every aspect of this matter is investigated both thoroughly and objectively. The *Los Angeles Times* and the San Francisco *Examiner* report of the Los Angeles Police Department's refusal to assist San Francisco authorities in their investigations was due to poor communication between agencies rather than a refusal to cooperate. This problem has been remedied, and both agencies are cooperating at an optimum level."

B'nai B'rith gives the international marching orders at Washington meet

by Scott Thompson and Ana M. Phau

Approximately 50 international leaders of the freemasonic organization B'nai B'rith assembled May 17-19 in Washington, D.C., to hear reports from area specialists and receive marching orders for their current activities. Gathered by the International Council of B'nai B'rith (ICBB), one of two foreign policy arms of B'nai B'rith International, which purports to represent Jewish interests, the sessions in fact promoted the same Anglo-American policy agenda that has created global economic collapse and placed the world on a rapid course toward generalized war. ICBB members argued for the continued application of the International Monetary Fund's (IMF) "shock therapy"; for the destruction of national sovereignty, in the name of defending "democracy" and "human rights"; and for genocide in the Balkans in the name of the Vance-Owen "peace plan."

Those who oppose such policies, the gathering was instructed, should be smeared as "anti-Semitic." As ICBB International President Kent E. Schiner put it in his introductory remarks:

"When the Berlin Wall collapsed, followed by the collapse of the Soviet empire, many of us were whirled into a world beset with euphoria; we believed we were entering an era of peace and serenity. . . . How wrong we were. The new united Germany sporadically erupts into spasms of xenophobia, violence, tinged with more than a little anti-Semitism. . . . And we have heard over the last two days of the anti-Semitism that is on the increase in Latin America. . . . That being the case, the worldwide ICBB network becomes increasingly significant. . . . In this regard I remind you of the role played by our staff and volunteers here in Washington, because we have access to the administration of the U.S. government as well as the embassies of all nations."

Toeing the British line on Bosnia

The ICBB panel titled "How Does Europe Appear through the Clinton Administration Eyes?" which was chaired by Alan Cohen, European co-chairman of the ICBB, focused almost entirely on the British Foreign Office's view of Bosnia. It seems that Cohen had managed to arrange for the appearance at the panel of Ralph Richardson, the Head

of Chancery at the British Embassy in Washington. The respondent speaker was Alan Elsner of the British news service Reuters. During and after the panel, Elsner kept describing Americans—with an eye to the Clinton administration—as being "simplistic" and "stupid."

When asked why Europe would not back President Clinton's plan to use air power against Serbian military installations in Bosnia, while lifting the arms embargo on the Bosnian Muslims and Croats, Elsner responded with arguments paralleling those of British agent-of-influence Henry Kissinger:

"There is only a moral argument for military involvement, but there is no real strategic interest. The only strategic interest is the fear that it might become a wider war, perhaps involving Hungary, Albania, Bulgaria, Greece, and Turkey. But why get involved before the war becomes wider? You should just lay down markers, saying it can go no further."

When one of the more intrepid ICBB members ventured to state that military force *was* necessary, because Serbia had invaded Bosnia and Serbs were committing genocide, the British Embassy official intervened:

"The British government does not rejoice in acrimonious debates across the Atlantic over Yugoslavia. My government is doing everything possible to maintain the special relationship and to calm things down. Lady Thatcher's call for massive military intervention is sublime and courageous, but it is not popular in England. . . . Prime Minister John Major sees Bosnia as representing treachery, intrigue, a vortex, a mess, and how easy it would be to sink in there. . . . There are just not enough troops, and there is no way to exit them."

After the panel, Richardson told *EIR* that what he meant by "doing everything possible to maintain the special relationship" referred to a visit by British Foreign Secretary Douglas Hurd to meet with Secretary of State Warren Christopher on May 21. Richardson said that despite press statements that the Bosnian Serbs had rejected Vance-Owen in the recent referendum, the only real disagreement was on the redrawing of the map of the area: The Bosnian Serbs wanted a bigger chunk of Bosnia. Hurd would try to convince Christopher that Vance-Owen must still be taken as the basis of allied policy and be given a chance.

Taking aim at Ibero-America

The opening panel of the plenary, “The Latin American Political Scene: A Dialogue with Experts,” hammered at two central policy points:

First, that the economic austerity policies imposed on Ibero-America over the last decade by the IMF and the international financial community were necessary and desirable, but that they had created a social crisis of unthinkable proportions which had to be dealt with. There have been deindustrialization, cutbacks in services, and the virtual “disappearance of parts of Latin America,” the Peruvian Daniel Schydrowsky accurately explained. If this crisis is not addressed, he warned, people will want to jettison free-market liberalism and return to a dirigistic economic approach. That means looking to authoritarian leaders, which in turn will lead to an increase of anti-Semitism, he argued incoherently.

The second policy theme was that the promotion of “democracy” and “human rights” had to be used to contain the influence of the Ibero-American armed forces, Catholic Church, trade unions, and other “corporatist” institutions. Joseph Tulchin, the head of the Latin American program at the Woodrow Wilson Center in Washington, D.C., proposed that an “International Code of Good Behavior” be established, and that nations that didn’t live up to it would be subject to international intervention—Iraq-style.

These two policy points are identical to the agenda for Ibero-America established by the Inter-American Dialogue, an influential Washington think-tank, which is a kind of Trilateral Commission for Ibero-America. In fact, the current head of the Dialogue, Peter Hakim, was the moderator of the ICBB panel. Former Dialogue president Richard Feinberg heads the Latin American division of President Clinton’s National Security Council, from which post he exerts powerful influence over administration policy, as can be seen in the current “human rights” crusade against Peru by the State Department, private organizations such as Americas Watch and Amnesty International, and others.

Dismantling nationalist institutions

Mark Falcoff, of the American Enterprise Institute, argued that the United States’ pluralist model had to replace what he mischaracterized as “corporatism” in Ibero-America. The problem, he explained, is that these countries are organized in a corporatist way, around institutions like the Catholic Church, the armed forces, the labor movements, and so forth. He added candidly: “It seems to me that in a number of countries now, the Jewish communities are being accepted as one of the groups that has a place at the table within this corporatist definition of citizenship.”

But such admitted indications of religious tolerance are not at all what interests the B’nai B’rith, whose real concern is only to assure the implementation of the policies of their British freemasonic masters. Speaking about President Car-

los Menem of Argentina, whose government has been most amenable to B’nai B’rith influence, Falcoff said sarcastically: “Well, President Menem believes in the international Zionist conspiracy, and he wants it on his side. It’s not terrific, but it works.”

Many of the speakers expressed concern over the instability of the current pro-IMF governments of Ibero-America. Schydrowsky, for example, said that he would not bet that there would not be a military coup in Argentina in the coming years. Various speakers noted that there had been three coup attempts against President Carlos Andrés Pérez of Venezuela. And Schydrowsky added that the only two countries that could survive the neo-liberal free-market economic policies without being overthrown are Chile and Colombia, since the latter’s politicians have mastered the art of compromise.

Chilean lawyer Claudio Grossman, currently at the American University Law Center, focused on the important role that members of B’nai B’rith could play in implementing free trade and pluralistic democracy in the Americas. But he complained that the U.S. State Department should be called the Fire Fighters Department, since it always intervenes in other countries only to “stop fires”—that is, popular military and civilian revolts against the very economic policies which he and B’nai B’rith promote. What is needed, Grossman proposed, is a strong, independent judiciary that can keep the Ibero-American military under civilian control. Grossman is currently a candidate to become a new member of the Inter-American Human Rights Commission of the Organization of American States (OAS)—a candidacy which all of the B’nai B’rith leaders present were urged to support.

Joseph Tulchin of the Woodrow Wilson Center picked up the same theme, with his proposal for an “International Code of Good Behavior,” an idea that he said has surfaced already in discussions at the Group of Seven nations, the General Agreement on Tariffs and Trade (GATT), the OAS, the United Nations, the World Bank, and others. Such a code of behavior would be binding on all nations, and would provide the cover for U.S. or multilateral intervention against offending countries. In Tulchin’s scheme, the code would pose such questions as: “Is the country redeemable? Does it have good citizens? Can the corrupt act with impunity or is there accountability?”

Cynthia Arnson of Americas Watch liked the idea. In her view, what will determine whether a country is behaving or not is its attitude on human rights. “Only where human rights are respected, can democracy emerge,” Arnson insisted—without explaining how organizations like hers are using the banner of “human rights” to back narco-terrorist insurgencies like Peru’s Shining Path. She praised the fact that the State Department’s U.S. Agency for International Development, which funded a book-length study on how to destroy the Ibero-American military, entitled *The Military and Democracy*, has now become involved in creating an “independent judiciary” by training Ibero-American judges and lawyers.

ADL promotes pagan education for Peru

by Manuel Hidalgo and Carlos Méndez

The Anti-Defamation League of B'nai B'rith is seeking to impose its official representative in Peru, León Trahtemberg, as minister of education of that country. The objective is to impose a New Age curriculum on Peru.

Under the pretext of defending Peru's indigenous people, Trahtemberg's proposals for education represent a systematic pagan attack on Judeo-Christian values. He urges a "non-authoritarian," "non-dogmatic," and "non-discriminatory" reform of the current school curriculum which, he insists, "instead of preparing for democracy, is preparing for dictatorship and for admiration of dictators of every sort: civilian, military or subversive."

The 'anti-authoritarians'

Trahtemberg's "anti-authoritarianism" banner reveals the real parentage of his so-called curriculum reform, namely, the Institute for Social Research (Frankfurt School). Ever since its founding in Germany in 1922, the Frankfurt School has dedicated itself to fulfilling the teachings of its communist founder Georg Lukacs, that the only way to impose communism in the West is by destroying Judeo-Christian morality.

It is the Frankfurt School and its offshoots which we have to thank for the pervasive infiltration of the rock-drug-sex counterculture into western culture today.

The offensive of Trahtemberg and his allies to seize control of Peru's educational system surfaced around December of last year, when President Alberto Fujimori announced that 1993 would be the Year of Education Modernization, for which an administrative reform of education would be fashioned. But Trahtemberg, who last year refused the post of education minister, citing "personal reasons," insists that the reform should not only be administrative, but above all "curricular." He insisted that the reform should not be conducted by the Education Ministry, but by an independent commission made up of pro-terrorist non-governmental organizations (NGOs). Trahtemberg's proposal dovetails perfectly with the demands of the "human rights" lobbyists—the supporters of the Shining Path terrorists—that other national institutions, such as the judiciary and the military, should also be subject to international oversight and or domination through the NGOs.

With this focus, the First National Seminar on Education was held April 23-25, organized by the Peruvian Institute of Business Administration (run by Trahtemberg) and by the Educational Forum, of which Trahtemberg is a member. The forum is presided over by the Jesuit Ricardo Morales, who perpetrated the Educational Reform of 1972 under the deconstructionist theories of Maoist Paulo Freyre.

Assault on both Christianity and Judaism

The real source of Trahtemberg's reform plans is his sponsor, the ADL, which fully shares the beliefs of the Frankfurt School gurus. As is documented in a recently published book by *EIR*'s editors, *The Ugly Truth About the ADL*, the ADL has been a major element of the offensive to impose paganism in the United States under such slogans as "secular humanism," "new religions," or "the New Age," carried out under the excuse of separating church and state.

As an institution controlled by the Southern Jurisdiction of the Scottish Rite Freemasonry, "Since 1948," *EIR*'s book states, "the ADL has devoted over one-third of its legal efforts to support activity that may rightfully be called 'the plot to kill God.' The ADL has filed dozens of *amicus curiae* (friend of the court) briefs in legal cases . . . whose results have included banning school prayer, banning release time for religious instruction, banning Christmas carols and spirituals, banning celebration of Judeo-Christian holidays, and most recently banning the Bible as unfit for the classroom."

Further, the ADL has argued before the courts that the text of the Ten Commandments must not be displayed in classrooms. I.e., the ADL attacks not only Christianity, but Judaism as well.

Simultaneous with its attacks on Judeo-Christianity, the ADL has not hesitated to defend *in the courts* satanic manifestations parading under the name of "freedom of worship," including outright witchcraft.

Trahtemberg told the Oct. 16, 1992 issue of the Peruvian daily *Expreso*, for example, that "the civil calendar is full of holidays that marginalize the Indian: on Independence Day, homage is paid to white heroes, on Language Day Cervantes and the glories of the Spanish language are celebrated, religious holidays are presented with white racial characteristics and Spanish-language carols. . . Peruvianizing national education demands that it be 'peasantized' and 'Indianized' in recognition of their values and identity."

In Dec. 19, 1992 statements to the same newspaper, Trahtemberg said: "In Peru . . . entire generations are educated without knowing or reflecting upon the racist baggage our history has contained since the arrival of the Spaniards. The mistreatment and discrimination against the Peruvian Indians has been taken as an unquestioned—and at time justified—historical fact, which only now, nearly 500 years later, has begun to be treated with seriousness due to the contribution of Andean scholars, as well as through the campaign of Shining Path."

Tax policy debate spells economic disaster

by Nancy Spannaus

The passage of President Bill Clinton's tax revenue package in the House Ways and Means Committee on May 13 is almost as disastrous as the defeat of his paltry economic stimulus program a few weeks before. The President has almost completely shifted the parameters of his economic package into one form of austerity or another, to "balance the budget." The result will be a political, as well as an economic, blowout.

Thus, despite his legislative "success," the President faces an increasing wave of discontent in the Congress, including within his own party. The agenda of social issues, such as lifting the ban on homosexuals in the military, has already roiled the political waters; now the economic agenda is likely to create the same backlash.

As Lyndon LaRouche has stated, as long as Clinton continues to waffle on asserting the only moral policy in the Balkans, he is going to face an eroding situation on domestic policy as well. The President is increasingly capitulating to Republican opponents of his original economic perspective, which contained moves in the direction of what he called "growing the economy." Under these conditions, he is in no position to take on the even more powerful forces who have created the economic depression, the central bankers at the Federal Reserve and the International Monetary Fund.

The tax package

By a straight party-line vote of 24-14, the Democratic Party-controlled House Ways and Means Committee voted up a slightly modified version of President Clinton's \$264 billion tax package. In addition to increases in corporate and personal income taxes, the main elements of Clinton's program—which is the largest single tax hike in United States

history—include the following:

- An energy tax, in the form of a levy on BTUs (British Thermal Units, a measurement of heat and energy). This tax will massively increase the cost of living, since it will force price hikes in everything from home heating fuel to food, transportation, manufacturing, and mining, based on BTU content.

An analysis conducted by *EIR* magazine has found that the BTU tax will raise energy taxes by nearly \$300 billion over the next 10 years, drive down energy consumption by 1-5%, and slash 350-500,000 jobs from the economy, almost all of them in the goods-producing sector.

Not surprisingly, the BTU tax will do great damage to the domestic oil industry. A recent study by Wright Killen and Co., a Houston energy consulting firm, projects that the BTU tax will lead to the shutdown of 40 U.S. refineries; those 40 closings, added to the recent closings of 24 other refineries, would reduce U.S. refining capacity by 17%, and cost thousands of jobs.

- An increase in the amount of Social Security benefits subject to taxation. The Clinton tax package, as passed by the Ways and Means Committee, will increase from 50% to 85% the taxable portion of Social Security payments for individuals with an income of \$25,000 a year, and couples with an income of \$32,000 a year.

This is the opening shot in a campaign to reduce spending on entitlement programs, especially those that support the "greedy elderly," including Social Security and Medicare.

- Implementation of Clinton's plan to "end welfare as we know it," and the expansion of "empowerment zones," the Clinton administration's term for free-enterprise zones.

To make matters worse, Clinton capitulated to opponents

of the one positive component of the tax package, an investment tax credit, or ITC, which he had previously and repeatedly identified as a cornerstone of his program to "grow the economy" out of its depression. But with the agreement of the White House, the Ways and Means Committee completely excised the ITC from the package.

Budding tax revolt

Immediately following the passage of the tax package, a group of Democratic senators announced their intention to break with the President's program. Democratic senators David Boren of Oklahoma and Bennett Johnston of Louisiana held a press conference with some Republican colleagues in order to put forward an alternative to the BTU tax package. While the pundits claim that this new package will be unable to win passage, there is no question but that it reflects strong anti-tax sentiment in the population.

Citing accurate projections of the disaster that the BTU tax would represent for the oil-patch states, which Boren and Johnston represent, the senators proposed an alternate taxation scheme that would be equally unfair. The primary target of their tax scheme was medical aid to the poor, in the form of Medicaid and Medicare. President Clinton was no doubt correct when he attacked the plan as hitting hardest at poor elderly and working poor sections of the population.

But what is actually going on here, is the presentation of a choice between the devil and the deep blue sea. Both the BTU tax scheme, and the proposed cap on medical spending for the indigent and elderly, will cripple the living standards of those who can ill afford it—and therefore will contribute to the spiraling decline of the real economic base. The fundamental problem is the President's, and Congress's, refusal to take up the necessary job creation program which has been put on the table by LaRouche—a massive infrastructure building program financed by cheap credit directed from a federalized Federal Reserve Bank. Without such a jobs program, every so-called deficit reduction or revenue enhancement measure is doomed to failure.

The Perot factor

The U.S. population is generally a bunch of suckers for the populist rhetoric which calls for cutting the federal budget so that "congressmen live within their means." Few generally stop to think about the effect of cuts on the real economic activity on which the continued survival of our nation depends. It will take strong leadership for Congress, and/or the President, to insist upon the government spending program required to reverse the worst depression of the century.

Making matters worse, however, is the abundantly financed campaign of billionaire populist H. Ross Perot. Perot seems to be devoting himself fulltime to building his organization, United We Stand America, and to organizing opposition to all aspects of President Clinton's program. In fact, the better the program (like limited infrastructure proposals),

the harder Perot opposes it.

Perot's group is currently circulating a national petition under the slogan "Cut spending before increasing taxes." It argues that "the Clinton plan does not balance the budget—ever," and demands that Congress "stand fast against 'politics as usual' by demanding spending cuts and reform *before* any new taxes or user fees are approved."

The Perot pitch is both vacuous and incompetent. The petition reads in part: "We will only pay additional taxes if they will be used to balance the budget and pay our current national debt, provided that you set the example for sacrifice. Cut your salaries, retirement plans, and perks. Implement real government reform, including elimination of foreign lobbyists, PACs, soft money, and limit the role of domestic lobbyists to simply providing information to Congress, not giving money directly or indirectly. Spend our money carefully—not recklessly. Cut the pork. Account for every penny. Give us specific time commitments for balancing the budget. . . ."

The problem is that such measures will do *absolutely nothing* to employ the 6 to 8 million persons (out of more than 17 million unemployed or underemployed) whose labor is critical to rebuilding our infrastructure and national productivity. Indeed, you could cut the federal government budget by 50%, and all you would do is kill a lot of people. The debt service would then be an even larger proportion of the federal budget, and the economy would decline more rapidly. And who would have the most influence on Congress? The personally wealthy, like billionaire Ross Perot!

Unfortunately, Perot—like Clinton—has dropped his previous demand for rebuilding national infrastructure, and investing in real improvements in productivity. He is marching to the Wall Street drummer, in the guise of a down-home Texas populist.

Down to the wire

Under the current configuration, there is no way that President Clinton can assure either the recovery of the ailing economy, or his own political future. His austerity programs, of whatever form they take, are going to rip the country apart—with the elderly fighting the young, the energy producers fighting consumers, high-technology industry fighting proponents for the cities, and so forth, and so on.

As LaRouche has repeatedly advised, Clinton has got to stop trying to run Washington the way he ran Arkansas, and stop being so flexible that he gives up the guts of a real economic program. Ultimately, the President is going to have to go up against the financial establishment itself, including the Federal Reserve, if he's going to avoid the fate of being as unpopular as President Bush, in a much shorter period of time.

Asserting rationality—in areas such as the Balkans and on the U.S. economy—is the only way for Clinton to prevent the U.S. itself from dissolving into a horrible chaos.

Russian-U.S. SDI cooperation still open; 'end of SDI' is Aspin's conceit

by Paul Gallagher

Secretary of State Warren Christopher made clear in testimony to the Senate on May 11 that discussion of cooperative U.S.-Russian efforts for an anti-nuclear missile defense have been taking place (see *Documentation*). These talks aim toward a global early warning ability and "theater" defenses (interception within the atmosphere) against possible missile launches by specific regional nuclear powers. Furthermore, both Christopher and Sen. Jesse Helms (R-N.C.) noted that it is the Russian side which is pushing those discussions toward joint experimentation, proposing specific areas of frontier technologies and "new physical principles" to be worked on jointly. The Russian project (the name of which was not mentioned by Christopher) is the vital "Trust" proposal made by Russian academicians and government officials at the Vancouver summit for "joint plasma weapons experiments."

Further, President Clinton specifically praised the "spin-off technology" effects of the Strategic Defense Initiative (SDI) program for the future of the U.S. economy, in remarks at Los Alamos National Laboratory on May 18.

All this debunks the worldwide "end of SDI" coverage given to the press conference held on May 13 by Defense Secretary Les Aspin. Aspin announced the change of the name of the SDI office, and the intention to favor accelerated production of off-the-shelf Patriot missile-type theater defense systems, rather than development of laser and plasma frontier technologies. But his opening assertion that these are Clinton administration changes in priorities in response to the end of Soviet power, was untrue.

The secretary acknowledged under questioning that he had in no way changed either the SDI funding request for FY 1994 or the strategic priorities for it, both were set by the Bush administration, which pushed aside the aggressive research into new scientific principles of Reagan's SDI. These priorities were set in the Ballistic Missile Defense Act passed in early 1991 (after Operation Desert Storm), while the communist regime led by Mikhail Gorbachov was still in power. Now, the new Russian proposals would take this idea of ground-based, theater defenses against limited nuclear attacks, and give it back its frontier scientific content—in particular, plasma technologies.

Aspin stated, to the surprise of reporters present, that the SDI had been the main factor in bringing about the collapse of the Soviet empire. The SDI, moreover, has never been a

"large crash program," as seen by the contrasting fact that the World War II Manhattan Project to develop atomic weapons spent, on average, \$8 billion per year in 1985 dollars.

In Russia, this proposal for a "new SDI" developed by the scientists, is now being politically debated and attacked in exactly the same terms that were used to try to stop the LaRouche-proposed SDI adopted by President Reagan and announced on March 23, 1983. The daily *Rossiyskaya Gazeta*, which attacked the "Trust" proposal on May 8, is the publication of the Supreme Soviet—the Russian Parliament. If the cynicism expressed by Aspin prevents the Clinton White House from going ahead with the Russian "new SDI" offer, this will contribute to unleashing a chauvinist nightmare on the Russian side.

Documentation

U.S.-Russian work ongoing

The following exchange between Sen. Jesse Helms (R-N.C.) and Secretary of State Warren Christopher took place during Christopher's testimony to Senate Foreign Relations Committee on May 11.

Helms: With reduced numbers of nuclear weapons, the defense is usually better capable or more capable of handling the threat and not being overpowered. What is your assessment this day of SDI with the number of weapons in this treaty? . . .

Christopher: Well, I think the number of weapons that remain outstanding in this treaty for the United States provide adequate security for the United States in confronting any of its potential adversaries. The Strategic Defense Initiative is a program that goes forward, but in a very—in a reduced context, and I'm not sure that I see the immediate relationship between the two, senator, so long as our nuclear arsenal is adequate for the challenges we face in this new period.

Helms: Well, I think you are going to find a lot of people who see a relationship, and let me put the question another way. The Russians have contacted various Americans, including this senator, with the proposal that we have a joint

Russian-U.S. SDI. Now I'm sure you know that. . . . The Russians are more worried about Libya, and Syria, and Iran, and China—to name just a few—than they are about the United States. Now does that un-complicate my general question about SDI?

Christopher: Yes sir, it does. . . . There is—it's going under a new title now, but there is a joint U.S.-Soviet, U.S.-Russian effort to see if we can cooperate in developing systems of that kind which will help us fend off attacks from the likes of those countries that you mentioned. That effort is in its early stages, but it is an effort that we intend to pursue to see if it has some productivity, some prospects.

SDI opponents in Moscow

The Moscow daily Rossiyskaya Gazeta, in a Viewpoint column by Petr Belov on May 8 entitled "We Sell Uranium, We Disclose Classified Information. . . . Who Reaps the Benefit?" opposed a joint U.S.-Russian SDI program.

Recently the newspapers reported the sale at a fabulously low price of Russian strategic uranium reserves and the organization of a joint experiment to improve ABM defenses.

Let me remark that these deals, which are profitable only to the United States, are served up by our mass media as Russian initiatives. . . .

Our initiative on the use of plasma weapons to disable missile warheads is really dangerous to international stability. It is fundamentally impermissible, in my view, because it sets a precedent for testing ABM weapons operating on new physical principles. . . .

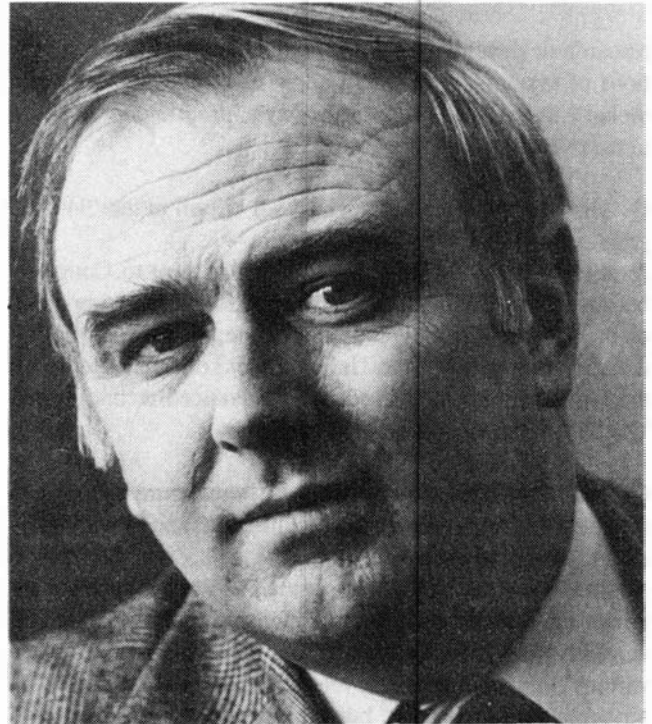
The actual idea of using plasma weapons is not new, including using them to destroy such targets as missile warheads, whose flight in dense atmospheric strata is accompanied by the formation of an area of superheated and therefore ionized gas. If such objects encounter another area of equally ionized gas in their way. . . . (in our case, plasma formations) forces arise between them which can alter the warhead's trajectory and in certain circumstances even destroy it. . . .

"Our" proposal on the joint experiment will most likely not go unnoticed. But we risk not only squandering our intellectual resources, but also giving a direct motive for violating the ABM Treaty.

SDI helped end Soviet empire

The following is from Defense Secretary Les Aspin's press briefing on May 13.

We are renaming and refocusing the Strategic Defense Initiative Office to reflect the Clinton administration's changes in the priorities. From now on, the SDIO will be the Ballistic Missile Defense Organization. . . . These changes are possible because of the end of a battle that has raged in Washington for a decade over the best way to avoid nuclear war. That battle was over whether we should build a massive defense against a missile attack from the Soviet Union, or whether



U.S. Secretary of Defense Les Aspin. The changes in administration policy toward the SDI do not preclude acceptance of the Russian offer of cooperation in ballistic missile defense.

we should press for arms reductions backed by traditional deterrents. Like many Washington battles, that wasn't decided on the merits. It just went on so long that circumstances changed the terms of the debate. The fate of Star Wars was sealed by the collapse of the Soviet Union. . . .

Saddam Hussein and the Scud missiles allowed us—showed us that we needed ballistic missile defense for our forces in the field. That threat is here and now. In the future, we may face hostile or irrational states that have both nuclear warheads and ballistic missile technology that could reach the United States.

This is why we have made theater ballistic missile defense our first priority, to cope with the new dangers in the post-Cold War, post-Soviet world. After theater missile defense, BMDO's priorities are going to be the national missile defense, which is a defense of the American people from ground-based systems. And the third point of emphasis or third priority will be the follow-on technologies that offer some promise in both tactical and strategic defense. These changes represent a shift away from a crash program for deployment of space-based weapons designed to meet a threat that has receded to the vanishing point—the all-out, surprise attack from the former Soviet Union. . . .

Since its inception in 1984, SDIO has reported directly to the secretary of defense. The new arrangement has the BMD Organization reporting to the undersecretary of defense for acquisition and technology, which is John Deutsch. This shift reflects the fact that the program will be shifting from

research to development—to the development and acquisitions of systems. And it will allow us to manage our work on ballistic missile defense in a way appropriate to its place in the overall defense program.

Q: Do you still intend to spend \$3.8 billion in the '94 program, or do you have some savings in—

Aspin: No, the '94 program is as it was sent to Congress because it is focused in this new direction of heavy priority on theater missile defenses, number one; the second priority is national defense of the United States, missile defense of the United States; and third is the advanced technologies. The \$3.8 billion program in '94 still stands.

Q: Mr. Secretary, how quickly do you figure to go into acquisition, from research into acquisition, and how quickly do you expect to have a defense?

Aspin: We have, as you saw in the Patriot, we have something that you can make into a defense right now. We have currently four different theater missile systems that are at various points along the development process. We need to probably pare that down, but I think we may not want to—well, I'm sure we do not want to pare that down until we've got a better idea of where the strengths are. But the theater missile program is going ahead, and that will be the first effort that will show results. In fact, we do have something that works right now.

Q: Mr. Secretary, but did the American people get their money's worth out of the program?

Aspin: I think that we learned a lot if we can pull something from the experience that we had and apply it. I think if it helped to bring about the kind of changes that we had in the Soviet Union, I think the answer is yes.

Clinton lauds SDI spinoffs

At Los Alamos National Laboratory on May 17, President Clinton cited technological spinoffs from the SDI program. Clinton cited the example of "plasma ion implantation," which he described as follows: "It involves a steel vacuum chamber containing high-energy ions which can be pumped into metal surfaces or plastic surfaces and used to harden them so that they will last longer and do better work. This could revolutionize America's ability to manufacture automobiles and other machines, to keep going and to have higher productivity longer and lower costs so we can once again begin to [create] high-wage manufacturing jobs. . . ."

"And this technology was a direct outgrowth of the research done on the Strategic Defense Initiative, the so-called Star Wars initiative, which means that no matter whatever happens there and whatever happens to the final shape of that project, something good came out of it because people were looking to break down frontiers in the human mind and to explore unexplored territory."

Mandatory sentencing laws under attack

by Edward Spannaus

The United States, which has the highest known rate of incarceration in the world, is continuing to outdistance its nearest competitors. Once again, newly released statistics show that the U.S. prison population has reached record levels; the total number of persons in prisons and jails in the United States is now over 1.3 million. Drug cases were a major source of the increased number of prisoners in 1992, according to the U.S. Justice Department. In 1990, the last year for which precise statistics are available, about one-third of those sent to jail were drug offenders. Most of these are low-level users and dealers, which has had no effect in stemming the overall drug plague.

The soaring rise in the prison population is one of the factors impelling calls for a review of the mandatory sentencing laws passed by Congress in the 1980s as part of efforts to "get tough on crime." Attorney General Janet Reno has criticized the mandatory sentencing laws, especially as they apply to drug cases, and she recently ordered a Justice Department review of federal prosecutive and sentencing policies to determine the impact that these policies are having on the prison system.

"I have a concern because there may be situations in which minimum mandatories are causing federal offenders to serve 10 or 15 years for being minor participants on a drug boat deal," Reno told the *Washington Post*. But at the same time, she said, "murderers, rapists, and robbers in state courts are serving drastically reduced sentences because there are not enough prison cells."

Record levels

During 1992, the number of persons being held in state and federal prisons in the United States reached the record level of 883,593, an increase of 7.2% over 1991. Since 1980, the number of prisoners has risen 168%, from about 330,000 to the current figure of 883,593. Of these, federal prisoners make up about 80,000, and state prisoners a little over 803,000.

However, the federal prison rates are increasing almost twice as fast as state rates. The rate of increase for federal prisoners was 12.1% from 1991 to 1992, and was 12.5% from 1990 to 1991.

Add to this between 400,000 and 500,000 inmates in jails

(that is, with sentences of less than one year), and the total number of persons incarcerated is over 1.3 million—a rate far in excess of any other country. The U.S. rate is considerably higher than South Africa, which has the second-highest rate. The U.S. rate is over four times greater than the next highest western industrialized country—the United Kingdom—and is about 10 times greater than those of Japan, Sweden, Ireland, and the Netherlands.

About one-third of those incarcerated in the United States are black. Taking just the jail population, almost two-thirds are classified either as black or Hispanic, according to the most recent figures available.

The Reagan-Bush administrations sponsored numerous bills in Congress which set mandatory minimum sentences for various offenses. There are over 60 federal statutes setting mandatory minimum sentences, but only four of these, pertaining to drugs and weapons violations, account for virtually all of the sentences issued. Almost two-thirds of those sentenced under the mandatory minimum laws are black or Hispanic. (The mandatory minimums are often confused with the sentencing guidelines which cover all federal offenses committed since 1987, but they are distinct and indeed often in conflict.)

Shift away from philosophy of rehabilitation

Both systems—the overall sentencing guidelines, and mandatory minimum sentences—represent a shift away from the philosophy of rehabilitation which was prevalent in much of this century. Both systems eliminate parole, and both take away the discretion of the sentencing judge to tailor a sentence to the offender and to his likelihood of rehabilitation. The current, official policy of the federal system and most of the states is pure and simple “warehousing” of prisoners for longer and longer periods of time.

Recently, two highly regarded federal judges in New York disclosed that they are refusing to take drug cases because of what they regard as the unfairness of the mandatory minimums and the sentencing guidelines. Both judges, Whitman Knapp of Manhattan, and Jack Weinstein of Brooklyn, are “senior status” judges who are thus able to pick and choose which cases they will hear.

Dozens, if not hundreds, of other federal judges around the country have also rebelled against the sentencing system in less public ways.

“I need a rest from the oppressive sense of futility that these drug cases leave,” said Judge Weinstein when he disclosed his refusal to take any more drug cases. “I simply cannot sentence another impoverished person whose destruction has no discernible effect on the drug trade.”

Judge Vincent Broderick of New York, who heads the criminal law committee of the Judicial Conference of the United States, commented that “what Judges Weinstein and Knapp did was to give voice to a real frustration that judges feel in imposing sentences they do not feel are just.”

The U.S. Supreme Court, dominated by Chief Justice William Rehnquist, has nevertheless upheld the constitutionality of the new sentencing laws, after a number of lower courts had invalidated them. But just recently, U.S. District Judge Harold Green in the District of Columbia held the sentencing laws unconstitutional, this time on grounds differing from those previously upheld by the U.S. Supreme Court.

Virginia prison head protests

A stinging attack on the “lock ‘em up,” warehousing philosophy of justice came from an unlikely quarter on May 13. The chairman of the Virginia State Board of Corrections, Peter Decker, told the board that the philosophy of “lock ‘em up and throw away the key” has contributed to a modern conflagration of rapes, assaults, and other violent crime in Virginia.

With nine new prisons and \$300 million in construction planned for an inmate population expected to rise by 10,000 by 1997, Decker said politicians advancing the “lock ‘em up” approach were guilty of official misconduct. “Through the years, our legislators have said . . . that to educate [inmates] and to spend money on that instead of brick and mortar is coddling criminals,” said Decker. But, “I consider keeping people in prison without treating them, without training them, and turning 98% of them back into the public so that they can do the same things again, is tantamount to a social holocaust. . . ; it’s like shooting a gun into a crowd. It’s malfeasance on the part of our legislators, not to try to treat, educate, and reform prisoners while they’re incarcerated.”

Decker continued, “I have almost never heard politicians talk about the fact that every [repeat offender] carries with them two and a half new victims. One thousand women and children a year are raped or abused [in Virginia], because therapeutic treatment was not afforded to sex offenders while they were in captivity.” Such treatment would cost only \$10,000 a year, said Decker.

Frederick L. Russell, executive director of the State Crime Commission, said at the same meeting of the Board of Corrections, “It sounds great to lock people up and throw away the key . . . but the public doesn’t know what is cost-effective in the long run.”

Addressing a drug policy conference on May 7, Attorney General Reno argued a similar point, that in many instances community-based programs of job training and counseling would be far more effective in preventing further crime, than simply locking offenders up in prison for lengthy periods of time. Reno suggested that when dealing with someone who is a non-violent, first-time offender who we know will be returning to the community, the chances of preventing future criminal behavior is much better if that person can be reintegrated back into the community under supervision, rather than simply locked up for a long period of time.

Subcommittee promises action on LaRouche case

Lyndon LaRouche spokeswoman Debra Hanania-Freeman delivered testimony before the House Appropriations subcommittee on Commerce, Justice, State, and the Judiciary on May 11 in which she charged that the Department of Justice was guilty of grave misconduct in the case of the jailed American statesman and economist.

Freeman documented that Justice Department policies and Supreme Court rulings have vastly expanded the powers of prosecutors and, at the same time, made it increasingly difficult for courts and aggrieved individuals to hold federal prosecutors accountable for tactics that just a few years ago would have been considered grounds for case dismissal or disciplinary action.

She cited instances of tactics that included manipulation of grand juries; failure to disclose evidence favorable to a suspect or defendant; government intrusion into the relationship between defense attorneys and clients; tainting of evidence; intimidation of witnesses; entrapment of defendants; and blitzkrieg indictments or threats of indictment designed to force capitulation without trial. Freeman said that the Justice Department had gained a reputation as the most thoroughly politicized and ethically compromised department in the government.

"But," the LaRouche spokeswoman continued, "no other case has raised the level of international outcry than the case of Lyndon LaRouche." Freeman described the international mobilization to free LaRouche, including, most recently, the thousands of human rights figures from around the world who have petitioned President Clinton for LaRouche's release.

Freeman detailed the extraordinary motion filed last year by former

Attorney General Ramsey Clark on LaRouche's behalf, seeking to vacate LaRouche's unlawful sentence. She said that the principal ground cited for LaRouche's immediate release is that massive amounts of newly obtained evidence prove that "the prosecution conducted and participated in a conspiracy and concerted action with others to illegally and wrongfully convict LaRouche by engaging in outrageous misconduct, including financial warfare." The motion, she said, is supported by six volumes of newly discovered evidence that had been suppressed or concealed.

Freeman called on the committee to withhold all funding for the Justice Department until oversight hearings were convened by the appropriate congressional committees and the pattern of prosecutorial abuse is put to an end.

Subcommittee Chairman Neal Smith (D-Iowa) responded that committee members were well aware of the problem that Dr. Freeman had cited. He assured her that steps were being taken to initiate the type of hearings she was demanding and that he hoped that hearings would result in an early and happy resolution of the problem she had presented.

Durenberger calls for 'Big Brother' food agency

Sen. David Durenberger (R-Minn.) will introduce a bill calling for a single food safety agency, his staff told *EIR* on May 14, and "all the producers are behind it." Durenberger wants to unify the federal government's food safety and inspection services, which are now dispersed in several agencies—USDA, FDA, EPA, and the Department of Commerce.

Durenberger announced his plan on May 6, right on the heels of a demand by a new ecologist consumer

coalition, the New Council on Food Safety, for such an agency. The New Council, composed of anti-science groups like Food & Water, Inc. and the Community Nutrition Institute, is promoting "zero tolerance regulatory policies," prohibiting even minute, inconsequential residues of pesticides in foods.

The New Council wants a new federal agency "where consumers' interests can be dealt with away from market pressures," according to a report in the May 8 *Food Chemical News*. The new group would ban meat and poultry irradiation, hormones to increase animal weight or milk production, and chemical dips and sprays as a treatment for meat and poultry.

Opposition grows to Clinton's BTU tax

President Clinton's proposed tax on the heat content of fuels appears to be the weak link in his overall tax package, which was approved with minor modifications on May 13 by the House Ways and Means Committee. The full array of revenue measures in the bill would raise taxes by \$250 billion over five years, one of the largest increases in U.S. history.

Bennett Johnston (D-La.), chairman of the Senate Energy Committee, charged that the BTU tax would make the United States "completely dependent on foreign oil" and "may even lead to another war," UPI reported. Sen. Don Nickles (R-Okla.) said the tax is "a loser, will cost jobs, and will hurt the environment."

On May 13, the Texas Senate unanimously voted to send a delegation of 10 to Washington to lobby against the BTU tax, following testimony that the tax would cost the average Texas family between \$300 and

\$700 a year, and result in the loss of 80,000 jobs in the state. Democratic State Sen. Carl Parker declared, "If you take it to them, look them in the eye and tell them you're going to rip their heads off if they don't do right, you'll get their attention."

Gonzalez rips money launderers

Delivering the keynote speech at the International Money Laundering Conference in Miami on May 13, Rep. Henry Gonzalez (D-Tex.) charged that more than \$300 billion is illegally laundered in the United States each year by drug traffickers and others, UPI reported.

Gonzalez, who chairs the House Banking Committee, said, "Without question, much of these ill-gotten gains is still entering our banking system without being detected by our federal law enforcement and bank regulatory authorities. For this reason, the House Banking Committee is taking an in-depth look at the government's money-laundering detection, investigation, and prosecution activities."

Gonzalez said it is "imperative" that a major overhaul of federal efforts be undertaken "if we are ever to win the war against money laundering."

'Figaro' cites Gonzalez fight to control Fed

France's daily *Le Figaro* drew attention to the efforts of House Banking Committee Chairman Henry Gonzalez (D-Tex.) to place political controls over the U.S. Federal Reserve System, and drawing the ironic contrast with the French government's effort to give greater "independence" to the Banque de France. The Federal Reserve, which is in fact unconstitution-

al, is independent of the U.S. government, and the "privatization" of the Banque de France would have similarly disastrous effects on France's economy.

In its economics coverage for May 13, *Le Figaro* wrote: "While France is involved in a reform that strives to strengthen the independence of the Banque de France, the U.S. is beginning to criticize the independence of the Fed and its technocratic organization. The chairman of the Banking Committee . . . Henry Gonzalez, has put forward a bill seeking to strengthen the controls exercised over the central bank." The idea is to render the Fed more "accountable" to Congress.

Le Figaro continued that the Clinton administration is "observing the greatest possible discretion" on this subject, since it wants Federal Reserve Chairman Alan Greenspan to rally behind the White House "recovery plan." But no matter how the debate ultimately goes, the article concluded, "the fact is that the debate has begun" over curbing the Fed's independence.

Roth covers for U.N., Serbian genocide

Rep. Toby Roth (R-Wisc.) called the Serbian war of aggression against Bosnia a civil war, in remarks on the floor of the House on May 10. While cloaking his arguments in populist rhetoric, claiming that the United States would have to pick up the tab for reconstruction of Bosnia if it moves to halt Serbian attacks, Roth is defending Serbian genocide.

Roth called those who favored U.S. intervention, naming Sens. Joseph Biden (D-Del.) and Dennis DeConcini (D-Ariz.), "jingoists who want to send American men and women into combat in Bosnia." He said

that President Clinton claimed that American troops would not be deployed to Bosnia without a clear goal, so he asked "what could that goal be, when Bosnia is in the midst of a civil war, a blood feud?" He also claimed that "a clear majority of Americans are opposed to sending American troops into Bosnia," because, he said, "they see Bosnia as Europe's problem."

On the Vance-Owen plan, he said that it "may not be perfect, but it is every bit as good as we can realistically hope for in Bosnia. It is our only hope to avoid war, but it is Europe's responsibility to put Vance-Owen into effect."

Torricelli raves at Iraq over assassination 'attempt'

Rep. Robert Torricelli (D-N.J.) issued a call on the floor of the House on May 12 for an investigation of the alleged attempt to assassinate former President George Bush while he was visiting Kuwait in April. He said, "It is time for this government, if these allegations are true, to unleash the real wrath of the United States government, as it has never been unleashed before, upon Saddam Hussein if he genuinely attempted to assassinate the former President of the United States."

Rep. Tom Lantos (D-Calif.) attempted to strengthen the allegations, putting Arab press reports into the May 12 *Congressional Record*. One article, from the Kuwaiti paper *Al-Sharq Al-Awsat*, claims that a terrorist network, from which 15 suspects have been arrested, including 10 Iraqis, had planned to destroy key places in Kuwait in order to facilitate "blowing up former U.S. President George Bush's motorcade."

U.S. officials, however, doubt the veracity of the evidence.

National News

Insurers, HMOs refusing to cover emergency care

The American College of Emergency Physicians, alarmed at the focus on "managed care" plans in health care reform proposals, told *EIR* that managed care insurers, health maintenance organizations (HMOs), and private health insurance companies increasingly won't cover emergency room (ER) services and tests patients receive if ER doctors find a patient's problem was not grave.

ACEP's Dr. Michael Bishop told *EIR*: "As a college, we feel the patient should define what is an emergency." But the patient has no way of knowing how serious his symptoms are without seeing a doctor. Bishop said, "Too many insurers say: 'It was not an emergency,' and refuse payment for the ER workup." Patients with intractable cardiac-like pain tell ER physicians they delayed coming in because their private insurer or HMO would not authorize the ER visit.

DOJ split on Waco probe; FBI destroys evidence

On May 18, the Department of Justice (DOJ) said that there would be a thorough review of all elements leading to the decision to assault the Branch Davidian compound in Waco, Texas, including interviews with Attorney General Janet Reno, FBI Director William Sessions, and others. The step was unusual because it contradicted statements made by Philip Heymann, the new deputy attorney general who has been designated to head the investigation, reported in the May 16 *New York Times*, that there would be no investigation of the decision which led to catastrophe. A DOJ spokesman said that Heymann had "erred" in making the statement.

Heymann had said there would only be a generalized inquiry into what the government could do to improve its future handling of cases involving terrorists, hostage situations, and "cults suspected of breaking the law."

One anonymous source quoted by the *New York Times* said that Heymann's remarks reflected a division within the Justice Department about how closely it should look at the events, with some "high officials arguing forcefully that the inquiry should be more limited, to focus only on what should be done in future cases."

On May 12, the FBI began bulldozing the ashes of the Branch Davidian farm, destroying physical evidence at the scene. FBI Special Agent in Charge Jeffrey Jamar told news services, "They're just filling holes, so people won't fall in the pits." But Jack Zimmermann, lawyer for the late Davidian leader Steve Schneider, said the bulldozing "forever prevents any checking on the ATF's [Bureau of Alcohol, Tobacco, and Firearms] rendition that the fire was intentionally set," according to the *Washington Post*.

Porn publisher behind 'Rainbow' texts

Alyson Publications, whose children's textbooks such as the pro-lesbian *Heather Has Two Mommies* have outraged New York elementary school parents, has been exposed as a pornographer and front for child molesters. The so-called Rainbow Curriculum of deposed New York schools chancellor Joseph Fernandez has included the "Alyson Wonderland" series of gay-sex-for-tots books, designed to make children comfortable with the homosexual "lifestyle."

According to the nationally distributed newsletter of the Colorado for Family Values group, "Alyson's other books . . . promote children as objects of sexual pleasure, advise how to have sex with children without getting caught, provide locations around the world where child prostitutes can be had, and list clubs [which] pedophiles can join such as the North American Man-Boy Love Association (Nambla). Titles include an intellectual argument for man-boy sex called *Pedophilia: The Radical Case*. Another is *Macho Sluts* (edited by publisher Sacha Alyson), erotic fiction containing homosexual torture of a child. In one scene a protagonist lesbian performs sado-masochistic sex on her young daughter, whipping

the child until she bleeds.

"One of Alyson's earliest ventures was *The Age Taboo* . . . [which] maintains that 'man/boy love' is a civil rights issue and rejects the 'child molester' label. Childhood innocence is derided as a new social phenomenon that represses children's alleged sexual desires; the book argues that children can be seduced. . . ; consensual sex with children is therefore normal. . . . One contributor says that 'The scare against kiddie-porn was used . . . to blunt and turn back the movement to provide children with the information and opportunities to make informed choices about their lives and their bodies.' "

EIR has learned from reliable sources that publisher "Sacha Alyson" is actually John Shaller, a Boston-area associate of Bill Andriette, the editor of the Nambla newsletter.

Texas House votes to limit death row appeals

Only one day before the May 12 execution of an innocent man, Leonel Herrera, the Texas House of Representatives by a vote of 74-27 tentatively approved a bill that would limit the number of appeals for death row inmates, as well as place a time limit on those appeals. The bill would not limit appeals based on claims of innocence, but would allow only one appeal based on procedural and due process claims.

Incredibly, the motivation for the legislation is to save the state money. The *Houston Chronicle* reported that death sentence appeals average more than eight years and that it costs \$70,000 a year to keep an inmate on death row. The state also spends about \$1 million fighting each case. Rep. Pete Gallego (D-Alpine), a supporter of the bill, was quoted, "We're going to be saving the state some money by doing this."

In a minor concession to anti-death penalty activists, the bill would allow the Court of Criminal Appeals to stay executions for up to 120 days. State law now allows only the governor or the state Board of Pardons and Paroles to stay executions for only 30 days.

Although Herrera mustered solid testi-

mony indicating his innocence, and despite appeals for clemency from Pope John Paul II, Gov. Ann Richards and the Board of Pardons refused clemency or even a stay.

FBI informants led to Trade Center suspects

The FBI had at least two informants in the World Trade Center case who provided evidence on the alleged suspects, and who were arrested within days of the Feb. 26 bombing. The disclosure of the existence of the informants, who are now said to have fled abroad, may blow apart the official version provided by the Bureau of Alcohol, Tobacco and Firearms (ATF) and FBI of how they managed to make such rapid arrests.

Robert Precht, the attorney for defendant Mohammad Salameh, said on May 12 that he believes that a government informer, not bomb fragments, led to his client's arrest. Precht said that he has been skeptical about government statements that his client was traced through part of a van chassis found at the blast site. "There is a strong possibility that an informant led the government to Mr. Salameh," Precht told Reuters. "I don't believe they came to him through the VIN number," he said, referring to the vehicle-identification number found on major components of cars. "If true, it indicates that a number of federal officials lied in court and in their public statements."

Investigation sought on ADL-Humphrey ties

Minnesota author and political activist Roy T. Spannaus issued a statement on May 13 demanding that the state investigate the Anti-Defamation League (ADL), which has been caught by California investigators in an international spy ring.

Spannaus, a prominent Twin Cities building contractor in the 1960s whose family has long been identified with the Democratic Farmer-Labor Party, is the author of *A Trust Misplaced: The Dark Side of Minnesota's DFL Party*. The book documents the

deliberate destruction of his business by bankers, attorneys, and judges associated with the DFL.

"I wish to add my voice to the call for an investigation in Minnesota of the national spy network run by the Anti-Defamation League of B'nai B'rith," said Spannaus.

"As most Minnesotans know, I was a victim of the corrupt gang that runs the Democratic Farmer-Labor party today. I wrote a book about my experiences with these criminals who pose as businessmen, lawyers, and judges.

"Therefore, I'm not surprised in the least about the reported collaboration between Minnesota Attorney General [Hubert] 'Skip' Humphrey and the ADL in politically motivated harassment of the Lyndon LaRouche movement. Now the District Attorney of San Francisco has raided two ADL offices and seized massive evidence of ADL illegal spying and infiltration of law enforcement around the country. I believe that 'Skip' Humphrey himself ought to be the number-one target of any investigation of ADL crimes in Minnesota."

Mine workers strike three coal companies

Unionized coal miners in Illinois and Indiana walked off their jobs in the late afternoon of May 10 at Ziegler Coal Holding Co., Arch Mineral Corp., and Amax, Inc. The three companies belong to the Bituminous Coal Operators Association (BCOA), which represents 12 of the largest U.S. coal concerns in talks with the United Mine Workers (UMW).

The union has charged that BCOA has failed to negotiate in good faith by refusing to divulge information about BCOA companies closing union mines, and opening new, non-union mines under different corporate identities.

BCOA companies employ 50,000 UMW members. The companies have laid off another 10,000 UMW miners in the past year, while the union's membership has fallen from a 1979 peak of nearly 140,000. The BCOA supplies 28% of the 1 billion tons of U.S. bituminous coal mined each year.

Briefly

● **SENIOR U.S. OFFICIALS** are discounting Kuwaiti claims that Iraq planned to assassinate former President George Bush while he was in Kuwait last month. According to Reuters on May 15, officials find the Kuwaiti evidence to be questionable.

● **SUICIDE DOCTOR** Jack Kevoorkian took his 16th victim on May 16, the first since Michigan's law against so-called assisted suicide went into effect.

● **EIR EDITORS** announced the publication of a *Special Report*, "Why U.N. Plans for World Government Must Be Stopped" on May 12. The report includes case studies of U.N. depredations in Iraq, Cambodia, El Salvador, Somalia, and the former Yugoslavia. It will be available from *EIR* for \$250.

● **ALEXANDER HAIG**, the former secretary of state, has been chosen to act as a special consultant to the Central Asian republic of Turkmenistan.

● **STATE DEPARTMENT** official Timothy Wirth announced this month that the U.S. would rejoin the U.N. Fund for Population Activities and will press for an upcoming U.N. conference on population to endorse abortion globally.

● **PATCO AIR TRAFFIC** controllers, who were fired from their jobs for striking in 1981 and permanently banned from control towers, would be allowed to seek reinstatement, under a plan worked out by Secretary of Labor Robert Reich.

● **THE ANTI-DEFAMATION** League denied allegations by LaRouche associate Sheila Jones that it paid for Illinois officials to visit Israel, according to the May 13 *Chicago Defender*. The city's leading black newspaper cited Chicago ADL official Nina Kavin's excuse that "the trips are designed by friends of the ADL to promote understanding of Israel by various individuals including city police officials."

Karadzic and Kissinger: two of a kind

Bosnian Serb butcher Radovan Karadzic has escalated his demands once again, and is now virtually demanding an agreement from the United Nations and the world community of nations that he be given *carte blanche* to commit genocide against all Muslims resident in the expanded territory which he now claims. Sadly, this is the outcome of European efforts to prevent the Clinton administration from intervening to ensure the human and national rights of the Bosnians.

While there is impressive bipartisan support in the United States behind the stated Clinton policy—which calls for ending the arms embargo against the Bosnians and assisting them with targeted air strikes against the Serbian military—the British and French have organized an international effort to sabotage the Clinton initiative, in support of Serbia's imperial ambitions. The British press has compounded this second "Munich" policy by subjecting the U.S. President to vitriolic attack. Neville Chamberlain could not have done worse.

Now that Karadzic and the Bosnian Serbs have rejected the monstrosity known as the Vance-Owen plan, in favor of asserting their control over Bosnia, it has been proposed that a new negotiating team take over on behalf of the appeasers. Thus, Karadzic is urging that Mikhail Gorbachov and Henry Kissinger be the replacement team, whose mandate would be to buy "peace in our time," this time not on the backs of the Czechs and Slovaks, but the Bosnian people.

Kissinger has always been a toady for British policy. He admitted in a Chatham House speech on May 10, 1982 to having kept the British government "more fully informed and more closely engaged" than his own, when he was secretary of state under Richard Nixon. The confession underscored the obvious, that the policies for which he takes credit all reek of British balance-of-power politics, their adaptation of the guidelines set forth in the 19th century by Kissinger's idol Metternich.

The tragic situation of the Palestinian people and the destruction of Lebanon are instances of this. In the Middle East, Kissinger's consistent policy was to establish Anglo-American control over the region and

its oil, by fanning the flames of discord between the Arabs and the Israelis, and by ensuring that no pro-development national leaders could remain in power. His role in Pakistan, where he engineered the 1979 execution of former Prime Minister Zulfikar Ali Bhutto, was another case in point.

Now the British and their butcher Karadzic wish to give Kissinger free rein in the Balkans.

In a commentary in the May 16 *Washington Post*, Kissinger made clear where he stands. He rejects out of hand the national sovereignty of Bosnia, by defining the extermination of the Muslim population of Bosnia by the Serbians as a civil war. He denies that "ethnic cleansing" can be compared to Nazi war crimes, labeling it a normal, if barbaric, method of fighting civil wars in the area.

Echoing Neville Chamberlain's placating of Adolf Hitler, Kissinger argues that the danger of Serbia attacking neighboring Macedonia or Kosova is lessened, because it would provoke American intervention to contain the Serbs.

Kissinger also twists the facts of pre-war life in Bosnia, claiming that it was always bitterly divided along religious lines. In fact, precisely the opposite was the case. Some 30% of all families living in pre-war Bosnia were intermarried, and most corporations had Muslims, Jews, and Christians as their executive officers and among their work force. But truth has never been Kissinger's strong suit.

Actually, it is a good thing that Kissinger has come to the fore as the leading U.S. opponent of allowing the Bosnian people to arm themselves and of using force to deny the Serbs their military conquests. This should arouse many Americans to an active show of support for the Clinton administration and the congressmen and senators who have expressed backing for President Clinton's proposed intervention in Bosnia.

Henry Kissinger, Lord Owen, and the geopolitical gamesmanship which they espouse should be unequivocally rejected by the American people, now and for all time. The fight for sovereignty in Bosnia has become the fight for America's soul as well.

SEE LAROUCHE ON CABLE TV

ALASKA

- ANCHORAGE—AC-TV Ch. 40
The LaRouche Connection
Wednesdays—9 p.m.

CALIFORNIA

- MODESTO—PA Ch. 5
The LaRouche Connection
Thurs., June 10—6:30 p.m.
- MOUNTAIN VIEW—
MVC-TV Ch. 30
The LaRouche Connection
Tuesdays—4 p.m.
- SACRAMENTO—Access Ch. 18
The LaRouche Connection
Wed., June 9—10:00 p.m.

DISTRICT OF COLUMBIA

- WASHINGTON—DC-TV Ch. 34
The LaRouche Connection
Sundays—12 Noon

FLORIDA

- PASCO COUNTY—TCI Ch. 31
The LaRouche Connection
Tuesdays—8:30 p.m.

GEORGIA

- ATLANTA—People TV Ch. 12
The LaRouche Connection
Fridays—1:30 p.m.

IDAHO

- MOSCOW—CableVision Ch. 37
The LaRouche Connection
Weekly—usually Weds. eve.
(Check Ch. 28 Readerboard)

ILLINOIS

- QUAD CITIES—Cox Ch. 4
The LaRouche Connection
Thursdays—10:30 p.m.

INDIANA

- SOUTH BEND—TCI Ch. 31
The LaRouche Connection
Thursdays—10 p.m.

MARYLAND

- MONTGOMERY—MC-TV Ch. 49
The LaRouche Connection
Tuesdays—11 p.m.
Thursdays—2:30 p.m.
- WESTMINSTER—
Carroll Community TV Ch. 19
The LaRouche Connection
Tuesdays—3 p.m.
Thursdays—7 p.m.

MICHIGAN

- TRENTON—TCI Ch. 44
The LaRouche Connection
Wednesdays—2:30 p.m.

MINNESOTA

- MINNEAPOLIS—Paragon Ch. 32
EIR World News
Wednesdays—6:30 p.m.
Sundays—9 p.m.
- ST. PAUL—Access Ch. 33
EIR World News
Mondays—8 p.m.

NEW YORK

- BROCKPORT—Cable Ch. 12
The LaRouche Connection
Thursdays—7 p.m.
- BRONX—
Riverdale Cable CATV-41
The LaRouche Connection
Saturdays—10 p.m.
- BROOKHAVEN—TCI Ch. 6
The LaRouche Connection
Wednesdays—3:30 p.m.
- BUFFALO—BCAM Ch. 32
The LaRouche Connection
Mondays—6 p.m.
- HYDE PARK—
U.S. CableVision Ch. 6
The LaRouche Connection
3rd Sun. Every Month—2 p.m.

IRONDEQUOIT—

- Cable Ch. 12
The LaRouche Connection
Tues. & Thurs.—7 p.m.

MANHATTAN—

- MNN Ch. 69
The LaRouche Connection
Saturdays—12 Noon

QUEENS—QPTV Ch. 56

- Wednesdays—6 p.m.

ROCHESTER—GRC Ch. 19

- The LaRouche Connection*
Fridays—10:30 p.m.
Saturdays—11 a.m.

STATEN ISL.—SIC-TV Ch. 24

- The LaRouche Connection*
Wednesdays—11 p.m.

SATURDAYS—8 a.m.

- WESTCHESTER—
Mt. Vernon PA Ch. 18
The LaRouche Connection
Fridays—6 p.m.

OREGON

- CORVALLIS—TCI Ch. 11
The LaRouche Connection
Wednesdays—1 p.m.
Thursdays—9 a.m.

PORTLAND—Cable Access

- The World Cannot Exist Half*
Slave & Half Free
Sat., June 5—5:30 p.m. (Ch. 11)
The Ugly Truth About the ADL
Mon., June 28—1 p.m.

TEXAS

- HOUSTON—PAC
The LaRouche Connection
Mondays—5 p.m.
The Execution of Africa
Tues., June 1—4 p.m.
Thurs., June 3—4 p.m.

VIRGINIA

- ARLINGTON—ACT Ch. 33
The LaRouche Connection
Sundays—1 p.m.
Mondays—6:30 p.m.

CHESTERFIELD COUNTY—

- Storer Ch. 6
The Schiller Institute Show
Tuesdays—9 a.m.

FAIRFAX COUNTY—

- Media General Ch. 10
The LaRouche Connection
Wednesdays—6:30 p.m.
Thursdays—9 a.m.
Fridays—2 p.m.

LEESBURG—MultiVision Ch. 6

- The LaRouche Connection*
Mondays—7 p.m.

RICHMOND/HENRICO—

- Continental Cable Ch. 38
The Schiller Institute Show
Mondays—8 p.m.

WASHINGTON

- SEATTLE—PA Ch. 29
The LaRouche Connection
Mondays—3:30 p.m.

SPOKANE—Cox Ch. 20

- Trilateral President*
Mon., May 31—3:30 p.m.
On the Danger of World War
III
Wed., June 2—4 p.m.
Reforming the O.A.S.
Wed., June 9—4:30 p.m.

VANCOUVER—

- Community Access Network
Ch. 49
The World Cannot Exist Half
Slave & Half Free
Sat., June 5—5:30 p.m.

Executive Intelligence Review

U.S., Canada and Mexico only

- 1 year \$396
- 6 months \$225
- 3 months \$125

Foreign Rates

- 1 year \$490
- 6 months \$265
- 3 months \$145

I would like to subscribe to
Executive Intelligence Review for

- 1 year 6 months 3 months

I enclose \$_____ check or money order

Please charge my MasterCard Visa

Card No. _____ Exp. date _____

Signature _____

Name _____

Company _____

Phone () _____

Address _____

City _____

State _____ Zip _____

Make checks payable to EIR News Service Inc.,
P.O. Box 17390, Washington, D.C. 20041-
0390.

COLD FUSION

Challenge to U.S. Science Policy

The ground-breaking discovery announced by Martin Fleischman and Stanley Pons on March 23, 1989 has been received, not with scientific debate, but with a crude political witch-hunt. Compare what the anti-science mob is saying, with what Lyndon LaRouche writes in a 173-page science policy memorandum issued by the Schiller Institute.

Lyndon LaRouche



"These cold fusion experiments, taken together with other experiments exhibiting related kinds of anomalous results, should become featured elements of a special research project—a 'mini-crash program' of fundamental research—enjoying the moral and material support of appropriate public and private institutions of the United States and other nations."

Paul Ehrlich

Given society's record in managing technology, the prospect of cheap, inexhaustible power from fusion is "like giving a machine gun to an idiot child."



Jeremy Rifkin

"It's the worst thing that could happen to our planet."



Nature magazine

"The Utah phenomenon is literally unsupported by the evidence, could be an artifact, and given its improbability, is most likely to be one."



The New York Times

"Given the present state of evidence for cold fusion, the government would do better to put the money on a horse."



LaRouche's memorandum is available for \$25 postpaid from

The Schiller Institute, Inc.

P.O. Box 66082 Washington, D.C. 20035-6082