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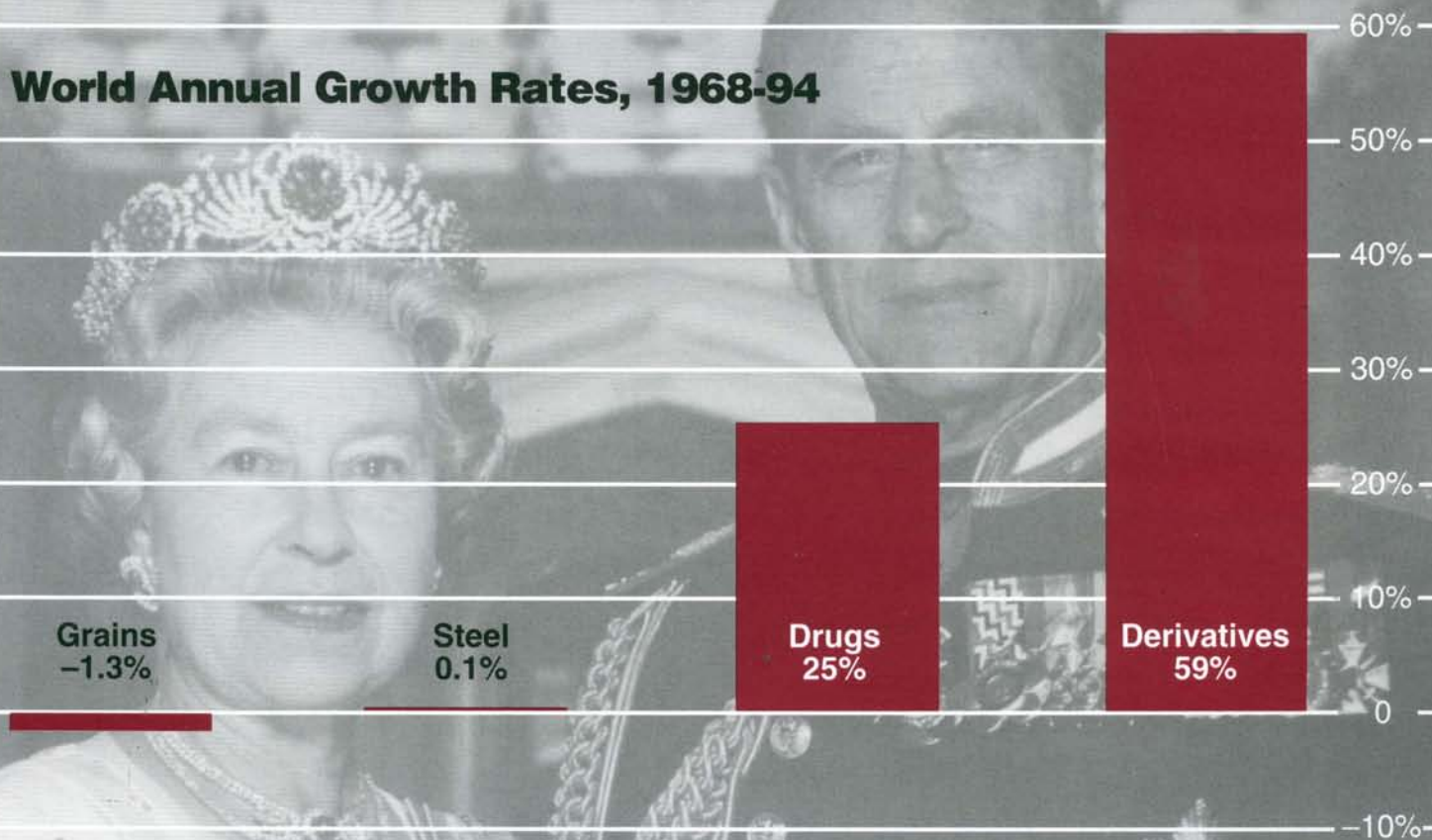
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Barings collapse: inevitable and spontaneous
Behind the Taleban stride into Afghanistan
Nazi eugenics inspired California's Prop 187

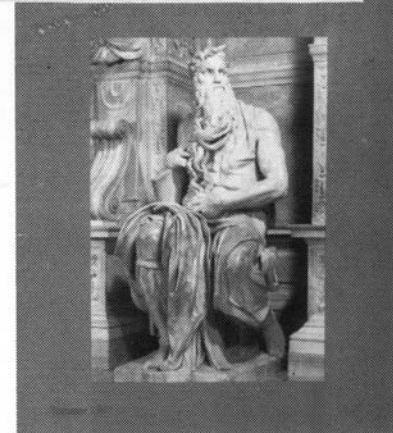
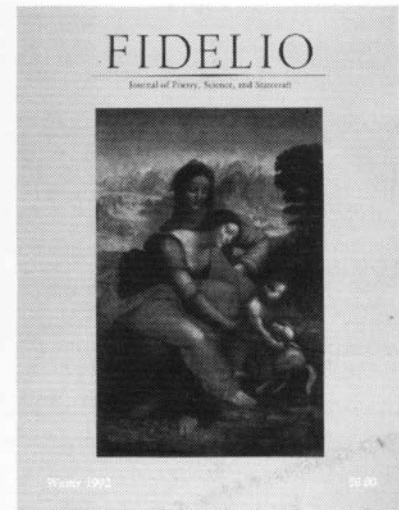
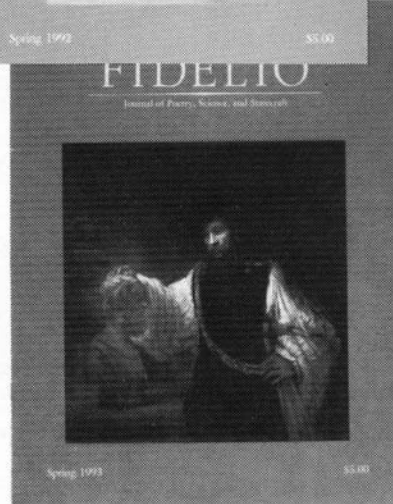
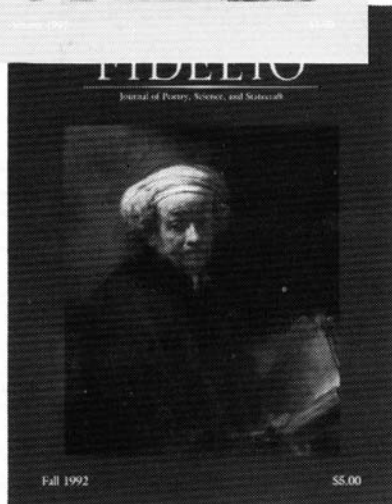
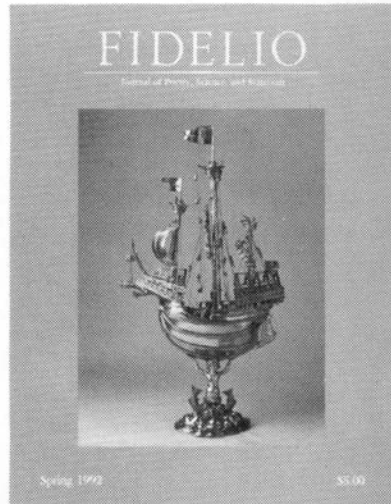
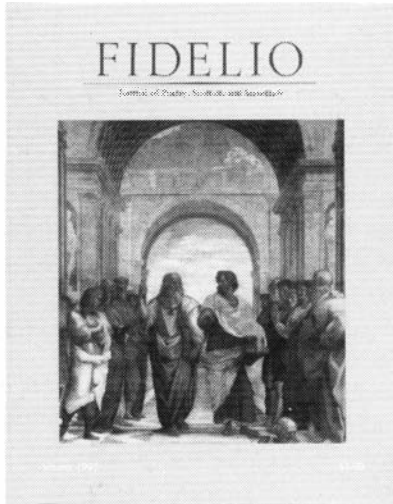
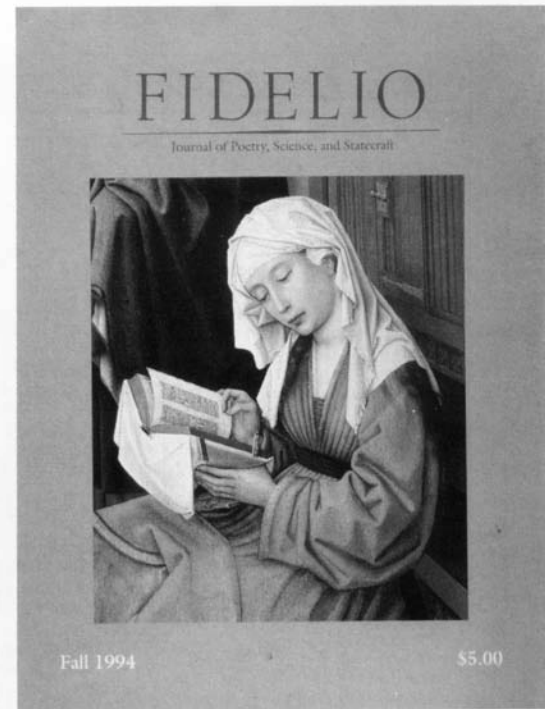
**How LaRouche knew debt bomb
would explode in Mexico**

World Annual Growth Rates, 1968-94



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From the Editor

It hardly seems necessary at this point to observe that the Barings Bank collapse has torn just about the last figleaf away from the facade of stability of the international banking system. Therefore, I would like to introduce our *Feature* this week, documenting how the *physical economic* method of Lyndon LaRouche and his associates at *EIR* has been alone in accurately analyzing and forecasting the trends in the world economy and finance, by quoting from a passage from Dennis Small's presentation: "Not surprisingly, financial insiders in Mexico are already saying that the country will need another \$50 billion by August of this year—unless policies are radically reversed.

"But my forecast is that Mexico is not really the problem: Argentina is," Small continued.

"Producer and consumer goods indices for Argentina show a worse pattern than for Mexico or Ibero-America as a whole. . . . In Argentina there has been negative growth for *two* decades, not one: There was a collapse in the 1980s, like Mexico and the rest of Ibero-America, but unlike the rest, Argentina was decaying throughout the course of the 1970s as well.

"Argentina has endured 25 years of physical economic stagnation and decay, while all the while its debt bubble has been growing astronomically. . . . The policies of the current Menem government, and particularly those of President Menem's Harvard-trained economics minister, Domingo Cavallo, have worsened this already grave crisis, and are about to result in a total blowout of the Argentine banking system. Cavallo and Menem are doing in Argentina almost exactly what Salinas and Finance Minister Aspe did in Mexico, only worse," he said on Feb. 19.

Wire services reports crossing my desk on March 3, less than two weeks after Small made those remarks, indicate that the Buenos Aires stock market has plunged, with blue-chip stocks losing nearly half their value; Argentine debt bonds quoted in Wall Street have run up heavy losses; and government bonds quoted in Buenos Aires are showing losses of 8.5-15%. We are, in short, about to witness yet another vindication of *EIR's* method.

The stalling of the piece of populist lunacy known as the "balanced budget amendment" in the Senate, although only a short-term victory against the Conservative Revolution, could buy precious time for reality to impose itself even in these United States.

Nora Hamerman

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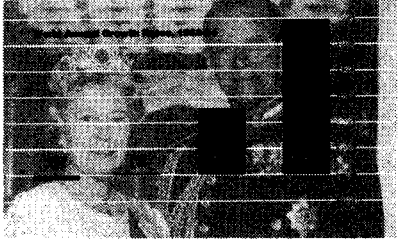
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The collapse of Barings was inevitable and spontaneous

by Richard Freeman

Over the weekend of Feb. 25-26, the Bank of England placed Barings Bank into administrative status, that is, bankruptcy. Barings, whose founder Francis Baring pioneered the China opium trade during the 19th century, and which until recently was a prime banker to England's Queen Elizabeth II, carried its insatiable addiction to derivatives one step beyond solvency: Barings now stands with a loss of at least \$1.2 billion on a staggering \$27 billion investment that it placed on derivatives contracts in the Singapore and Osaka futures markets. The loss wiped out Barings' equity of \$855 million.

All during the weekend, government officials and bankers, terrified by the Barings crisis and its spillover, held emergency meetings, in especially London, Washington, and Tokyo. In London, the Bank of England was either unwilling, or more likely, itself too bankrupt to undertake the bailout of Barings to the extent of its potentially enormous liabilities.

But the British oligarchy would not disclose the seismic nature of the Barings failure. The oligarchy wishes to maintain the axioms, postulates, and speculative procedures by which it has enriched itself for centuries, even if the procedures destroy the world. Thus, it stood truth on its head. From core London institutions emerged a unified line: The Barings failure had nothing to do with the worst systemic financial disintegration in 600 years. It had nothing to do with London's 30-year project of creating a gigantic speculative financial bubble which is now obliterating the physical economy. Rather, it derived solely from a "loan assassin," 28-year-old Nicholas Leeson, Barings' Singapore-based director of Asian and American derivatives trading operations who executed the fatal Barings' derivatives trades.

By Feb. 27, the London *Financial Times*, the mouthpiece of the British oligarchy, rushed this viewpoint into print. In

a box on its front page, entitled "Countdown to Collapse," it summed up the key step in the process with the entry, "Mid-February: Trader [Leeson] agrees further derivatives contracts. . . ."

On Feb. 28 the *New York Times* ran a feature entitled "For Rogue Traders, Barings Becomes Yet Another Victim." The article put an end to history as we knew it; henceforth, all developments in the financial world are a succession of actions by "loan assassins." It lists a myriad of financial crises over the last few years, blaming each primarily on a single individual. The case of the Dec. 6, 1994 bankruptcy of Orange County, California, stemming from derivatives losses now placed at \$1.69 billion, was almost solely the work of former Orange County Treasurer Robert Citron, the *Times* said, not the danger inherent in derivatives. The 1994 liquidation of America's 12th-largest investment bank, Kidder Peabody, was the work of "rogue trades" by lone trader Joseph Jett. Kidder's dominant role in the multihundred-billion-dollar market for collateralized mortgage obligations (CMOs), exotic instruments so unstable that they blew out, causing most of Kidder's problems, was left out of the account.

The denial of reality intensified. On Feb. 28, a spokesman for the Federal Reserve Bank of New York, the most powerful branch of the British-controlled U.S. Federal Reserve System, told a reporter that the failure of the 233-year-old Barings Bank "doesn't represent a phase in the systemic breakdown of the financial system. There is no breakdown." Simultaneously, Bank of England Governor Eddie George continued to insist that any attempt to regulate cancerous derivatives would be blasphemy.

On Feb. 27, Peter Baring, the chairman of the bankrupted institution, deflected blame from himself. Instead he charged

a conspiracy by Leeson to deliberately bankrupt the bank.

In a March 1 radio interview with “EIR Talks,” Lyndon LaRouche dismissed all “lone trader” and conspiracy theories. LaRouche, the world’s leading economist and a 1996 presidential candidate, has an authority on economic forecasts over the past 30 years that is unchallenged. Conspiracies and mistakes may indeed occur, he said, but they are subsumed, fifth-rate features of the larger breakdown process. “The fact is,” LaRouche stated, “that this crash in this phase *was inevitable and spontaneous*. Nothing really was done by Barings or others to bring this crash about, *except not to change the whole policy*. It just had to happen.

The reality of the crash

“People are confused on this. I’ve been forecasting this kind of event for years, and the one to follow. This is not the big shoe, there’s a bigger one, a bigger crash yet to come after this chain—Mexico, Barings, and so forth—collapses.

“But what people don’t understand, is the following. They think that somehow, if this trade goes sour or that trade goes sour, or somebody steals or something, and they try to explain crashes in those terms, or they say, ‘It couldn’t happen again, we have this, we have more sophisticated markets, more sophisticated people.’ Bunk!

“The issue here is that, for years, we have been building up a gigantic bubble in these swindles, these derivatives and other kinds of similar doubtful instruments. At the same time, the economy, the real economy underneath, has been shrinking globally. . . . Our productivity, our wealth per capita, per household, per square kilometer of territory in the United States and generally around the world, has shrunk.

“Now, this derivatives bubble, which depends upon getting a small margin of highly leveraged profit into the system, a so-called income stream, comes out of *shrinking* the real economy.

“So what happens, in that way, throughout the system, is that the economy shrinks in order to keep the bubble alive. Now the bubble is growing, and the economy is getting smaller. So obviously there is no way in which you can avoid a total collapse, a pricking of the bubble.

“There is a financial bubble, a parasite, which survives by sucking the juices from a victim, and the victim is weakened at each turn, and as the bubble gets bigger (which it must to survive), its demands upon the victim increase. Thus, simply in that dynamic relationship between the parasite and its host, you have the inevitability of the virtual death of both.

“We are in a great collapse. In this period, we only have two choices: Either governments act to put the financial markets, including the central reserve system, like the Federal Reserve Bank system, into bankruptcy reorganization, or this thing will go past the kind of chain-reaction bankruptcy you’ve seen in Mexico, Orange County, Barings, and so forth, into an actual disintegration collapse . . . of the whole system.”

Barings’ breakdown

While more will emerge about the Barings failure, some is already known. During the recent past, Leeson executed what is called a “straddle” or “strangle strategy” on the Japanese Nikkei-225 stock index. The strategy depends on the Nikkei index remaining within a certain trading band. In simple terms, it obligated Barings to sell the Nikkei-225 index when it neared 20,000 and to buy it when it fell close to 18,000, positions that would generate large losses if the index moved sharply beyond the limits, which it did. Reportedly, Leeson bought at least 20,000 contracts on this position, worth over \$7 billion, in late January. The principal notional amount that these contracts controlled was many times that.

At the same time, Leeson bet that Japanese interest rates would go up, and bought \$20 billion worth of contracts on Japanese government bonds and short-term Euro-yen securities (whose yields closely mirror Japanese interest rates).

On each set of contracts, Leeson bet stupendously wrong. As the positions moved against him, he borrowed money to cover margin calls. Leeson’s Nikkei-225 contracts don’t close out until March 10, and were the Nikkei index to fall more, the contracts would incur still greater losses. By March 2, the Nikkei was trading at 16,963, despite concerted efforts by most world financial centers to hold it up.

The official story on the Leeson affair has many problems. For example, it was reported that Leeson was trading secretly, perhaps using dummy corporations, so that nobody, including Barings, knew of his trades. But, the Osaka Securities Exchange, where many of the trades were executed, reported outstanding Nikkei-225 index purchases on a daily basis, and showed that by Feb. 17, Barings had half of all such market purchases, a fact known by everybody in Asia. Moreover, the March 2 *Financial Times* reported that Barings itself, which supposedly knew nothing of Leeson’s activities, had spent more than \$700 million covering Leeson’s margin calls since late January.

But the systemic implications are far more interesting. The Singapore International Monetary Exchange, where deals also were executed, is legally obligated to make good on any contracts Barings defaults on. More fundamentally, there is a worldwide liquidation process, with \$2-3 trillion in bonds, futures, and other positions dumped in the last year. Now, with the Mexico, Argentina, and other so-called “emerging markets” in significant trouble, there is a liquidation of that paper. With massive selling all over the world—which itself may eventually have something to do with the timing of the Barings crisis—the Barings shake-out creates even more panic and liquidation both in the Asian markets and London.

The British oligarchy may not talk about it, but as the process of liquidation accelerates and the world physical economy contracts further, as LaRouche warns, the disintegration is all too real.

The City of London loses its Barings

by Anthony K. Wikrent

The series of financial institutions founded by the family of Barings have played a crucial role in the British Empire for over 200 years. Since World War II, Barings has counted as clients Union Bank of Switzerland, the Royal Bank of Scotland, the Bank of England, Her Majesty's Government, and the World Bank. Today, a profile of the directors of Barings shows it was still a key part of the City of London establishment. Barings, in short, is not the sort of firm that would be considered "expendable" by the British oligarchs. The lightning-quick collapse of Barings over the weekend of Feb. 24-26, thus speaks volumes about the velocity, and ferocity, attained by the "great financial mudslide" of the 1990s.

Barings PLC traces itself to the partnership of John and Francis Baring & Co., founded in London in 1762. Being of German stock, the Barings had to wait one generation to be officially accepted into the ranks of the British aristocracy; nonetheless, in 1767, Francis (1740-1810) married Harriet Herring, cousin to the former Archbishop of Canterbury. By the 1770s, Francis had become a close confidant and adviser of the Earl of Shelburne (later Lord Lansdowne), and by 1783 was accepted as a member of the Court of Directors of the British East India Company. Barings money thus financed much of the world's opium trade. The major shipping firm for opium, the Peninsular & Orient Steam Navigation Co., was created at about this time with Barings money.

Francis's second son, Alexander (1774-1848), emerged as the foremost "America handler" of the British; by 1798, Alexander's businesses in the United States were bringing in £10,000 profit a year. Money dispensed by Alexander bought control of the Boston "Brahmin" opium- and slave-running families. Alexander himself married the daughter of Philadelphia millionaire William Bingham. Alexander was given a baronetcy in the second creation of the Lord Ashburton in 1835.

Over time, another four baronetcies were awarded the Barings: Northbrook, in 1866; Revelstoke, in 1885; Cromer, in 1901; and Howick of Glendale, in 1960.

The Third Earl of Cromer, Lord Errington, was made Minister to the United States in 1953. From 1962 to 1967, he was governor of the Bank of England, then chairman of Barings, until 1971, when he was dispatched to Washington as Her Majesty's ambassador a second time.

Top dog in the Barings tribe today is Lord Ashburton,

chairman of British Petroleum (BP) since June 1992, and a member of Prince Philip's 1001 Club Nature Trust. Lord Ashburton has been a director of Baring Brothers & Co. Ltd. since 1955. Lord Ashburton's second wife (taken in 1987), was the daughter of J.G. Spencer Churchill. Lord Ashburton was also a director of the Bank of England from 1983 to 1991, and has been a trustee of the Rhodes Trust since 1970, and chairman since 1987.

The present chairman of Barings PLC, Peter Baring, the great-grandson of the First Lord Revelstoke, joined Baring Brothers & Co. Ltd. in 1959 and has been a director since 1967. He has also been a director of Inchcape PLC since 1978. Inchcape is the holding company established to control the Peninsular & Orient Steam Navigation Co.

Peter's older brother, Nicholas Hugo, has been with Barings since 1958, and was deputy chairman in 1986-89. He is chairman of Commercial Union PLC, and has been on the executive committee of the National Trust since 1979.

Robert Malpas, has been with Imperial Chemical Industries Ltd. since 1948, and was a managing director of BP in 1983-89. He has been chairman of the Cookson Group since 1991. Malpas became a Barings director in 1989.

An old opium-trading firm

Barings PLC Deputy Chairman Henry Michael Pearson Miles is also an executive director of John Swire & Sons Ltd. (since 1988), one of the old-line opium-trading firms. Miles has been with Swire since 1958, and with Barings since 1989. The other deputy chairman, Andrew Marmaduke Lane Tuckey, started with Barings in 1968. He has been a director of Dillon Read Holding, Inc. since 1991 (when Barings bought 40%). In 1992, Tuckey joined the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York.

Another director of Barings PLC, Miles James Rivett-Carnac, also serves as chairman of Baring Securities Ltd., which describes itself as "an international stockbroking company with an institutional client base specializing in markets of Japan, the Asia-Pacific region, and Latin America," and "a specialist in global futures and options markets." Rivett-Carnac has been a director of the London Stock Exchange since 1991, and of Allied-Lyons PLC since 1992.

Sir William Ryrie, who became a Barings director in 1993, was chief executive of the International Finance Corp. (IFC) at the World Bank from 1984 to 1993. He began his career as a lieutenant in the Intelligence Corps, posted to Malaya in 1952-53, when Sir Robert Thompson was developing the fine art of creating, then killing, communist insurgents. From Malaya, Ryrie was posted to the Colonial Office, and was in Uganda in 1956-58. He transferred to the Treasury and became Principal Private Secretary to the Chancellor of the Exchequer from 1969 to 1971. Ryrie was made U.K. executive director of the International Monetary Fund and the World Bank in 1975, before moving up to head the IFC in 1984.

No trade war as China, United States emphasize long-term ties

by Mary Burdman

Chinese and U.S. officials focused on long-term energy cooperation agreements during the six-day visit of U.S. Energy Secretary Hazel O'Leary to China on Feb. 19-25, just before an agreement was reached on Feb. 27 to drop the threatened U.S. trade sanctions against China. At issue in the threatened trade war was American "intellectual" property rights to Hollywood movies, rock CDs, and recycled television programs. President Clinton warmly welcomed the agreement, although he cited grounds that the deal would protect U.S. jobs hardly reflects the enormous economic needs of both China and the United States. In fact, China could benefit greatly from the deal if it means protection from these products of the rock-drug-sex counterculture, as could the United States.

The dispute gave not only Trade Representative Mickey Kantor, but also House Speaker Newt "Contract with America" Gingrich (R-Ga.), the opportunity to expose their understanding of "intellect." Gingrich told his constituents in early February, "The Chinese have had a habit of stealing our intellectual property rights. Intellectual property rights are very important. We make as much money out of 'Jurassic Park' as we make out of a lot of manufactured goods."

However, Secretary O'Leary, who led a delegation of about 100 U.S. officials and energy company executives, presented a very different perspective. In a statement in Hongkong on Feb. 18 en route between India and China, she made a point of noting the differences between the "portfolio" of her department, and that of Kantor, who has been fostering trade friction with China since the beginning of the year. The tensions grew when China refused to give in to U.S. demands for big trade concessions in order to join the World Trade Organization. Beijing has refused to yield to the U.S. demand that China join the WTO as a "developed" nation, on the obvious grounds that China, despite its great size, is a poor, developing nation.

O'Leary stated, "My department has an excellent and cordial relationship with China. We are focusing on their needs long-term. I know there are difficulties over intellectual property rights, but all countries go through a rough patch. . . . I believe it would be very foolish to halt a long-planned mission involving energy because this rough patch has occurred." While Kantor had briefed her at length on the trade

disputes, she said, "We are very clear about the difference of our two portfolios."

When she met with Ye Qing, vice minister of the State Planning Commission, on Feb. 21, O'Leary said at the start of their meeting: "The President of the United States sent this very large business delegation to China with great hopes not only that we will succeed in fomenting a very strong relationship and an energy partnership. Indeed, he is looking forward to our energy engagement deepening our understanding as two nations, and providing the foundation for many other opportunities to cooperate."

The Chinese view has consistently been of the same order. On Feb. 11, anticipating O'Leary's visit, the official *China Daily* announced, "China To Ink Energy Deals with U.S.A. . . . Despite the Widely Feared Trade War." The article reported that Beijing expected to sign \$4-8 billion in energy deals during the "high-profile American business trip." O'Leary's delegation was hosted by the State Planning Commission and the Ministries of Power and the Coal Industry. On Feb. 23, she was received by Prime Minister Li Peng, who said that China has taken an "active, earnest, and forward-looking attitude toward Sino-U.S. relations." Li Peng said that both countries share extensive common interests and that there are plenty of areas for developing mutually beneficial cooperation.

China's power-generation needs

China wants to increase power generation by as much as one-third, up to a 300 million kilowatt capacity, by the year 2000, which will require over \$80 billion in investment. This investment will continue to focus on coal production, on which China is dependent for 75% of its energy supplies. Vice Minister Ye Qing told O'Leary that China hopes to expand cooperation with the United States in the field of energy resources. He said that China's energy industry is expected to grow over the next five years, with a planned 8% increase of electricity output, by 15 million kilowatts a year. "We attach great importance to increasing energy efficiency and applying new technology to pollution control," he said. China is especially interested in the development of clean coal technology, and is interested in close cooperation in this field with foreign nations such as the United States, an

important matter given that China expects to mine 1.4 billion tons of coal by 2000.

O'Leary also met with Vice Premier Zou Jiahua, who said that China welcomes more U.S. investment and technology transfer. Zou said that China's energy development will have to include oil, coal, natural gas, electric, and nuclear power.

An idea of how great China's energy needs are, was given by Power Industry Minister Shi Dazhen in an interview with the official *Beijing Review* on Nov. 21. Shi said that China has enormous energy needs: Per capita annual power consumption ranks 80th in the world; per capita generating capacity is one-thirty-third of the world average. For China to reach U.S. levels of installed generating capacity, it would have to increase its capacity to over 1.3 billion kilowatts, up from one-tenth of that figure now. "The country as a whole has faced a power shortage for 24 years. Nationwide, some one-tenth of the population has no access to electricity," he said. In this situation, the government is giving priority to power development. Along with thermal and hydropower development, China will make a "great effort to gradually form a nuclear power generating capacity," and has plans to build a number of nuclear plants in coal-short eastern provinces.

National interests protected

Despite its great needs, China does not intend to surrender vital national interests to gain foreign investment. Shi stated that Chinese policy is to absorb foreign funding, but the principle is that the "grid system should be placed under unified state management, and the sales of fixed assets are prohibited." The foreign share in strategic power plants is limited to 30%, and while investors should earn profits, the policy is to ensure that no increased costs for energy accrue to enterprises or consumers.

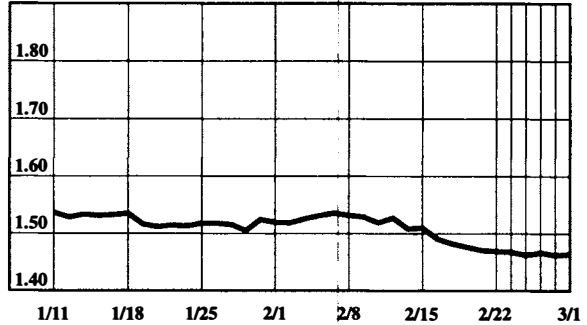
U.S. press reports indicated that a number of U.S. businessmen are not happy that Prime Minister Li Peng has put a cap of 12% on foreign investors' rate of return on power projects, a rate several percent lower than what other developing nations allow.

Despite the agreement, nasty voices continue to come from some circles in Washington. China "trade specialist" Gregg Mastell, of the Economic Strategy Institute, told the Feb. 28 *New York Times* that "everyone realized that piracy is not just a problem, it is a fundamentally ingrained part of China's economic plan. And that is why so many people are skeptical that this agreement, or any agreement, can stomp this out." Mastell had earlier demanded in a policy document that the United States use China's determination to join the WTO to force it to open its "still largely centrally planned economy, the most protectionist of any major country." If China joins the WTO "while persisting with mercantilist practices, it will make a mockery of the WTO's free-trade principles and threaten the entire world trading system," he wrote.

Currency Rates

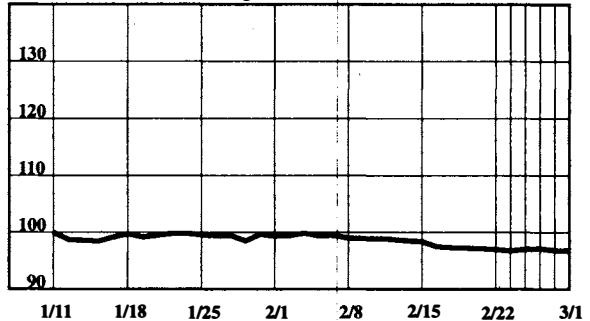
The dollar in deutschemarks

New York late afternoon fixing



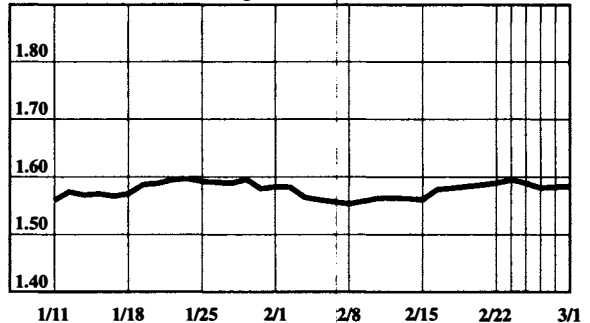
The dollar in yen

New York late afternoon fixing



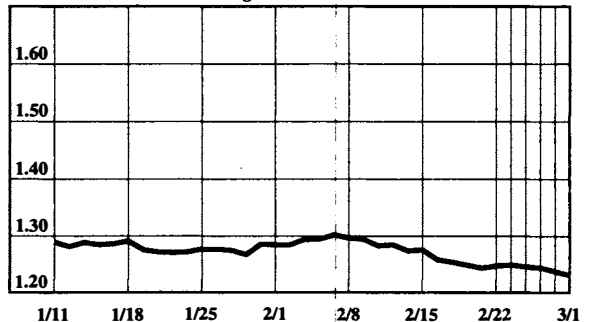
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



U.N. climate summit in Berlin is an eco-spectacle with a dubious goal

by Helmut Böttiger

The author writes on environmental affairs and other cultural issues for the German weekly Neue Solidarität.

The agenda at the treaty conference for the Climate Convention in Berlin set for March 28-April 7, the first United Nations conference in Germany, is no longer about whether a climate catastrophe generally is threatening, or whether it is unleashed by man, who is allegedly producing excessive carbon dioxide and causing "global warming." This matter was supposed to be settled via the Draft Convention on Climate at the 1992 Rio de Janeiro summit, which was signed by 166 nations and has been in effect since March 21, 1994. Still to be discussed are the measures required to reduce the man-made carbon dioxide production to 80% of the 1990 amount, and how to distribute the costs. In the words of the German government, which is responsible for the content and organization of the preparation and execution of the official proceedings, the issue is the "central switchyard for the follow-up action to the Draft Convention on Climate."

The following questions are being discussed:

- 1) Are the treaty obligations of the individual nations sufficient to achieve the goal of the Convention?
- 2) How do the signator states want to translate the goals into corresponding measures for action, and reciprocally support one another in doing so?
- 3) What actions have individual states already undertaken in the realm of climate protection policy, and what are the results?
- 4) How should the costs be financed, and who should assume the financial burdens (for example, those of the developing nations)?
- 5) Which institutions and/or sanctions must be set up or imposed, in order to enforce the measures?

The deliberations in Berlin will be conducted by high-level ministry officials, and resolutions will then be passed by the ministers.

Within the framework of the summit, a massive propaganda spectacle will be simultaneously staged, for which the German government will spare no expense. The planned "unpopular measures" will be somewhat sweetened in this way. The city of Berlin is responsible for putting on the

official summit spectacle. The open performance, "Of the People," will be organized by the U.N. non-governmental organizations (NGOs)—these are tightly centralized, globally active interest groups like the World Wide Fund for Nature (WWF), etc.—which furnish the media with neatly packaged propaganda. At both levels, the same effect is intended. On the one side, the raving grows ever wilder and more bizarre, with the intention of causing the other side to appear more normal and moderate.

For the public, during the summit, there will be a "First International Climate Protection Expo." Exhibitors will be not only environmental-technical firms with their gear, but also communities, citizens' initiatives, and federations that have something to say regarding their local problems. Other, more far-reaching themes, such as the resolution of the North-South conflict, eastern Europe, the population explosion, urban ecology, etc. will come under discussion.

Alongside the summit, a municipal climate protection conference will meet, the "World Mayors' Summit," at which the "Successes of Urban Climate Protection Policy" will be presented. This will involve, among other things, "alliances" and partnerships between European cities and "indigenous peoples." Here, for example, the radical squatters movement in Berlin-Kreuzberg could apply for a partnership with the Zapatista terrorists in Mexico.

Consciousness-raising 'happenings'

Culturally, the city has organized for progressives an "Arts and Sciences Happening" with music and "Textual Contributions from Climate Scientists," a multi-media program. For the common folk, there is a "Climate Balancing-Act" comprised of high-wire acts, a "Climate-Mile," ice pyramids, "Nights of Climate," and a "Global Change" exhibition.

On top of all this, there are sessions on such themes as "Solar and Climatically Correct Construction," "Steps toward an Ecological Climate, Energy and Labor Market Policy," "Possibilities and Means toward the Conversion of Industrial Society," and pushing the reduction of carbon dioxide in transportation and similar areas.

More revealing are the planned spectacles of the NGOs.

Environmental youth organizations are preparing “environmentally revolutionary” activities as part of an international youth conference (“The Climate is Right for Change”), including a planned “Climate Action Day” to help one to overcome one’s inhibition threshold and prepare to put these tactics into practice back home.

Younger children are also targeted by various campaigns and “happenings,” including: “We’re Making Climate the Issue,” “Solar School,” “Children’s Action for Protection of the Climate,” or “Young Artists’ Climate Summit.” Then there is “Performance: The Forest,” where participants are to allow themselves to become sensitive to the “Feelings of the Forest.” In plain language, this bafflegab translates into modernist, chaotic mystery plays for the neo-pagan United Nations world-cult, in which artists operate as a combination of priests and shamans. Several German federal ministers are providing subsidies for all this.

The Protestant Church in Germany is joining the party with its own Climate Worship Service, and a roundtable discussion on “Climate Protection as an Ecumenical Task.” The Evangelical Academy is contributing to a meeting on “How Do We Bring the Climate Summit Down to the Level of Everyday Life.”

With its own film festival, the summit is supposed to awaken feelings of self-pity or utopian daydreams, for example with the series, “Energy Culture: A Glance at Everyday Life in the 20th Century.”

Women, of course, are treated as if they were “entirely different” from the human race, and therefore offered something all their own: Thus the “Women for Peace and Ecology” have organized actions, called “Climagic,” cultural events for “Mother Earth,” or on the so-called “Legacy of the Indians.” In a Climate Tribunal, they will sit in judgment over the male perpetrators. Everything serves as a setting for its corresponding “art.” Naturally, neither an “International Women’s Forum” nor an event like “Weathercocks and Weather-Witches—Climate Protection from the Feminist Point of View” could be lacking under these circumstances.

The preparations and then the theatrical performance of the summit itself will be reported by the Berlin City Council in the monthly magazine *Klima 95*, founded last September, which the federal government funds. The magazine differs neither in form nor in content from propaganda that comes from Greenpeace or other such entities. In it one reads such well-known “truths” as: “Every day 100 animal and plant species become extinct, 55,000 hectares of tropical forest are annihilated, the deserts expand another 20,000 hectares.”

As for the future, into which the U.N. wants to lead us with such initiatives, the circumstances of the summit presage nothing good. Illusions of any kind are, in any event, inadvisable. Citizens who do not wish to befriend this new “fascism with an ecological face,” and do not share the associated pseudo-religious image of man and nature, will see themselves quickly pushed aside as Politically Incorrect “dinosaurs.”

The Kobe earthquake and the lessons for urban infrastructure

by Rogelio A. Maduro

On Jan. 17, the cities of Kobe and Osaka, Japan were hit by one of the most destructive earthquakes of this century. More than 107,000 buildings, houses, and factories were destroyed, and over 5,350 people were killed. Although the earthquake registered 6.9 on the Richter scale—not a huge earthquake according to most records—the Kobe earthquake hit the highest level in the Japanese scale that measures ground shaking. In other words, the seismic waves caused by the earthquake caused the most intense kind of ground tremors that can be measured.

Part of the reason for the intensity of the tremors is that Kobe lay directly in the path of the earthquake fault and that most of Kobe is located on loose soils, mostly landfills. Intense ground shaking liquefies loose soils. Also, loose soils, found in much of the Los Angeles area in California, amplify seismic waves.

This intense ground shaking is the first of several unexpected developments. It is now very important to draw the lessons of the Kobe earthquake to prepare for future earthquakes. This article is an introduction to the subject, the first in a series of articles analyzing the engineering and scientific issues.

Predictions for Los Angeles

In January, three separate scientific studies were released warning that the Los Angeles area faces a very high probability that it will be hit by a major earthquake in the next 30 years. One of the reports, released by the Southern California Earthquake Center, a coalition of academic and government scientists, warned that Southern California faces an 86% chance of suffering an earthquake of magnitude 7 or larger by the year 2024.

The probability of an earthquake has been increased due to the discovery of a large number of thrust faults in the area (similar to the kind of fault that caused the Northridge earthquake near Los Angeles a year ago). In addition, historical earthquake data in California indicate that Southern California should expect six magnitude-7 earthquakes every century. So far this century, Southern California has suffered only one such quake. Thus, scientists believe that either

a truly big earthquake is about to occur, or several major ones.

In addition to California, major earthquake are expected to take place in other parts of the world (see box).

Although there are some hopeful lessons from Kobe, most indications are that both Japan and the United States are woefully unprepared for the expected earthquakes.

Some hopeful lessons

One of the hopeful lessons from the Kobe earthquake is that buildings that were built to the latest earthquake-proofing standards survived very well. Unfortunately, buildings built to earlier standards did very poorly.

Another hopeful lesson is that programs to stabilize landfills worked very well. In the past 20 years, more than 200,000 special gravel drains and buried stone columns were installed in certain areas of Kobe. These areas suffered minimal damage.

On the negative side, the amount of devastation caused by the Kobe earthquake was unexpected. This is a serious warning, given the fact that Japan has one of the best earthquake preparation programs in the world. Scores of "earthquake proof" highways, railways, and subways were destroyed. Miles and miles of water, gas, and sewer lines were

broken or otherwise damaged. Broken gas lines led to huge fires in several sections of the city.

A great deal of damage was done to the poor suburbs of Kobe, one of the weakest areas in Japanese earthquake damage-prevention efforts. In Kobe, as in many areas of Japan, older homes use a wooden post-and-beam construction style, where vertical posts brace long horizontal roof beams. Moreover, the traditional roofing for these structures in Japan is heavy terra cotta tile. This housing design is excellent for preventing damage from typhoons. However, it makes the structures inflexible and inherently unstable in earthquakes.

The earthquake itself was a surprise. It took place in what was considered a minor fault. The major earthquake, and thus most of the preparations, had been expected near Tokyo, where a major earthquake had killed over 140,000 people in 1923. Still, the Kobe earthquake should not have been unexpected. There was a major earthquake in the Kobe area in 1948, which, however, caused little damage, because most of Kobe had already been destroyed by American bombers.

Thus, that warning went unheeded. This warning now has to be heeded, because many of the world's most important cities sit on top of "minor faults."

Is a major earthquake coming in the Himalayas?

A massive earthquake could hit the central Himalayan region of India at any time, geophysicists are warning. A group of Indian and American geophysicists has been studying historical data and more recent data collected using the latest satellite technology. The data indicate that the central Himalayas in India is due to suffer a major earthquake, of magnitude 8 or 9 on the Richter scale (the Kobe earthquake was magnitude 6.9; since the scale is logarithmic, this quake could be 10 to 100 times greater than the Japanese earthquake). Such an earthquake would devastate a region with a population of more than 200 million and several major dams. "It is like the Sword of Damocles hanging over you," said Roger Bilham of the University of Colorado at Boulder.

The Himalayan range was formed as the Indian subcontinent drifted northward and collided with the Asian continent, a process that began 40 to 50 million years ago. Bilham and his colleagues used the Global Positioning System (GPS), a network of satellites and ground stations, to chart the progress of a set of points on the Indian and

Asian tectonic plates between 1991 and 1994. They found that India is still crunching into Asia at a speed of two centimeters per year, the same rate at which the two sides of the San Andreas Fault in California are sliding past each other.

First direct measurement

These are the first direct measurements of the movement of the Indian subcontinent in relation to Asia, according to Vinod Gaur, former director of the Indian Geophysical Institute. Gaur is now based at the Center for Mathematical Modelling and Computer Simulation in Bangalore. Bilham, Gaur, and their colleagues recently presented their data at a meeting of the American Geophysical Union in San Francisco.

The India plate is moving down and under the Asian plate. The GPS data, however, indicate that all along the border with Nepal, the margins of the plates are stuck, according to Roland Burgmann, a geophysicist at Stanford University in California. Instead of one plate sliding smoothly under the other, the plates are colliding, storing energy like a spring. When the plate margins finally slip to release this energy, an earthquake results. How big the earthquake will be depends on how much stress has accumulated along the boundary of the two plates.

—*Ramtanu Maitra and Rogelio A. Maduro*

Business Briefs

European Union

Dutch airport, rail projects planned

The government of the Netherlands is planning to undertake an \$18.8 billion project, involving the expansion of the Schiphol Airport near Amsterdam and construction of a high-speed rail line from Amsterdam to the airport. The project will upgrade the airport for a projected increase in passenger traffic from the current 23.5 million per year to 40 million by the year 2005-10. An air freight capacity of 3 million tons is also included in the project, which centers around the construction of a fifth runway.

Dutch Economics Minister Hans Wijers said that the project, which he characterized as "vital for the national economy," will create 55,000 new jobs, mostly in the Amsterdam area. It is to be completed by the year 2003.

The runway at the airport has been debated from the early 1970s but has been repeatedly delayed because of environmental concerns (engine noise) and lack of funding. It is listed as a second-priority project in the European Union infrastructure development program put out by former European Commission President Jacques Delors.

Technology

Israel-U.S. commission issues first grants

The U.S. Department of Commerce has announced the selection of the first three projects chosen for financial support by the U.S.-Israel Science and Technology Commission. The commission was established in 1993 by President William Clinton and Prime Minister Yitzhak Rabin and is overseen by Commerce Secretary Ron Brown and Israeli Minister of Industry and Trade Micha Harish.

The United States and Israel each contribute \$5 million per year to the commission. In order for a grant to be considered, the proposal must involve Israeli and U.S. companies working together on a project, with the companies contributing half of the total cost. Over 100 proposals were submitted, and the first

round of grants were decided in mid-February at a meeting of the commission in Israel. The three projects chosen involve nuclear medicine, aquaculture, and solar energy.

GE Medical Systems and eV Products in the United States have teamed up with Isorad in Israel to develop a high-performance imaging system to record nuclear tracers to help determine the health of major organs, such as the heart, lungs, and brain. AquaPharm Technologies Corp. and AquaFuture, Inc. are working with Israel's Ma'agan Michael Fish Breeding Center and Ardag, Ltd. to develop new technologies for year-round production of farmed seafood. The solar energy project involves researchers at the Weizmann Institute of Science in Israel.

When announcing the grants, Minister Harish stated that "the commission's impact also will be felt in the creation of an atmosphere where many more binational partnerships may flourish."

Germany

Public infrastructure investments shrinking

Despite the long-term German transportation modernization program, about DM 450 billion (\$280 billion) in total, and huge construction investments in eastern Germany, the level of public construction investment is shrinking. At a meeting on "private financing of public construction projects" in Bonn on Feb. 16, the head of the German construction industry association, Friedrich Hassbach, warned of the implications of this downward trend on the quality of Germany's infrastructure. He presented the following figures:

Public investment in road construction decreased beginning in 1993, to DM 21.8 billion, 5.2% less than in 1992. In the first nine months of 1994, investments were down by another 4.6%.

Public investment in waste water treatment fell in 1993 by 8.3% to DM 9.1 billion, and by another 18.3% (20.6% in eastern Germany) in the first nine months of 1994. This contrasts with an estimated demand for investment in water treatment infrastructure of about DM 300 billion over the next 15 years.

A dramatic decline of construction investment can be expected for most of the major municipalities in western Germany in 1995. For example, planned construction investment this year is down 19.8% in Frankfurt, 17% in Braunschweig, 15.3% in Cologne, 15.3% in Karlsruhe, 14.8% in Stuttgart, 14.6% in Düsseldorf, and 12.0% in Hanover. If inflation is taken into account, public construction investment in western Germany is below 1965 levels.

Transportation

Swiss government wants two new rail tunnels

The government of Switzerland is prepared to invest DM 18 billion (\$11.2 billion) in two new railway tunnels through the Alps, at Gotthard and Loetschberg, which are to be completed by the year 2005.

The ambitious project, which is called NEAT (Neue Eisenbahn Alpen Transversale), is to be financed through a special gasoline tax that is expected to guarantee roughly \$630 million annually in tax revenue over about 20 years. The NEAT routes are designed to transport heavy trucks across the Alps by rail.

Water Management

Floods lead to emergency dike-building program

Special emergency legislation for the inland dike-building program in the Netherlands will go into effect in April, under a national emergency clause 66, to speed up the entire construction project by eight years. Under the plan, close to 700 kilometers of new dikes will be completed by the year 2000.

The first phase, which will reinforce 50 km of existing dikes that proved too weak during the recent flood, will be completed by the end of 1995. An additional 80 km of inland dikes in the provinces of Gelderland and Overijssel will be improved over the next two years. Another 600 km of old inland dikes will be

reinforced and modernized over the next five years.

In addition, the construction of 60 km of new wall structures along the Maas River are envisioned for this year. The cost of the entire improvement program will be about \$4.6 billion.

The national emergency has made it impossible for the fiscal conservatives and the ecological movement to object to the doubling of the budget and the acceleration of the project. The ecologists, who fiercely opposed any work on the dikes in the past 20 years, came under attack during the recent flood when the overaged dikes were in danger of breaking, forcing the emergency evacuation of close to a quarter-million citizens.

Economic Theory

Swiss newspaper prints attack on Thomas Malthus

The Swiss daily *Neue Zürcher Zeitung* published an attack on Thomas Malthus, "a technological pessimist" who was proven wrong by the constant growth in global food production, in an article in mid-February by two professors from the Institute for Agriculture at Zürich University. The only thing needed to feed a growing world population is the right policy, the professors wrote. "Even 9 billion people would never go hungry if the appropriate policy were applied."

"Neo-malthusians are again predicting global hunger catastrophes. But there are many good reasons to think that holes in food security derive from political and not from natural reasons," the paper commented in its introduction.

Within the next few years, worldwide food production must double. The "secret of success of the East Asian growth tigers" shows how this could work, the professors said. The Asian countries coupled the redistribution of land with the construction of infrastructure, such as roads and the provision of an adequate supply of potable water. The next step is to bring farm prices up significantly: "Higher farm prices are also a precondition for farmers in developing countries to increase their production. . . . With higher, undistorted farm

prices, on 80% of farmland worldwide (including the huge areas in Siberia) output could be increased tremendously." The professors stressed that agricultural growth would lead to growth in industries and the service sector as well.

For the consumer, "the problem of hunger will only be solved if the income of the poor is growing in the different countries. Therefore we need economic growth. In rural areas of the developing countries where the majority of the poor live, such a growth in income could derive from the agriculture sector. In the medium term, it would also spread to other sectors of the general economy."

The writers stressed the urgent need for agricultural research. Roughly "80% of the necessary increase in food production has to be achieved by increasing yields per hectare. Will the expected biological-technological progress encourage higher yields fast enough to feed the growing world population? Malthus was a technological pessimist in his time. So far, history has not proven him right."

Eurasia

Russia, Poland sign pact for gas pipeline

Russia and Poland signed an agreement for a gas pipeline that will also supply Germany, in a meeting between Russian Prime Minister Viktor Chernomyrdin and Polish President Lech Walesa in Warsaw on Feb. 18. The agreement was one of eight economic cooperation projects.

With \$5 billion in investments, the biggest single project among the eight is a 650-km pipeline across central Poland from Bialystok (close to the border with Belarus) to Slubice (on the German-Polish border). Construction of the pipeline will start this spring.

The pipeline will transport natural gas from the Jamal fields in northern Siberia, which is a German-Russian joint venture, to the German petrochemical complex at Schwedt on the German-Polish border, north of Slubice. Up to 40% of the gas delivered will be available for Polish consumption; the rest will be made available for Germany and other consumers in western Europe.

● **THE CASPIAN SEA** countries (Russia, Azerbaijan, Kazakhstan, and Iran), along with representatives from Turkey and Georgia, held a conference in London the week of Feb. 20, BBC reported. Discussion focused on economic and political questions, such as oil, caviar, and the environment.

● **RUSSIA** and Belarus agreed to step up development of Moscow-Minsk-Warsaw-Berlin transportation corridor, and the building of two gas mains from Yamal to Europe, a spokesman for the Russian Foreign Ministry said on Feb. 23.

● **ANTIBIOTICS** are becoming less effective; today 10% of all patients with pneumonia die because the antibiotic doesn't help. In the past, as a bacterial agent became resistant, the pharmaceutical industry had developed a new one. "We always had a little advantage, but that is now no longer the case," said Prof. Antoine Andreumont, head of the Institute for Microbiology Gustave-Roussy in Villejuif near Paris.

● **THE RUSSIAN** Atomic Energy Ministry said on Feb. 20 that in addition to the agreement to complete Iran's 1,000 MW Bushehr nuclear reactor, another 1,000 MW reactor and two reactors of 440 MW each are now planned. Delivery of light water research reactors to Iranian universities and the construction of desalination facilities are also envisaged.

● **ANOTHER HEPATITIS** virus has been detected, Harvey J. Alter from the National Institutes of Health in Bethesda, Maryland announced in February. If confirmed, it would be the seventh type ever found. The new type does not represent a major health risk, according to first estimates.

● **THE WORLD** Future Society argued for a diminution of the height of human beings, in an article entitled "Short Is Beautiful" in the *Futurist*. Author Thomas Samaras decries tall people as a strain on the Earth's resources.

Mexico's debt bomb explosion spreads: How LaRouche knew

by Dennis Small

The following is the speech of Dennis Small, EIR's Ibero-American editor and a former political prisoner, to the Feb. 19-20 conference of the International Caucus of Labor Committees and Schiller Institute. Small's presentation was delivered as part of a panel, in two parts, with the presentation of EIR Economics Desk reporter John Hoefle in between. The second part of Small's presentation appears on p. 29. Other speakers on the panel, whose presentations appeared in our March 3, 1995 issue, were Carlos González, who is the political secretary of Argentina's former President Arturo Frondizi and was representing President Frondizi; and Uwe Friesecke, who read a speech on the Russian economy prepared by Michael Liebig and Konstantin George of EIR's European headquarters in Wiesbaden, Germany.

Victor Grunewaldt, Peter Rush, and Valerie Rush contributed to the preparation of economic data, graphics, and other research used in Small's presentation.

On Monday, January 30, 1995, as the *crème de la crème* of the international financial elite held their annual ritual gathering in Davos, Switzerland, the nation of Mexico came within a hair's breadth of defaulting on its \$183 billion in foreign obligations. Its foreign reserves had plummeted from nearly \$30 billion in early 1994 to just over \$3 billion; the government had been unable to market its Treasury bills for over a month; it had about \$4 billion in such notes maturing over the next few weeks; and Mexico was staring at the staggering prospect of having to cover at least \$65 billion in foreign obligations coming due over the course of 1995, with hardly a penny in its coffers.

Had Mexico defaulted that Monday, it is likely that this would have ignited a chain reaction of capital flight and ensuing defaults across Ibero-America on Tuesday; chaos throughout the other "submerging" markets in eastern Europe and elsewhere by Wednesday; and full-scale meltdown of the \$45 trillion world derivatives bubble by Thursday, Feb. 2. Wall Street would have had a *bad* weekend.



Dennis Small at a press conference on Jan. 18, 1994. "In the face of all the blather from all the established authorities and other idiots with degrees, LaRouche and EIR have repeatedly and publicly warned about the imminence of a blowout of the world financial system, and of its Mexican component in particular."

On that same day, Thursday, Feb. 2, as they were beginning to breathe again, London's *Financial Times* moaned in print: "There was little to indicate a massive crisis in the making. . . . The procedures of the IMF should be improved to detect problems in member countries before they get out of hand."

You might think that the cheapskates at the International Monetary Fund (IMF) and in London could just purchase a subscription to *EIR* and be done with it—since Lyndon LaRouche and *EIR* have been warning of precisely such a crisis for years. In the face of all the blather from all the established authorities and other idiots with degrees, LaRouche and *EIR* have repeatedly and publicly warned about the imminence of a blowout of the world financial system, and of its Mexican component in particular. Most recently, LaRouche issued his famous "Ninth Forecast" in June 1994, in which he warned of the coming disintegration of the financial markets as a result of a reverse-leveraged implosion of the derivatives bubble.

In the course of this panel, we will document and prove this beyond a reasonable doubt. The evidence of the last 15 years is conclusive: In TV documentaries, written statements, coverage in *EIR*, and in organizing on the streets of the U.S., LaRouche has been loud and clear. Everybody else either:

- a) failed to correctly forecast the events, as we did repeatedly;
- b) failed to take our warnings into account; or

c) incompetently failed to act on the basis of our proven superior method.

Does that tell you something about their method, and about ours?

The political problem we face today is that the next particular financial blowout that comes along—such as the one that is clearly in the works in Argentina—may not be momentarily defused like Mexico's was. It may instead lead to a chain reaction of thermonuclear financial proportions. Under those circumstances there will be no time or room for mistakes; governments will have to act pretty much instantly, along the lines repeatedly explained by LaRouche, and LaRouche himself has to be completely free to bring that about. There is no way around the need for the immediate and full exoneration of Lyndon LaRouche and all his associates, including those currently still serving barbarically long sentences in Virginia jails: Mike Billington, Anita Gallagher, Paul Gallagher, Larry Hecht, and Don Phau.

Until that issue is addressed and redressed—the issue of LaRouche's unique authority and competence to solve the global crisis, and therefore of the necessity of his full exoneration and that of his jailed associates—there will, in fact, be no solution. Mexico will be only a prelude of far, far worse to come.

As I emphasized in a conference like this back in 1991, right after I was released from jail: "As enormous as the injustice is around LaRouche's jailing, the withholding of his leadership and policies for economic recovery is much

more serious. Because he was jailed, the human rights, in fact, the right to life of hundreds of millions of people is endangered, and has been violated. That's the true crime."

The systemic crisis

When the debt bomb exploded in Mexico at the end of last year, LaRouche noted that this was not a Mexican problem, but a New York and London problem, meaning a problem of the world financial system. He explained that it was the lawful follow-on to the Orange County blowout of earlier in 1994, and that it would not stop in Mexico, but could hit next just about anywhere: Argentina, Hungary, some other U.S. county—you name it.

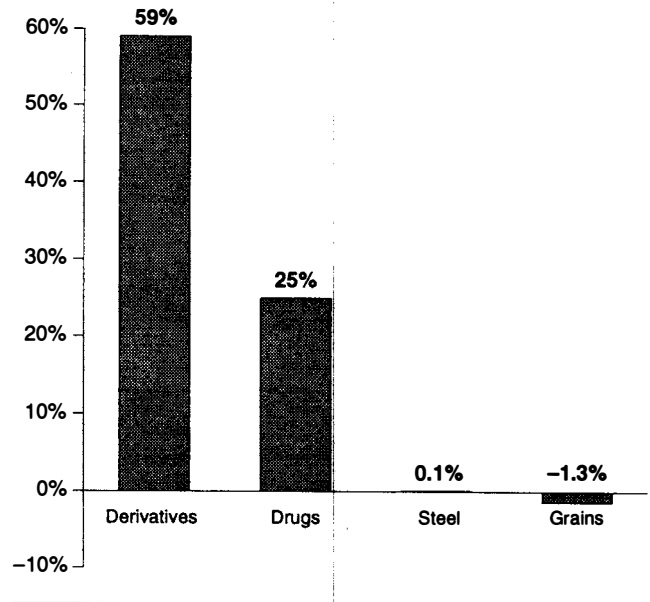
But the idiots with degrees refused to get it. Everyone from Federal Reserve Chairman Alan Greenspan to IMF director Michel Camdessus is now running around admitting that "the whole system" is endangered, but they insist that it was the Mexican crisis which caused the danger to the system—and that this was due to "bad management" in Mexico and Washington. But the Mexican crisis didn't endanger the system; rather, it is the systemic crisis which endangered Mexico. The problem will not be solved by improved management in Mexico City, Washington, and the IMF. It will only be solved by putting the entire world financial system through Chapter 11-style bankruptcy reorganization—an idea which is not much to the liking of Greenspan, Camdessus, or the evil little gnomes of Zurich.

The financial packages which have been implemented thus far at best buy a little time; they do not resolve the problem, and the time bomb is ticking away and could explode again at any time, in Mexico, Hungary or, most likely of all, Argentina.

Why did the debt bomb blow out in Mexico (note that I didn't call it the "Mexican debt bomb," but "the debt bomb in Mexico")? Here's a graph which answers that question **Figure 1**. Over the period from 1986 to 1994, the world derivatives market has grown from a mere \$1.1 trillion to over \$45 trillion—an annualized growth rate of 59%. There is nothing on the face of the earth that has grown as fast as that speculative bubble—except some deadly cancers that my brother the oncologist treats. The only thing that even came close was the world drug trade, which we estimate to be growing at the rate of about 25% per year—which might tell you something about just what is propping up the derivatives bubble. But as the speculative bubble has grown exponentially, the productive physical economy of the world—the food, steel, energy, and so on, on which the survival of the human race actually depends—has been in rout. Over the last eight years, world steel production per capita has been dead flat. Grain production per capita has actually dropped by 1.3%.

Sooner or later, when the speculative cancer has devoured most of the physical economy underlying it, the system breaks down. The day or hour may be unforeseeable,

FIGURE 1
World growth rates, 1986-94
(average annual percent)



Sources: U.S. Departments of Agriculture and Commerce, EIR.

but the process is inexorable.

What happened in Mexico is a microcosm of this big picture (**Figure 2**). Between 1980 and 1994, Mexico's official foreign debt soared, reaching \$141 billion by 1994. But in addition to the official debt, Mexico—like most of the so-called "emerging markets"—began taking on huge new quantities of other foreign obligations, such as dollar-denominated government bonds and foreign investments in the stock market. These speculative hot money flows increased Mexico's real foreign debt to about \$213 billion by the end of 1994. Those obligations are now being converted into official government debt through the so-called \$50 billion rescue package, which will bring Mexico's official foreign debt up to \$191 billion. And if the underlying policies which created the mess in the first place are not changed—which they certainly have not been thus far—Mexico is going to have a \$265 billion real foreign debt cancer by the end of this year.

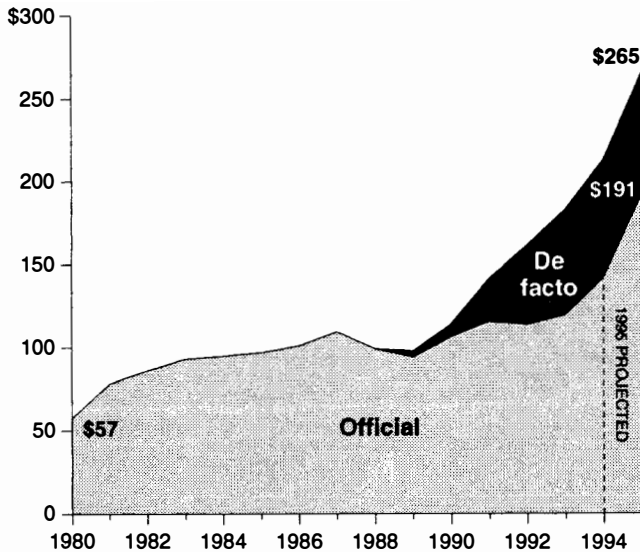
Did the productive economy keep up with this growth?

Judge for yourself. **Figure 3** shows EIR's indices of Mexico's per capita physical production of a market basket of 15 important consumer goods (corn, beans, meat, clothing, autos, and so forth) and of per household production of a market basket of 17 producers goods (steel, cement, tractors, etc.). Both rose respectably during the 1970s, as Mexico positioned itself to launch in-depth industrialization in the 1980s, which was the policy adopted by then-President José López Portillo. But the bankers thought otherwise. Nineteen

FIGURE 2

Mexico's real foreign debt

(billions \$)



Sources: World Bank, EIR.

eighty-one was the last year of growth, and then the IMF and the oligarchy launched all-out war on Mexico. In the subsequent two administrations of Miguel de la Madrid and Carlos Salinas de Gortari, every aspect of British free market dogma was dutifully implemented—and the Mexican economy collapsed as a result. Bean production dropped by 37% per capita; milk by 22%; steel by 27%. Overall, consumer goods dropped by 20%, producer goods by 27%.

So the debt soared, while the physical economy fell apart. The international financial oligarchy chattered in delight about this “Mexican economic miracle,” and demanded that every nation of the world imitate it.

LaRouche, however, warned all along that the touted “Mexican model” was a formula for disaster and would soon enough blow apart. He was right.

The evidence

Allow me to review the documentary evidence on this, covering three decisive developments over the last five years.

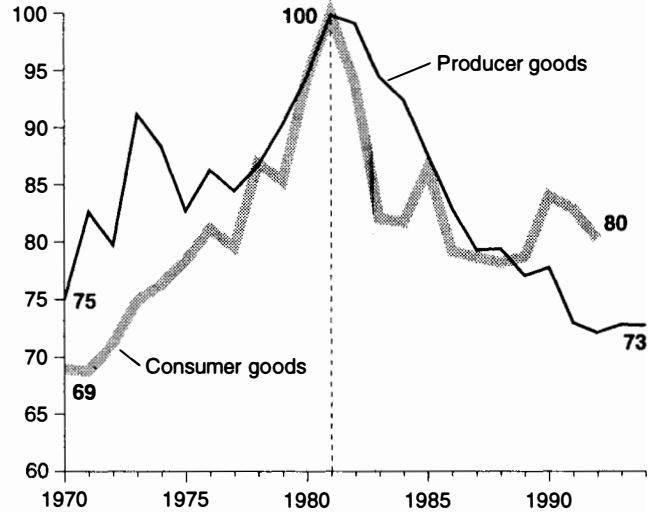
The first is the famous Brady Plan announced on March 10, 1989, which supposedly reorganized the foreign debt of Mexico—and later other countries—to make it more “manageable” with slightly lower interest rates. Treasury Secretary Nicholas Brady and his boss George Bush modestly thought it was a brilliant idea.

On Feb. 4, 1990, the day that Mexico was officially “Brady-ed,” the treasury secretary proclaimed: “Mexico is on the move again. Jobs are being created. Flight capital is

FIGURE 3

Mexico: producer and consumer goods

(index 1981=100)



Sources: ECLAC (United Nations), INEGI (Mexico).

returning. Investor confidence is growing. In short, a new dawn is rising. Mexico stands as a beacon of hope for other debtor nations. The burden of foreign debt has been removed from the shoulders of the Mexican people.”

Speaking with all the respect that their intelligence and morality deserved, LaRouche expressed a somewhat different view on March 24, 1989: “Actually, Mr. Brady is simply proposing to do, in a cleverer way, what the absolute stubborn idiots are proposing to do in a stupid way . . . loot these countries in an intensified way.”

EIR, for its part, on March 24, 1989 called the Brady Plan “a silly debt deal,” and “a hoax that is doomed to fail,” explaining that it would only worsen the debt burden.

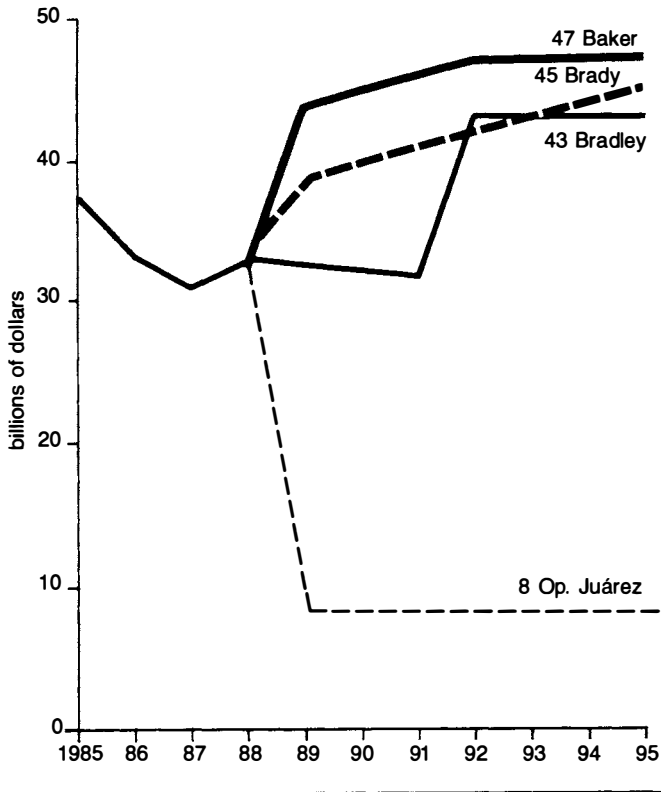
Figure 4, taken from the April 21, 1989 issue of *EIR*, projected that, after a brief dip, interest payments would continue to rise under the Brady Plan, as opposed to what would happen if the nations of Ibero-America adopted LaRouche’s policy proposals from “Operation Juárez,” including declaring a debt moratorium, imposing exchange controls, and reactivating their productive economies through a regional common market.

So, who was right? Brady’s forecast, that “the burden of the debt had been removed,” or LaRouche and *EIR*? Compare the two graphs: our projection, with what happened (**Figure 5**). Mexico’s official foreign debt had almost doubled in the eight years before the Brady Plan; but after the Brady Plan it resumed its growth at an even faster rate, and is now on course for hitting \$191 billion in 1995.

But the fact is, the Brady bunch wasn’t really interested in lessening the debt load of Third World nations. Under the

FIGURE 4

Interest payments from Ibero-America due under Baker, Bradley, Brady, and LaRouche Plans 1985-95



cover of so-called "debt relief," they imposed:

- a) full convertibility of local currencies with the U.S. dollar;
- b) total central bank autonomy;
- c) unrestricted opening to foreign banking and financial activities;
- d) elimination of all tariffs; and
- e) massive privatization fire-sales of national assets.

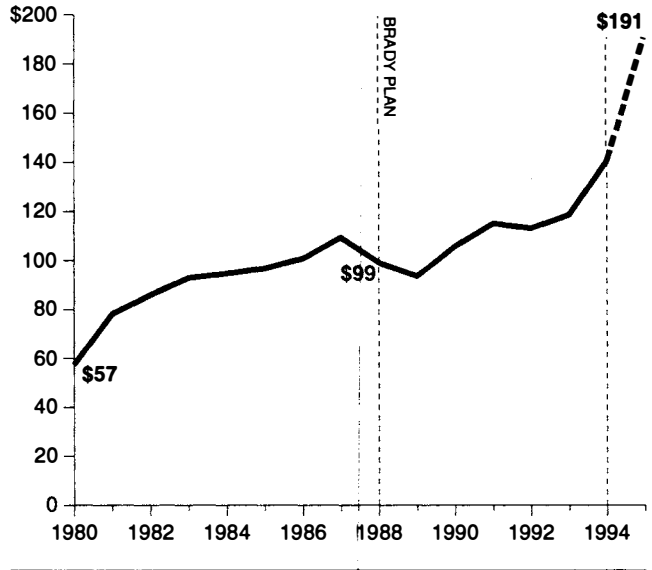
It was this that the IMF's Michel Camdessus drooled over back on Feb. 4, 1990, the day Mexico signed onto the Brady Plan: "The effect of the agreement today will be felt beyond the country. It will serve as an example to other countries struggling with debt problems."

A few months later, in September 1990, Citibank's William Rhodes told an audience at the annual trade fair in Leipzig, Germany, that Mexico's Brady Plan should be used as a model for solving the debt problem in Poland and other eastern European countries.

EIR's view was 180 degrees contrary, and on Feb. 16, 1990 we warned that the Mexican debt problem would even-

FIGURE 5

Mexico's debt before and after the Brady Plan (billions \$)



Source: World Bank.

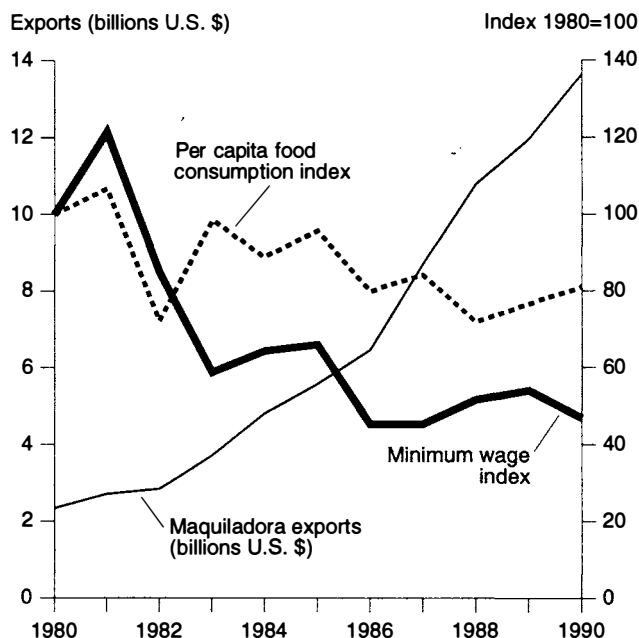
tually blow up in the bankers' faces: "There is an impending crisis of Mexico's financial and economic situation. . . . The [Brady] debt deal means very little. . . . Mexico has a precarious financial structure. . . . The bottom line is that Mexico since 1982 . . . has slashed investment in basic infrastructure, energy, and agriculture, to the point that the country now needs tens of billions of dollars of investment in these areas to avoid catastrophe."

The investment was not forthcoming; the catastrophe was.

The second major policy development where the record needs to be reviewed, was the North American Free Trade Agreement (NAFTA). This was announced on Feb. 6, 1991 by then-President George Bush: "A successful conclusion of the free trade agreement will expand market opportunities, increase prosperity, and help our three countries meet the economic challenges of the future."

EIR disagreed, to say the least. We issued a Special Report on May 1, 1991, with the demure title: "Auschwitz Below the Border; Free Trade Pact Is George 'Hitler' Bush's Mexican Holocaust." The 75-page study said that "NAFTA will destroy the U.S., Canada, and Mexico," and polemicized against the populist nonsense coming from pretty much all sides of the debate, pro and con. Many in the U.S. were favoring NAFTA with the argument that it would be good for American workers, who would supposedly benefit from increased exports to Mexico. At the same time, many in Mexico were opposing the pact, using the identical argument. Then there were those in the U.S. who opposed

FIGURE 6
Maquiladoras grow, Mexicans starve



Sources: Secretaría de Agricultura y Recursos Hidráulicos (SARH), Mexico; AFL-CIO, *Exploiting Both Sides: U.S.-Mexico Free Trade*, Feb. 1991; U.S. Department of Commerce (USDC); U.S. International Trade Commission (USITC); own elaborations.

NAFTA, saying it was bad for the U.S. but good for Mexico, since factories would move there for the cheaper labor. And inside Mexico, their counterparts favored NAFTA, with the same logic.

LaRouche and *EIR* said they were *all* wrong, that no one would benefit from NAFTA, other than the bankers who had designed it in order to keep their teetering financial system afloat. British free trade policies had already created a terrible economic depression in both Mexico and the United States, and NAFTA would only aggravate this. *EIR* wrote on May 1, 1991: "Mexico today is in a deep depression, with soaring unemployment and real wage levels less than 50% of their 1982 levels, with more than 1 million new workers each year entering the labor market, most of whom will not find jobs."

Figure 6, taken from our May 1, 1991 Special Report, summarized the evidence against free trade for Mexico: While free trade *maquiladoras* were booming, as the ascending curve shows, the standard of living of Mexicans was plummeting. Per capita food consumption dropped by 20% between 1980 and 1990; and the minimum wage plummeted by more than half in the same period.

EIR countered all the NAFTA myths, one by one.

Bush's Commerce Secretary Robert Mosbacher argued that "NAFTA means more jobs for Americans," since U.S.

exports to Mexico would allegedly rise by as much as \$14 billion. Since each billion dollars in exports translates into 25,000 jobs for U.S. workers, NAFTA would mean about 350,000 new jobs, Mosbacher promised.

In our May 1, 1991 Special Report, *EIR* said the opposite would happen: "NAFTA means less jobs for Americans. . . . It will destroy the U.S., Canada, and Mexico. . . . As for an export boom to Mexico, it won't happen. The market for exported U.S. consumer goods is limited by the terrible poverty of the majority of the Mexican population. And the IMF and Mexico's creditor banks will not permit it anyway: They are demanding that Mexico export more and import less, in order to pay off their gigantic debt to the banks."

So, who was right, Bush or LaRouche?

As a result of Mexico's current debt crisis, the IMF and the creditor banks have just forced Mexico to cut its total imports for 1995 by half, exactly as *EIR* had forecast would occur. This means that U.S. exports to Mexico will drop by an estimated \$27.5 billion this year—which, if we use Mosbacher's formula, translates into about 700,000 U.S. jobs lost—almost double what Bush promised would be gained through NAFTA.

EIR's Special Report added that what NAFTA had in store was far worse than just free trade: "NAFTA has one last principal goal: to permit the full opening up of Mexico's banking and financial system to takeover by the international banks . . . it transmogrifies Mexico's national savings into the means for international speculative activities earning profits for the banks, emphatically including the laundering of hundreds of billions of dollars in drug revenues every year. . . . [This dollarization means] a loss of economic sovereignty which is tantamount to erasing all national borders."

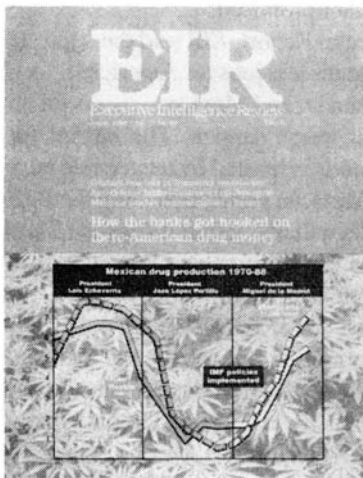
Over three years later, *EIR* discovered that NAFTA had indeed established secret financial protocols which did all of this—and more. Congressman Henry Gonzalez's House Banking Committee held hearings on Sept. 8, 1993 which first revealed that such secret negotiations had occurred.

As *EIR* put it in our Oct. 8, 1993 edition, the plot was to "actually increase Mexico's more than \$100 billion nominal foreign indebtedness . . . to transform such increased dollar indebtedness into a source of offshore dollar credit through the proliferation of derivatives markets. These markets would be backed by the Mexican government, which would in turn be functioning as an agent of the U.S. Federal Reserve System; and to use the offshore dollar credits thus generated as a lever for a new form of financial control over the U.S. itself."

Permit me, at this point, a brief aside on the subject of drugs. It has to be said that the free trade policies of the IMF et al., such as those embodied in NAFTA, actively and deliberately promote drug trafficking.

Take the case of Mexico from 1970 through 1988, as documented in a graph that appeared on the cover of the July

FIGURE 7



8, 1988 issue of *EIR* (Figure 7). The curves show physical volume of production in Mexico of marijuana and heroin. Notice the way both plummet by 80-90% from 1976 to 1982, as a result of both the anti-drug and economic development policies of President López Portillo. Also note what happened after 1982, when IMF policies were implemented with vigor in Mexico: Marijuana and heroin

production jumped right back up to their former levels.

Do the gurus of free market economics know that this is the consequence of their policies? They sure do: They know it, and approve of it.

As Harvard's punk economist Jeffrey Sachs proudly wrote back in 1988, referring to the success of his policies in Bolivia: "To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls. . . . Many of these workers are still unemployed, or only marginally employed, or have gone to the coca-growing region to find work."

Our warnings of impending disaster

It was back on Dec. 6, 1991 that *EIR* first pointed to the specific nature of the time bomb that would soon explode in Mexico: "Mexico is currently running an enormous deficit in its current account. . . . In 1990 and 1991, the government financed this immense imbalance by having a net inflow of capital. . . . The capital inflow can be expected to decline, not to mention the ever-present threat of a reversal of the flow and a recurrence of massive capital flight. . . . The Mexican model is really just a disaster waiting to happen."

On Aug. 7, 1992, Malcolm Forbes, the billionaire whose qualities of acumen and judgment are shown by his preference for riding big motorcycles and his relationship with Elizabeth Taylor (or have I got that backwards?) thought that Mexico was the cat's meow: "The Mexican government is performing a miracle rivaling those of Germany and Japan after World War II, and of Korea and the other so-called Asian Tigers in recent years. . . . The U.S. Congress should take a crash course in economics from [Mexican President] Salinas."

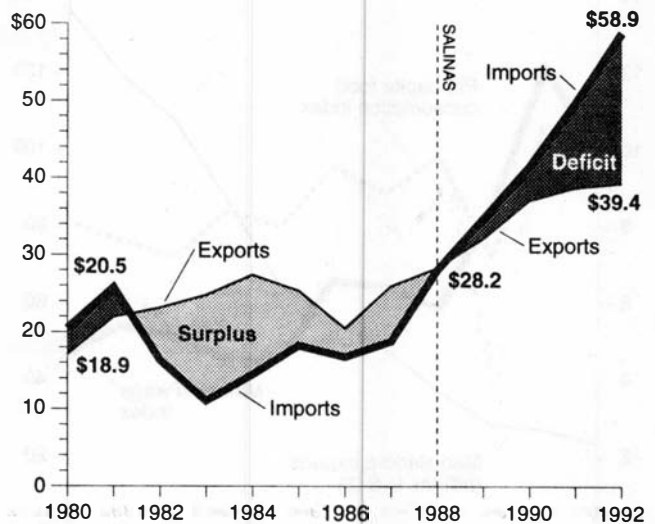
It appears that they did.

In 1993, and then again in 1994, *EIR* published in-depth cover features on the impending explosion of the debt bomb

FIGURE 8

Mexico's balance of trade

(billions \$)



Sources: Banco de México, U.S. Commerce Department, *EIR* adjustments.

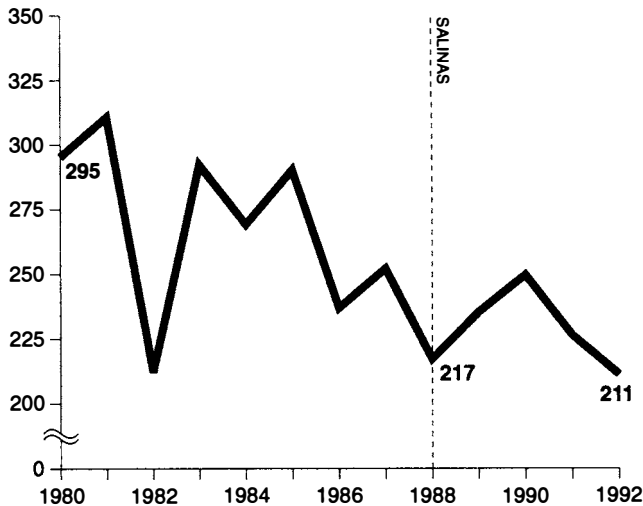
in Mexico and Ibero-America. The first of these packages, dated April 23, 1993, was called: "Mexico's 'Success Story': The Charade is Ending," and it pointed to the crisis reflected in the country's out-of-control trade deficit, which was a result of years of British free-trade policies.

By 1992, that trade deficit had reached almost \$20 billion per year, as we documented in Figure 8, and we wrote on April 23, 1993: "To finance this \$20 billion per year current account deficit, Mexico has been driven to attract an unstable inflow of loose money looking only for speculative profits. . . . Today, this jerry-built house is about to fall apart. . . . It is increasingly likely that Salinas will be forced to devalue the peso—a measure which he has desperately tried to avoid, as it will deflate the international myth of the 'Mexican model,' and bring the country's foreign debt crisis back to center stage."

EIR pointed to the devastation of Mexico's physical economy, as the underlying cause of the crisis.

Figure 9, taken from that same April 23, 1993 issue of *EIR*, shows the devastating 28% collapse of per capita grain consumption between 1980 and 1992. And we went on to warn, frankly prophetically, that the world had to wake up to the reality of the impending collapse of Wall Street's Mexican model: "Not only has Mexico's physical economy been looted to the point of collapse, but the figures show that even the final phase of bankers' speculative gain has been reached, and a financial blowout is imminent. Other Ibero-American economies that have followed similar regimens, such as Ar-

FIGURE 9
Mexico: annual food grain consumption
 (kilograms per capita)



Source: Department of Agriculture, Mexico.

gentina and Brazil, are also rapidly approaching a blowout phase. . . . In short, the charade about the Mexican success story is about to end. Will the nations of eastern Europe, of Ibero-America, and of the rest of the Third World wake up in time?"

I think that question still needs to be answered today.

While the warning signs were there to be seen by anyone willing to look, or subscribe to *EIR*, throughout 1993 and 1994, Wall Street's hired scribblers kept churning out the line that Mexico was the miracle market of the 1990s, while the investment banks and mutual funds kept pouring uncounted billions of hot money into the Mexican stock and bond markets. A true speculative financial bubble was in the making, a gigantic Ponzi scheme of promissory notes with no backing. Typical of the pathetic commentary spewed out from Wall Street is the following Oct. 25, 1993 quote from David Goldman, of Bear Stearns, who, as many of you recall, was never one to be left behind when he saw an attractive Ponzi scheme swish by: "Mexico's dynamic economy is on the move and will stay that way, NAFTA or no. . . . In my view, nothing can stop Mexico's economic modernization."

Sorry, Dave.

On Aug. 6 of 1993, Lyndon LaRouche was interviewed on a Monterrey, Mexico radio station, where he warned: "Mexico is suffering the spillover of a global pattern typified by the growth of the derivatives bubble. . . . When it will pop, we can't say; but looking over the period of the next 9-12 months, we must expect major financial implusions, coming out of the activities of pirates, buccaneers, thieves,

such as George Soros."

Perhaps not in direct response, George Soros protested before the House Banking Committee of the U.S. Congress a few months later, on April 14, 1994: "I reject any assertion or implication that our activities are harmful or destabilizing."

By the time Soros was issuing these protestations to the U.S. Congress, it was more than apparent to us at *EIR* that Mexico was about to undergo a debt bomb explosion more dramatic than that of 1982, and that it might well be followed quickly by the rest of Ibero-America. *EIR* said just that, in its May 13, 1994 cover feature, titled "About to Explode Again, Ibero-America's Debt Bomb": "It is highly likely that 1994 is going to witness an explosion of the Ibero-American 'debt bomb' that is going to make the 1982 crisis pale in comparison, and could well bring down the entire international financial house of cards with it."

But up to the last minute, the house organs of the financial oligarchy refused to face the facts. For example, as late as Nov. 9, 1994, the *Journal of Commerce* was insisting editorially: "Carlos Salinas, Mexico's President, leaves office later this month with a record most other leaders would envy. . . . The turnaround in Mexico's public finances offers a good lesson for most other countries."

And on Dec. 5, 1994, barely two weeks before the Mexican blowout, the ubiquitous managing director in Bear Stearns's Financial Analytics and Structured Transactions Group, David P. Goldman, wrote in *Forbes*: "Is it foolhardy to reach for the extra yield [of Mexican bonds]? Some commentators say so. They call emerging market debt the next great investment debacle. I think they're wrong."

Sorry again, Dave.

LaRouche's nine forecasts

So, LaRouche was right on Mexico, while everyone else was wrong. Why?

In order to properly answer that question, it would not be unproductive to spend an entire three-day conference reviewing LaRouche's nine economic forecasts. But we will not attempt that now; we will limit ourselves to quickly recalling Forecasts No. 3, 7, 8, and 9.

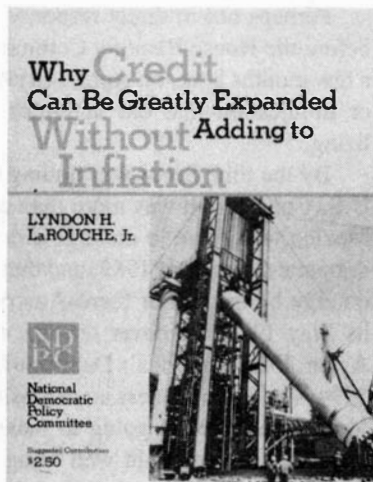
LaRouche Forecast No. 3 of 1979 warned that Paul Volcker's stratospheric interest rate policies would lead to a devastating recession beginning in 1980, and to subsequent debt crises in the developing sector.

Volcker was named head of the Federal Reserve by Jimmy Carter on Aug. 6, 1979. He immediately announced that the source of all evil in the world was inflation, and that he would slay the dragon by credit contraction and by raising interest rates as high as necessary, which turned out to be a prime rate of 21.5%.

LaRouche responded that this was nonsense, that credit can be greatly expanded without adding to inflation, so long

as the issued credit is used for productive economic activity, and not speculation (Figure 10). In fact, if credit is issued for activities which overall increase the productive powers of labor, it will lead to a larger increase in physical output than in credit issued, and is therefore anti-inflationary. Volcker's policy, on the contrary, would lead to a 15% recession of the U.S. economy, LaRouche warned.

FIGURE 10



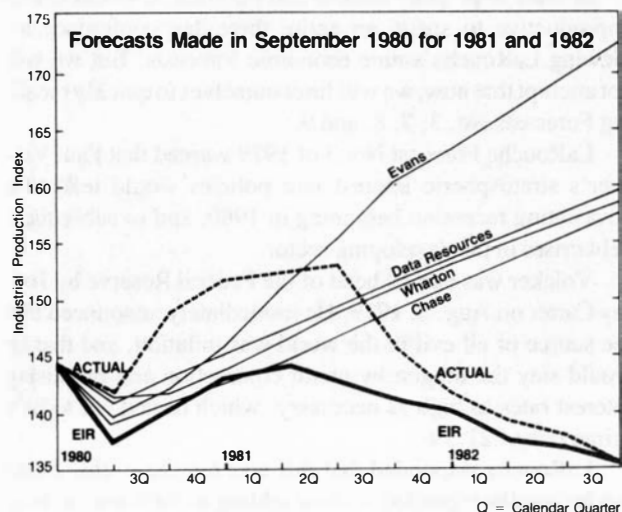
In September 1980, associates of LaRouche issued a series of forecasts in this regard, which used the LaRouche-Riemann econometric model. The results of specific forecasts made in September 1980 for 1981 and 1982 industrial production, are seen on this graphic of that time: LaRouche and *EIR* were right on the mark; Chase, Wharton, Data Resources, and Evans were in outer space (Figure 11). Even back then, we gave the competition the opportunity of educating themselves by subscribing to *EIR*.

Over the following months, LaRouche elaborated on the necessary measures to get out of the Volcker depression. In January 1982 he listed four such steps:

1) monetary action, including federalizing the Federal Reserve;

FIGURE 11

How *EIR* predicted the Volcker collapse



2) construction of nuclear energy plants on a large scale;
3) major water and transportation infrastructure projects; and

4) expansion of world trade and investment, by reorganizing the foreign debt that was strangling the developing sector nations. He pointed in particular to the role that Mexico could play, as a potential \$100 billion export market for U.S. capital goods.

As Mexico came under attack from the international financial community in February 1982, when a 28% devaluation was forced on the country, LaRouche urged that Mexico act quickly, as reported in the March 9, 1982 *EIR*: "LaRouche said Mexico should slap on strict foreign exchange controls; quickly reduce domestic interest rates to accelerate industrial growth; and nationalize any private banks in the country that tried to sabotage these steps."

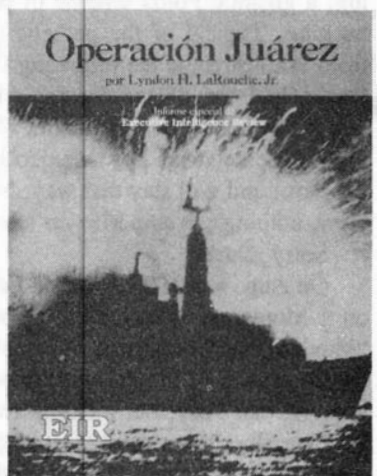
On May 26, 1982, in the middle of the Malvinas War, Lyndon LaRouche met with Mexican President José López Portillo. At that meeting and others with high-level Mexican politicians, and in public comments for the press, LaRouche urged Mexico to use "the debt weapon" in alliance with other countries of Ibero-America. *EIR* did the same (Figure 12).

And then in August 1982, LaRouche issued his famous report "Operation Juárez" (Figure 13). In his Author's Foreword to that document, dated Aug. 10, 1982, he wrote: "During the Winter months of 1981-1982, the continuation of the so-called Volcker measures in the United States triggered the eruption of a second, worldwide 'Herbert Hoover' depression. . . . This new depression will probably lead into a general, chain-reaction collapse of finan-

FIGURE 12



FIGURE 13



cial institutions by September 1982.”

Three days later, on Aug. 13, 1982, Mexican President López Portillo imposed exchange controls to stop the massive capital flight that was destroying the Mexican economy—as LaRouche had urged months earlier. Two weeks after that, on Sept. 1, he nationalized the private banks. As the Mexican President called up the heads of state of Brazil and Argentina to urge them to join Mexico in forming a debtors cartel and declare a debt moratorium, as specified in “Operation Juárez,” the international financial community held their collective breath in fear.

But the Brazilians and Argentines chose not to join Mexico—and they, and the world, have paid the terrible price for that blunder ever since.

It just so happens that round about that time—to be precise, on Aug. 19, 1982, exactly nine days after LaRouche issued “Operation Juárez” and six days after López Portillo announced exchange controls—self-proclaimed British agent of influence Henry Kissinger wrote his famous “Dear Bill” letter to the head of the FBI, William Webster, demanding action against LaRouche (Figure 14).

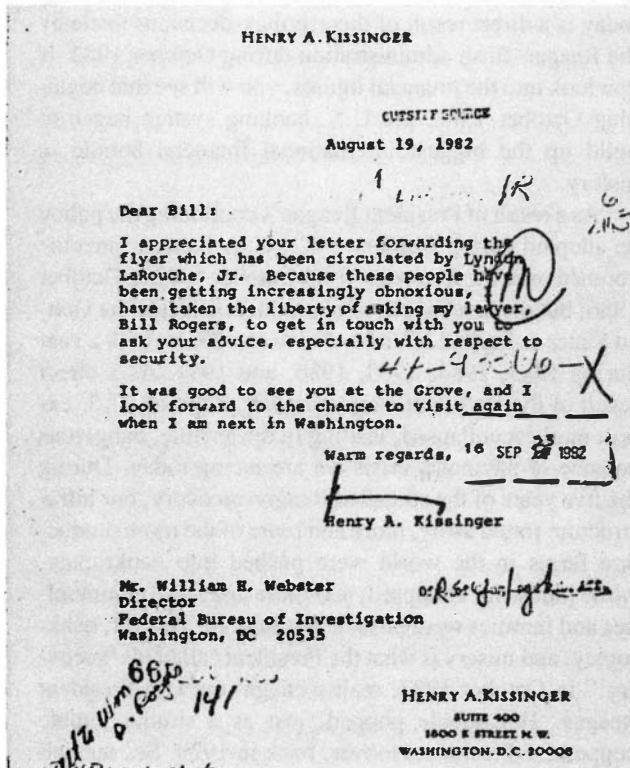
But it should be added that the scare LaRouche was giving the British-Kissinger crowd around the debt crisis was actually a secondary consideration for them; they were even more

worried about what he was up to about the same time on what became the SDI proposal, which we will hear a little more about later.

By January 1983, *Time* magazine finally came around to recognizing what LaRouche and *EIR* had been saying throughout 1982, and they even picked up our expression “debt bomb” (Figure 15). Now, some people I’ve spoken to dispute that LaRouche was the first to use that expression. And admittedly, a search of *EIR* and *New Solidarity* headlines of that period left the matter open to doubt. But with the help of our photo staff, I have come up with the documentary proof to end this debate (Figure 16). This is an NDPC rally in the streets of San Francisco, on Sept. 14, 1982—a full three months before *Time* magazine got around to the idea. Notice the sign: “LaRouche Says: ‘Debt Bomb’ Must Stop Depression.”

This brings us to LaRouche’s Forecast No. 7, from April 1988 (see box, p. 24).

FIGURE 14



Henry Kissinger’s famous “Dear Bill” letter to FBI Director William Webster, demanding action against LaRouche.

FIGURE 15



FIGURE 16



Organizers with the National Democratic Policy Committee (NDPC), the LaRouche wing of the Democratic Party, in San Francisco in September 1982.

LaRouche in 1988: 'the bouncing ball'

The following is an excerpt from Lyndon LaRouche's April 5, 1988 national television broadcast, during his campaign for the Democratic Party presidential nomination. The camera shows LaRouche with a bouncing ball, which is superimposed upon a Wall Street Journal chart of stock market fluctuations.

Imagine we are back in October 1929. I drop this ball.

Let's see how that looks on the *Wall Street Journal's* chart. The picture isn't exactly the same, but the general idea is about the same.

Now, come back to the middle of October 1987. The ball I am holding is not the same ball I dropped back in 1929, but it is a similar ball. The same thing happens with this ball in 1987 and 1988 that happened in 1929 and 1930.

Why should an economy act like a bouncing ball, back in Hoover's time, and again today? One reason is that the Reagan-Bush administration has acted almost exactly as the Coolidge and Hoover administrations acted to create the Great Depression of the 1930s. If our government, in 1988, makes exactly the same mistakes which the Hoover administration made back in 1930, the results will be approximately the same. Times change, but the laws of nature do not.

There are physical laws which cause a financial collapse to resemble a bouncing ball. Whenever a financial collapse is caused by a prolonged contraction of industrial and agricultural production, all of the ordinary rules of market-behavior go out the window. Once the crisis begins, the financial markets do not go all the way to the bottom in the first panic. After the first drop, the markets tend to stabilize, so that foolish people may believe that a recovery has begun. A few months later, the next drop comes, and then a temporary stabilization at a lower level before the next drop. This is not the place to explain the physical principles involved, but you see the general idea.

We must look back to 1982, to understand how Ronald Reagan and George Bush set us up for a 1989 collapse which could be the worst depression of the twentieth century.

Back in 1982, I was collaborating with the Reagan administration in developing the policy which became known as the SDI [Strategic Defense Initiative]. We were considering two things.

As most of you know, by March of 1983, the President shared my view, that we have the scientific potential to

bring to an end the time in which our people must continue living in helpless fear of Soviet missiles. Back in 1983, the President and I also shared the hope, that Moscow might join us in supporting an SDI policy.

I was also projecting the impact of an SDI program on the economy. If we assist U.S. industries to make job-creating investments in the advanced technologies spilled over from SDI development, the pay-back to the economy, in more jobs and income, would be much more than we spend for SDI.

Therefore, it was my duty to indicate any important breaking developments in the international economy.

During early 1982, I warned the administration that the Latin American Debt Bomb was going to explode during 1982. That June, I warned Mexico's President José López Portillo and the White House that the Mexico debt bomb was going to explode by no later than September. I produced a book-length report, *Operation Juárez*, which presented in detail the joint actions which should be taken by the U.S. and Latin American governments at the point the Mexico debt bomb exploded.

That August, the Mexico debt bomb exploded. Mexico acted immediately on the basis of the proposals I had outlined in my *Operation Juárez* plan of action. Unfortunately, President Reagan went in the opposite direction, and forced Mexico to cancel these recovery measures.

The international financial crisis we are experiencing today is a direct result of those policy-decisions made by the Reagan-Bush administration during October 1982. If you look into the financial figures, you will see that beginning October 1982, the U.S. banking system began to build up the biggest international financial bubble in history.

As a result of President Reagan's continuing the policy he adopted during October 1982, U.S. financial income zoomed over the five years from October 1982 to October 1986, but the level of physical production inside the United States collapsed at a rate of between 2% and 5% a year during 1983, 1984, 1985, 1986, and 1987. As a direct result of the President's rejecting my proposal, U.S. export markets collapsed, leading to the terrible, dangerous balance-of-payments crisis we are facing today. During the five years of the so-called Reagan recovery, our infrastructure rotted away, more and more of the more productive farms in the world were pushed into bankruptcy, while industries collapsed, and more and more communities and families were pushed into misery. This rot, bankruptcy, and misery is what the President called his "recovery." In October 1987, reality caught up with President Reagan. His bubble popped, just as a similar bubble popped for President Hoover, back in 1929. So, the ball bounces.

Derivatives cancer is killing off the physical economy

by John Hoefle

The worst financial collapse in the last 650 years is now under way, as a result of the economic policies imposed upon governments by the international oligarchy and their functionaries, the international bankers.

There are no isolated financial problems. The problems in Orange County, the problems in Mexico, the financial crises in state and local governments across the country, the financial crises in corporations and financial institutions, the financial crises with governments around the world, are all symptoms of this international financial collapse.

This process of collapse was defined by Lyndon LaRouche in his eighth economic forecast of Nov. 23, 1991, as a "mudslide," in which huge chunks of the financial system slide into oblivion. "Many people have been looking for a definitive one-day, two-day, three-day financial collapse, perhaps on the markets, with the Dow Jones Index crashing 500 or 1,000 points or more," LaRouche said. "What they are seeing . . . is the great mudslide of 1991."

Huge chunks of the financial system have indeed disappeared. Since the 508-point stock market crash of October 1987—the one the experts said we survived intact—the real estate market collapsed; the Texas banking system disappeared; huge chunks of the savings and loan system were seized by regulators; the junk bond and leveraged buyout markets crashed; the Federal Reserve took over the largest bank in the country and bailed out the banking system—or so they thought.

What has occurred is a string of disasters in which institutions, indeed whole segments of the economy, have disappeared. With all this collapse, one asks, why is the system still standing?

The answer is that the financial system as most people think of it no longer exists; the financial system has been transformed into a huge casino, through the use of derivatives and other forms of speculation and looting.

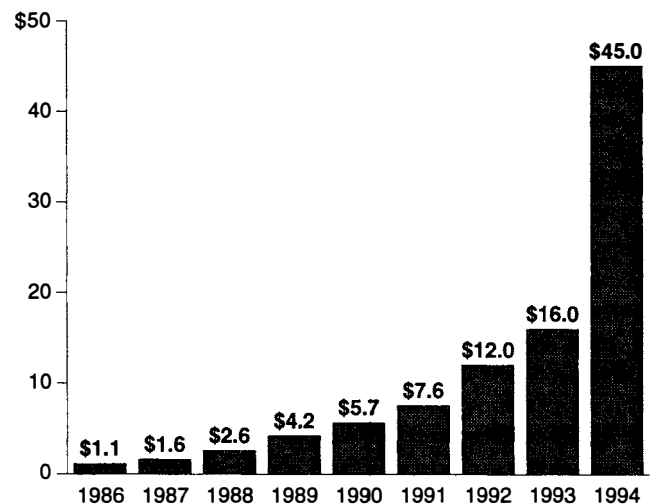
Figure 1 shows the growth of derivatives worldwide. Derivatives have grown from \$1.1 trillion at the end of 1986, to \$45 trillion at the end of 1994, a more than fortyfold growth in eight years. The notional principal amount of derivatives—a fancy way of saying "face value"—rose by 47% in 1987, 65% in 1988, 58% in 1989, 38% in 1990, 32% in

1991, 58% in 1992, 33% in 1993, and a staggering 181% in 1994.

Just what are these derivatives? Derivatives are securities based upon the values of other securities, such as stocks, bonds, commodities, interest rate and currency securities, and indices of such securities. Some of these derivatives are so technically complex that even the people trading them don't fully understand them; but they are conceptually quite simple. Derivatives are bets—as in gambling—on future movements of the markets—markets which are routinely manipulated by the bankers—as opposed to investments in the economies which those markets nominally support. Money that goes into the derivatives bubble is taken out of the physical economy. Derivatives are like a malignant cancer, which grows by consuming its host. Derivatives do not hedge against risk. Derivatives *are* the risk.

I should add that the growth of derivatives might be a

FIGURE 1
World derivatives growth
(trillions \$)

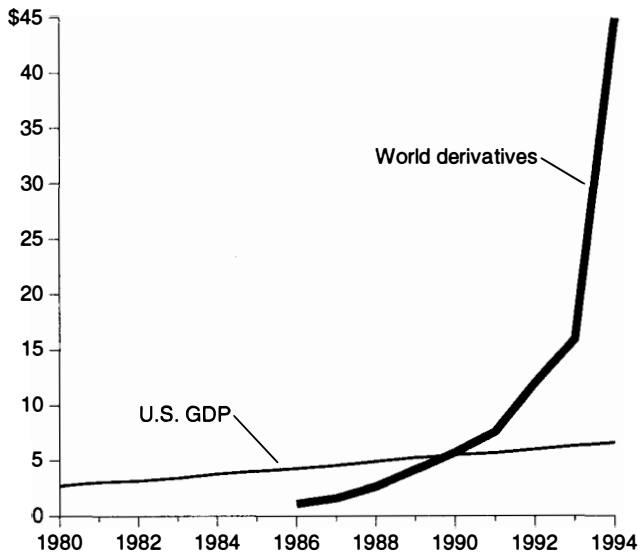


Sources: Bank for International Settlements, *Fortune*, *Swap Monitor*.

FIGURE 2

World derivatives compared to U.S. Gross Domestic Product

(trillions \$)



Sources: Bank for International Settlements, *Fortune*, *Swap Monitor*, U.S. Statistical Abstracts.

little more gradual than Figure 1 shows. The early figures come from the Bank for International Settlements—the central bank of the central bankers—and are thus prone to understatement, while the latter figures come from market-watching companies. But moving a few trillion dollars in growth from one year to the next doesn't change anything, since it still winds up in the same place.

This extraordinary growth rate has nothing to do with economic growth, as Figure 2 shows. It's obvious from looking at this graph that the derivatives market is insane. Between 1980 and 1994, the Gross Domestic Product of the United States grew by 143% overall, a rate of growth of 5.6% a year. During the eight years of the derivatives bubble, GDP grew by 65%, or 5.6% a year, while derivatives grew 4,055%, a rate of 56% a year.

The situation is actually even worse than it looks, since Gross Domestic Product—like the Gross National Product statistic it recently replaced—is a profoundly flawed economic statistic, containing all sorts of non-economic activity. In truth, the real economy, the physical economy, has been shrinking during this period.

Origins of the current crisis

To understand how this came about, let's go back briefly to the beginning of the 1980s, and the so-called Reagan-Bush economic miracle. The alleged economic growth of the 1980s was fueled by a massive growth in government,

corporate, and individual debt. Total U.S. credit market debt grew from some \$6 trillion at the beginning of the decade, to \$14 trillion at decade's end. Much of this debt was incurred for speculative purposes: to buy overvalued real estate; to buy companies through leveraged buyouts; and such. This process worked, after a fashion, thanks especially to the huge amounts of dope money which were poured into the real estate market through the banks.

Things began to go wrong in 1986-87, when the drop in the price of oil punctured the Texas real estate market. Within a couple of years, the six major Texas banks had failed, and the Texas S&Ls were devastated. The junk bond-fed leveraged buyout market soon followed, killed by its crown jewel, the \$26 billion takeover of RJR Nabisco by Kohlberg Kravis Roberts.

The collapse of the real estate and the junk bond markets, combined with the uncollectibility of the banks' loans to less developed countries, threw the U.S. banking system into a bankruptcy crisis. Things were beginning to fall apart.

In mid-1989, the Federal Reserve began a series of actions to try to save the U.S. banking system. The Fed began lowering interest rates—they would not rise again until 1994—to increase the banks' interest profits. It was not enough.

During the first four months of 1990, Michael Milken's Drexel Burnham Lambert, the Campeau Corp., the brokerage Thomson McKinnon, and Columbia Savings—with its \$8 billion in junk bonds—all collapsed. By the summer, New York real estate developer Donald Trump joined the ranks of other "golden boy" developers, like Houston's Gerald Hines and Atlanta's John Portman, who had defaulted on loans.

The Fed took dramatic action just before Thanksgiving Day 1990, when it secretly took control of the bankrupt Citicorp, America's largest bank. A couple of weeks later, federal regulators held a secret meeting to discuss how to handle the insolvency of Citicorp, Chase Manhattan, Chemical, Manufacturers Hanover, Security Pacific, and the Bank of New England.

The regulators' decisions soon became obvious. The Bank of New England was closed in January 1991. A merger between Chemical and Manufacturers Hanover was announced in June 1991, as was a merger between NCNB and the ailing C&S/Sovran, forming NationsBank; in August, BankAmerica took over the ailing Security Pacific. In a little over a month, mergers were announced involving 6 of the 12 largest banks in the country. Citicorp, being too big for anyone to swallow, was put on a federal life support system, bailed out in large part with Saudi money, as part of the price of the war against Iraq.

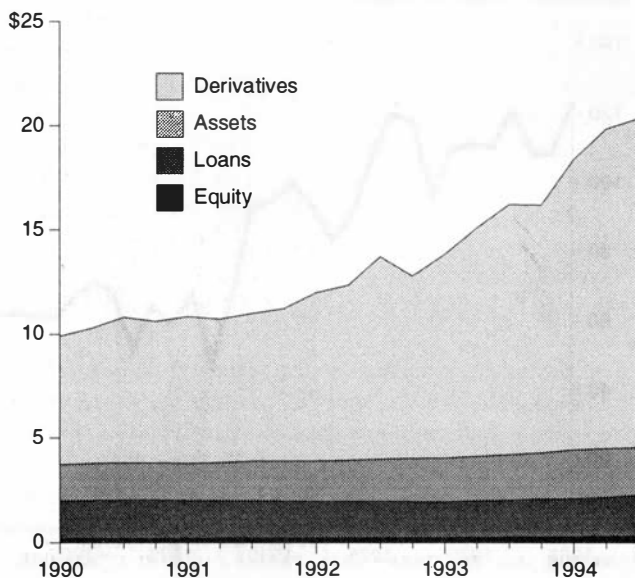
Even while the Feds were bailing out the banks, other parts of the financial system were collapsing. The banking systems of Norway and Sweden collapsed in late 1991 and 1992, resulting in government bailouts.

In April 1992, Canadian real estate developer Olympia

FIGURE 3

U.S. banks are addicted to derivatives

(trillions \$)



Source: Federal Deposit Insurance Corp.

& York, the largest real estate developer in the world, was unable to pay its debts; O&Y filed for bankruptcy in June. A month later, a similar liquidity crisis hit the huge Edper group of Canada's Edward and Peter Bronfman.

In September 1992, the U.S. and British banks launched currency warfare against the European Monetary System. With inside information from the Federal Reserve, Citicorp and speculator George Soros made about \$2.5 billion, and other U.S. banks profited handsomely. The resultant collapse of the lira, however, caused huge derivatives losses for Italian companies, many of which had borrowed from U.S. banks such as Bankers Trust.

The year 1993 began with the bankruptcy of Bramalea, a real estate developer owned by Edper. In July, the banks launched another round of currency attacks against the European Monetary System, this time bankrupting the Bank of France. Trizec, another Edper real estate firm, tottered. Banesto, a big Spanish bank advised by J.P. Morgan, was put into receivership, and Germany's Metallgesellschaft announced huge derivatives losses.

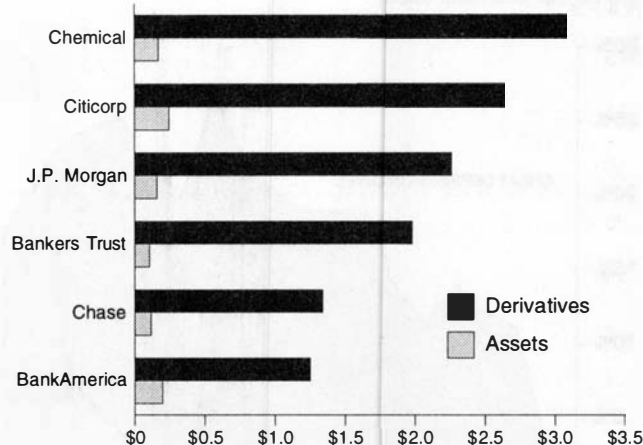
All during this period, the banks had been rapidly increasing their derivatives exposure, and the bubble which the Fed had created to save the banks, was now in danger of disintegrating and taking the entire system down with it.

Figure 3 shows the effects of this headlong rush into speculation. By September 1994, the U.S. banking system as a whole had some \$4 trillion in assets, and another \$16 trillion in off-balance-sheet derivatives. Most of these deriva-

FIGURE 4

They're not banks anymore

(trillions \$)



Sources: Bank annual reports.

tives were held by a handful of big banks (Figure 4). As of mid-1994, six banks—Citicorp, Chemical, Morgan, Bankers Trust, Chase, and BankAmerica—held more than \$1 trillion in derivatives each. Chemical Bank alone had derivatives of \$3.1 trillion—a figure equivalent to three-quarters of the assets of the entire U.S. banking system—compared to just \$170 billion in assets.

To deal with this bubble, the Fed reversed its five-year-long policy of cutting interest rates, in February 1994. This change caught many speculators—who had bet on continued lowering of interest rates—off guard, and left them with massive losses. The big hedge funds lost billions of dollars, and rumors of the insolvency of banks like Bankers Trust swept the markets. The market for Collateralized Market Obligations, or CMOs, a form of mortgage derivative, dried up, and took Kidder Peabody, the CMO leader, down with it. The bond markets took huge losses. Bankers Trust got caught cheating its customers.

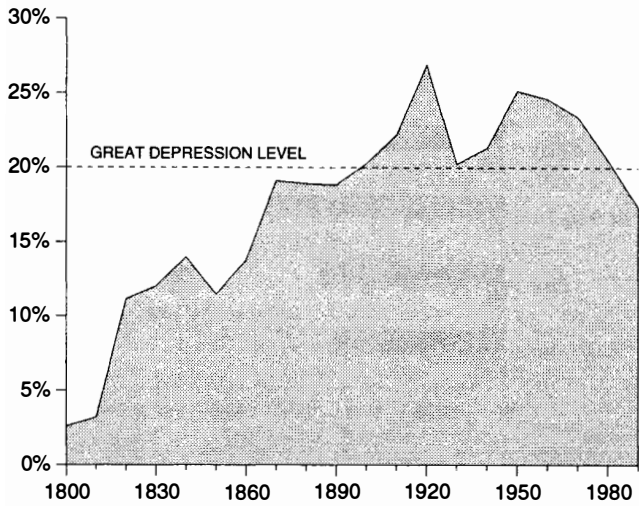
In December 1994, Orange County, California found itself with \$2 billion in losses on its derivatives portfolio, and was liquidated by its creditors on Wall Street. Spooked investors fled, causing runs at the Texas state-run TexPool and similar funds across the country.

The crisis then spread across the border to Mexico, where it was temporarily calmed with a \$50 billion international support package.

Productive economy dries up

In April 1994, Lyndon LaRouche issued his ninth economic forecast: "The presently existing global financial and monetary system will disintegrate during the near term. The collapse might occur this spring, or summer, or next autumn;

FIGURE 5
Manufacturing workers in the U.S. labor force
 (percent of total labor force)



Source: EIR.

it could come next year; it will almost certainly occur during President William Clinton's first term in office. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

The reason the system will disintegrate, is that it depends for its survival upon an income stream from the real economy, and that economy is collapsing. That is, the productive capacity of the economy, measured in goods produced per capita, per household, and per square kilometer, is shrinking.

Figure 5 shows how the percentage of the labor force involved in manufacturing is declining. The long, steady growth of manufacturing, which enabled the United States to become the industrial engine of the world, peaked in 1920, when 27% of the labor force was involved in manufacturing. That percentage dropped with the depression, but climbed back up to 25% in 1950. It has declined ever since, to the point where it is now below Great Depression levels, back to the level of the 1860s.

An example of the effect of collapse in manufacturing can be seen in **Figure 6**. Since 1965, U.S. per capita steel production has fallen by 50%. Our steel-producing capacity has fallen similarly, to the point where we have neither the capacity nor the labor force to produce the amount of steel needed to build our way out of this crisis.

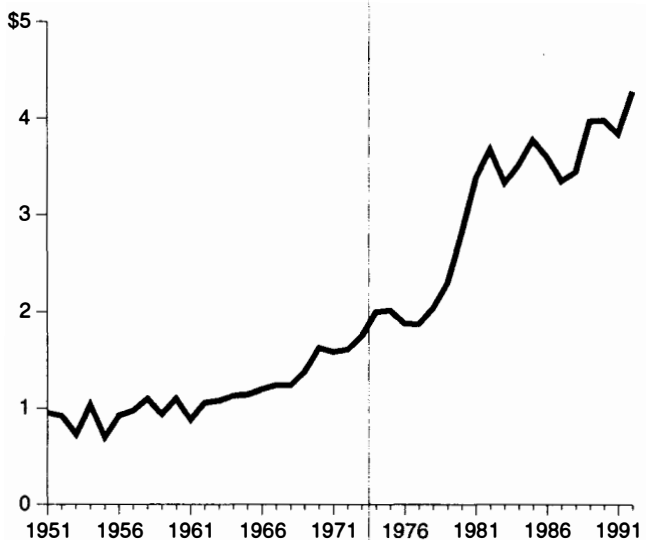
The U.S. economy is now operating below the break-even point. For every dollar of profit the economy produces, it incurs over \$4 of debt, as **Figure 7** shows. It's hard to get

FIGURE 6
Collapse of U.S. steel production
 (pounds produced per capita)



Source: EIR.

FIGURE 7
Debt service per dollar of profit
 (\$ of debt service)



Source: EIR.

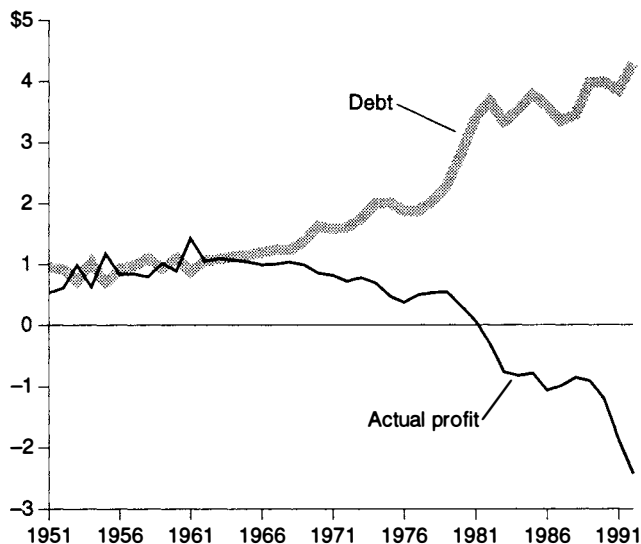
ahead that way.

Figure 8 shows graphically LaRouche's proof that the attempts by the Fed and the government to save the bubble

FIGURE 8

Pumping the bubble only makes it worse

(debt or actual profit for every dollar of reported profit)



Source: EIR.

by pumping it up, only made things worse. The greater the so-called profit from the bubble, the more money the real economy loses.

Currently, for every dollar of so-called profit, we lose \$2.50 and incur \$4 in debt, for a total loss of \$6.50 per dollar. That's like going down to the store and buying dollars for \$7.50 apiece, and then taking that dollar, and calling it profit. Furthermore, the guy we're borrowing the money from to buy these dollars, doesn't have any money either: He's stealing it from somebody else. That "somebody else" is the rest of the world. We're stealing money from Ibero-America, from Africa, from Asia, from the former East bloc countries, looting their populations and our own, to keep the bubble afloat.

The solution to this crisis begins with recognizing the disease, the decay and inevitable disintegration of the existing central-bank monetary system, LaRouche said recently. Nothing can be done, and nothing should be done, to save the system. You have to tell the patient to give up the diseased organ; otherwise the patient will die.

"What we have to do, very simply," LaRouche said, "is to seize the U.S. Federal Constitution, and the work of Treasury Secretary Alexander Hamilton, the work of Henry Carey, of Friedrich List, and Abraham Lincoln, with both hands, and say, 'This was good; let us eliminate that which replaced it, which is now dying, and let us bring it back into operation.'"

LaRouche's method of physical economy

by Dennis Small

The following is the second part of Small's presentation, continuing from p. 23.

So, how did LaRouche know the Mexican crisis and the derivatives crisis were coming, when all the established authorities insisted otherwise? It's a question of method: not of *what* people think, but the *way* they think. In other words, if someone is always wrong, it is probably because they are thinking wrong; if they are usually right, it is because they are thinking right.

Let's start with some people who are always wrong: the winners of the Nobel Prize in Economics. In fact, one of the criteria for even being considered for the Nobel Prize, with the single exception of France's Maurice Allais in 1988, is to have an economic theory with no demonstrable relationship to actual physical economic reality. That puts you in the running. But then to make it to runner-up status, you have to use your delusional theory to make consistently erroneous forecasts. However, to actually win the Nobel Prize, you then have to go on to apply your policies to at least one country resulting in that nation's economic disintegration. *Then* you win the big one.

Take the case of 1970 Nobel winner Paul Samuelson. He is the guy who came up with the idea that depressions could never again happen, thanks to "built-in stabilizers" which automatically take care of everything. Samuelson is kind of the "What, Me Worry?" of economists.

In his 1955 textbook, which has been used for decades to rinse generations of professional economists, he pronounced: "The modern fiscal system has great inherent automatic stabilizing properties. All through the day and night, whether or not the President is in the White House, the fiscal system is helping keep our economy stable. If in 1980 a recession gets under way while Congress is out of session, powerful automatic forces will go instantly into action to counteract it before there are any committee meetings or the exercise of special intelligence of any form."

Most Nobel winners have followed Samuelson's dictum of doing without "the exercise of intelligence of any form." In 1974, the guru of the fascist Conservative Revolution, Friedrich von Hayek, won the award. Two years later, the University of Chicago's Milton Friedman won it. His view

can be summarized as the belief that the only thing that matters is money supply—production is entirely irrelevant. Friedman has led the campaign for drug legalization, and holds the British crown colony of Hongkong as his model.

In 1990, Harry Markowitz and Merton Miller won the Nobel Prize for developing something called “portfolio theory,” which argues that futures contracts, just like other “products,” are valuable to those who buy them, and so they should not be regulated by the government. In 1992, Gary Becker was favored for, according to the Nobel committee, “having extended the domain of economic theory to aspects of human behavior which had previously been dealt with—if at all—by other social science disciplines such as sociology, demography, and criminology.” Becker, like Friedman, is for legalizing drugs and for eliminating the minimum wage.

But things get wilder as the years go by. In 1993, Robert Vogel won the Nobel economics prize for his 1974 book defending U.S. slavery as economically progressive. And last year, John Nash, John Harasanyi, and Reinhard Selten received the honor for their pioneering work in the field of game theory, i.e., the theoretical justification for the world derivatives crap game.

Bad ideas, bad methodology.

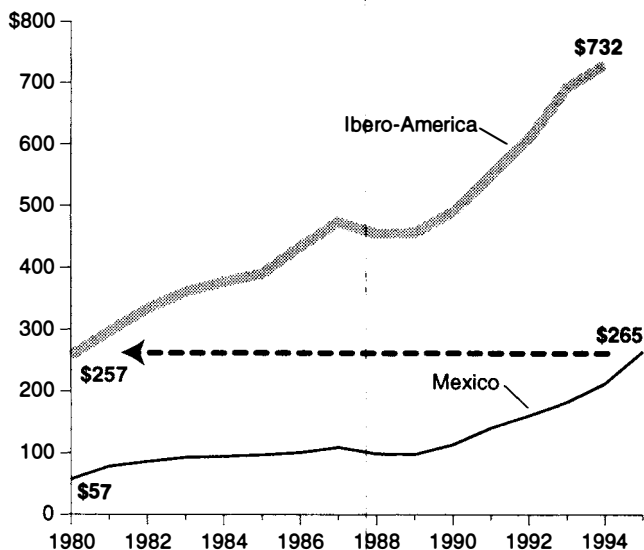
LaRouche’s method of physical economy traces back to Leibniz. It rejects as useless any monetary measurement of the economy, such as Gross National Product (GNP) and balance of payments, none of which can distinguish between the value of a million dollars invested in a steel plant and the same million invested in the construction of casinos and warehouses in Las Vegas or Acapulco. Instead, in order to determine which kinds of productive activity increase the technological power of each member of the workforce with respect to nature, the LaRouche method measures the physical production of consumer goods, of the means of production, and of basic infrastructure, which is useful for the reproductive economic process, and also measures its effects on the productivity of the labor force. All of this is measured by densities per capita, per household (the basic unit of social reproduction), and per square kilometer of total land and/or land in use.

Economic success is most clearly expressed by the exponential increase in the relative potential population density of society.

The fundamental source of such continuous improvements in social reproduction, LaRouche has emphasized, is human creativity—that quality which distinguishes man from, and makes him superior to, all other animal species. With this in mind, a properly growing physical economy must meet the following four criteria or constraints:

- 1) The per capita and per household consumption of the workforce must rise.
- 2) The consumption of producers goods must also increase, and at a more rapid rate than that of consumer goods—that is, production must become increasingly capi-

FIGURE 1
Mexico and Ibero-America debt compared
(billions \$)



Sources: World Bank, EIR.

tal-intensive.

3) Energy density per household and per square kilometer must also increase, as must the energy flux density of the power sources employed—i.e., they must become more efficient as well as more dense. This is closely correlated with leaps in applied technologies.

4) The “free energy of the system” must increase relative to the total energy of the system. That means that even as the economy requires ever higher consumer and producers goods market baskets, the total output of the economic cycle must rise more rapidly still, making increased proportions of total output available for reinvestment and expansion. This latter requires constant technological progress, and therefore human creativity. In other words, there is no “steady state” economy: There is either growth, or there is decay and collapse.

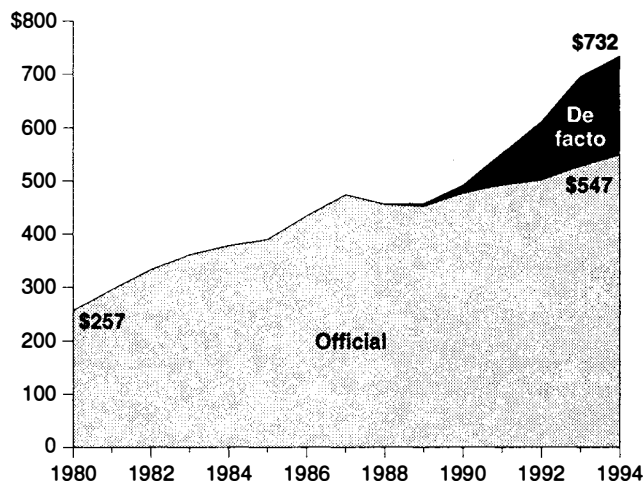
Let’s briefly apply this approach to Mexico and Ibero-America as a whole, and see how they have fared. As we explained earlier, the last 15 years have witnessed a sharp rise in the speculative bubble called Mexico’s real foreign debt, which rose from \$57 billion in 1980 to a projected 265 billion in 1995—a nearly fivefold increase. As you can see, this is more than the foreign debt of all Ibero-America back in 1980, which was then \$257 billion (Figure 1).

Ibero-America’s official foreign debt, in turn, rose from \$257 billion in 1980 to \$547 billion in 1994 (Figure 2). But there are an additional \$185 billion in other foreign obligations—the hot money bubble of bonds and stocks that has erupted since 1989—which bring the total real foreign debt

FIGURE 2

Ibero-America's real foreign debt

(billions \$)



Sources: World Bank, EIR.

up to \$732 billion, nearly three-quarters of a trillion dollars. So Ibero-America's real foreign debt nearly tripled over this time period.

I want to emphasize that this amount of debt is not a problem in itself, so long as the rate of growth of the physical economy underlying it is more than keeping pace with it. In fact, I would propose that the nations of Ibero-America have no need to repudiate this debt outright; they should recommit themselves to paying it . . . *after* a 20-30 year debt moratorium or cessation of payments, during which time they would studiously reject British free market economics, and instead channel all their resources into real physical economic growth. With regional integration, great development projects, and emphasis on twenty-first century technologies, Ibero-America can easily attain 10% per annum growth rates of tangible output, which over the course of two decades would mean a sixfold rise in output, and over three decades would mean a sixteenfold jump. And all of that is without taking into account the non-linear leaps that technological revolutions would bring about. So, the problem is not the debt; the problem is the growth of usurious debt combined with a collapsing physical economy.

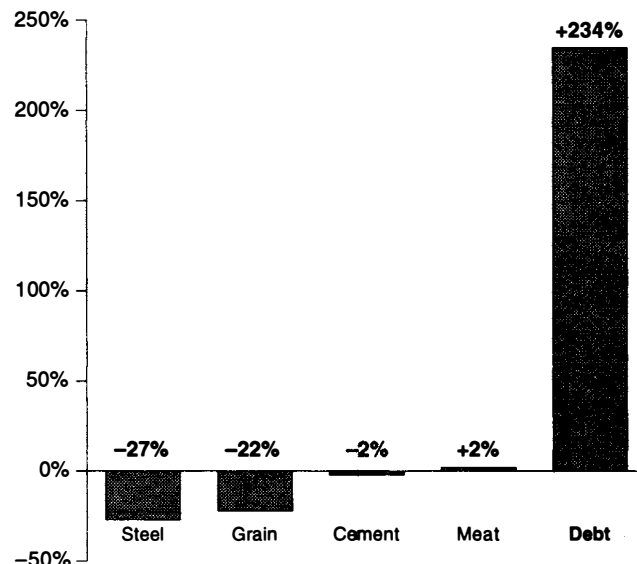
So, how did Mexico and Ibero-America fare in this regard over the past couple of decades? Look back at Figure 3 on p. 17. It shows the production of consumer and producer goods in Mexico, measured exclusively in physical economic units per capita and per household. While the debt was soaring over the '80s and '90s, real physical output was collapsing.

As Figure 3 shows (this page), between 1981 and 1993 steel production per household fell by 27% in Mexico, grain

FIGURE 3

Mexico: growth of foreign debt versus production, 1981-93

(percent change)



Sources: World Bank, ECLAC (United Nations), INEGI (Mexico).

by 22%, and cement by 2%. Meat production per capita rose by a paltry 2%. The official foreign debt, however, soared by 234%.

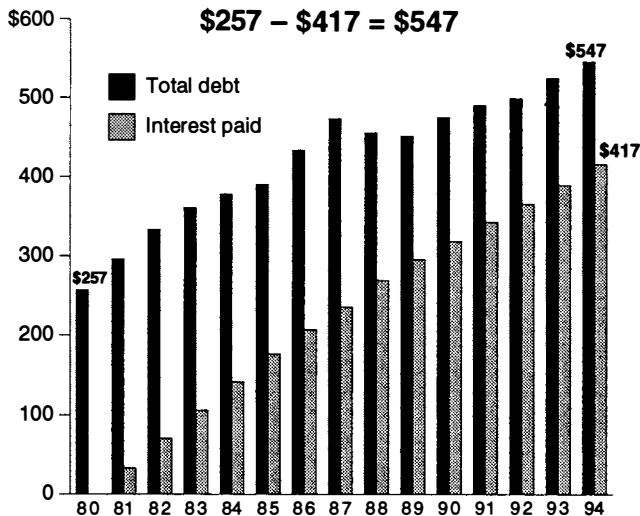
Are you still wondering how LaRouche knew that the Mexican model was going to explode? Perhaps we had better look at Ibero-America as a whole to see if the same thing is going on there.

In Figure 4 we are looking at the growth of Ibero-America's official foreign debt from 1980 to 1994 and the cumulative interest paid over that same period. For example, Ibero-America's debt in 1980 was \$257 billion. Over the course of the next 14 years, they paid \$417 billion in interest payments alone, i.e., excluding amortization of principal. And yet at the end of that period, they owed more than at the beginning: \$547 billion. In other words, as you can see as clear as day, $\$257 - \$417 = \$547$. That's what I call "bankers' arithmetic."

(It is true that some portion of the increased debt actually meant a flow of new resources into the region. But in general, this was more than offset by additional outflows in the form of amortization payments and illegal capital flight. So the "bankers' arithmetic" calculation is a simplified, but accurate, reflection of the net capital flows.)

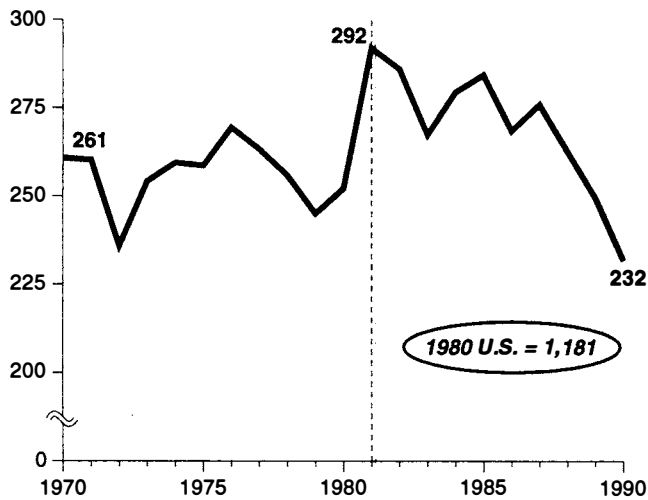
Not surprisingly, this debt looting process has taken its toll in the physical economy. To help calculate that impact, EIR has just developed preliminary market basket indices of production of consumer goods and producer goods, which are similar to those developed earlier for Mexico—although

FIGURE 4
Ibero-American foreign debt, and interest paid
 (billions \$)



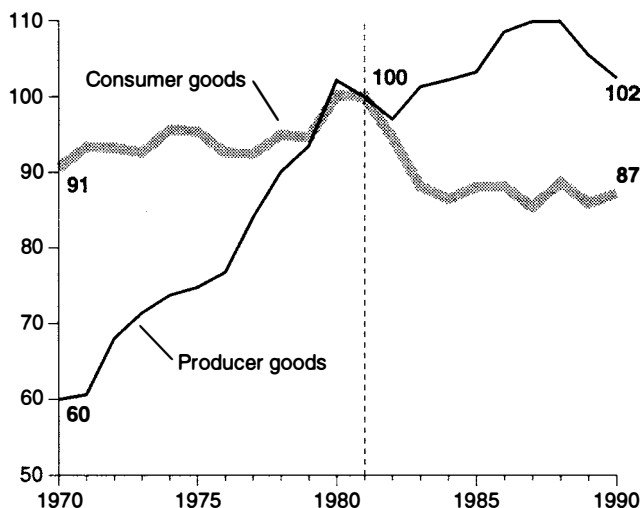
Source: World Bank.

FIGURE 6
Grain production in Ibero-America
 (kilograms per capita)



Sources: ECLAC (United Nations), FAO, U.S. Department of Agriculture.

FIGURE 5
Ibero-America: producer and consumer goods production
 (index 1981=100)



Source: ECLAC (United Nations).

containing fewer products (8-10) so far (**Figure 5**). The results are conclusive: As with Mexico, Ibero-America saw a period of modest growth in both indices during the 1970s, but then stagnation and outright decline, after the 1981 turning point. Compare the growth of debt obligations and pay-

ments in **Figure 4**. Do you see the problem?

Just how bad are things in Ibero-America?

As **Figure 6** shows, grain production per capita, which is the centerpiece of any economy's ability to feed its population, rose by a meager 12% from 1970 to 1981. But between then and 1990, it plummeted by 21%, and although more recent numbers were not readily available, it is likely that it has declined further from 1990 to 1994. The 1990 level for Ibero-America was 232 kilograms per capita, which compares with 1,181 kilograms per capita in the United States in 1980.

The picture for steel is no better (**Figure 7**). Ibero-America's per household output in 1990 was no higher than what had been achieved 10 years earlier. Compare this 391 kilograms per household, with 1,406 in the United States in 1980.

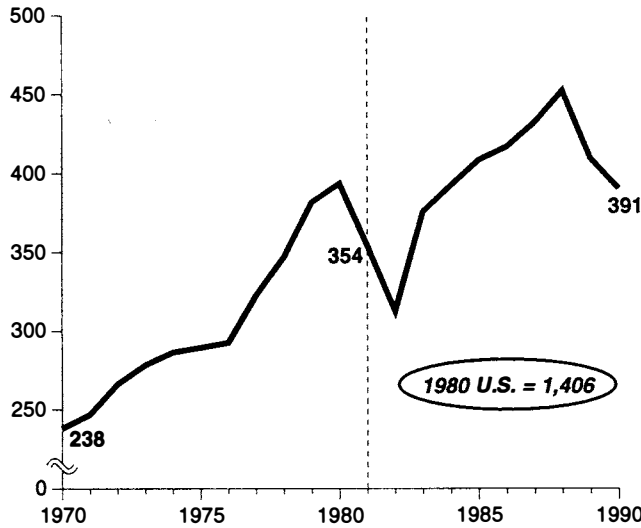
The long and the short of it, is that the policies of the IMF and the international oligarchy are Africanizing Ibero-America—they are rapidly reducing the region to conditions in which its physical economic reproduction will break down entirely, as has already occurred in large parts of Africa.

I want to conclude this section of the panel by making a forecast. First of all, the \$50 billion package for Mexico may have bought some time, but it will in all likelihood not even get Mexico through 1995 in one piece. Mexico has about \$63 billion in foreign obligations coming due with certainty over the course of 1995, which will overflow the \$50 billion bailout. But there are an additional \$45 billion in other foreign obligations (certain *Tesobonos*, foreign investment in the stock market, etc.) which could also potentially be called in

FIGURE 7

Steel production in Ibero-America

(kilograms per household)

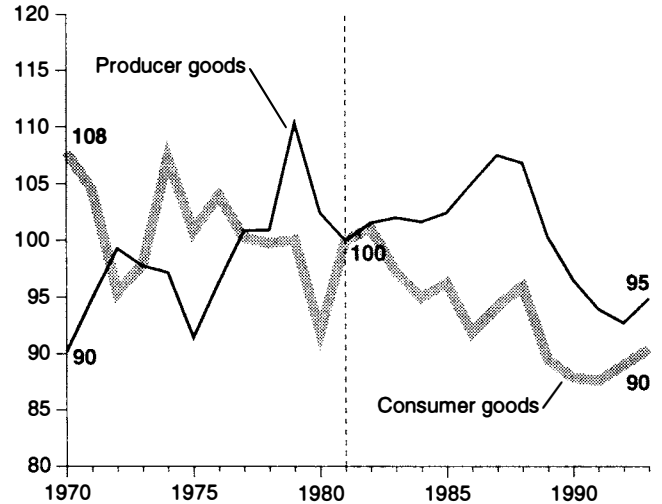


Sources: ECLAC (United Nations), U.S. Department of Commerce.

FIGURE 8

Argentina: producer and consumer goods

(index 1981=100)



Sources: ECLAC (United Nations), INDEC (Argentina).

1995. If that happens, we are looking at \$108 billion in obligations—twice the size of the giant package assembled. Not surprisingly, financial insiders in Mexico are already saying that the country will need another \$50 billion by August of this year—unless policies are radically reversed.

But my forecast is that Mexico is not really the problem: Argentina is.

Producer and consumer goods indices for Argentina show a worse pattern than for Mexico or Ibero-America as a whole (Figure 8). (Here the producer goods index is composed of a half-dozen basic commodities; the consumer goods index is limited to five food items only.) What I mean by that, is that in Argentina there has been negative growth for two decades, note one: There was a collapse in the 1980s, like Mexico and the rest of Ibero-America, but unlike the rest, Argentina was decaying throughout the course of the 1970s as well.

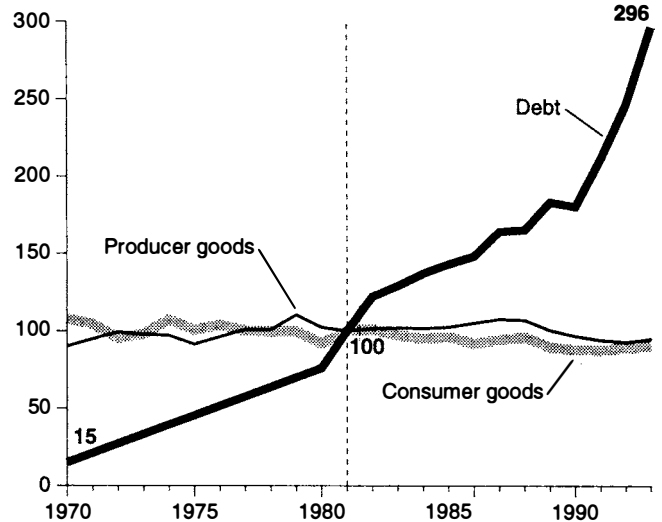
Argentina has endured 25 years of physical economic stagnation and decay, while all the while its debt bubble has been growing astronomically. In Figure 9, we have graphed indices that show how debt has grown by 296% since 1981, while real production per capita and per household has collapsed.

Figure 10 shows that steel production per household in Argentina has fallen by 7%; grain by 27%; cement dropped by a third; and meat production in Argentina, once one of the world powerhouses of meat production and consumption, has plummeted by a shocking 35%. Yet all the while the debt has risen, and risen. The policies of the current Menem

FIGURE 9

Argentina: foreign debt versus consumer and producer goods production

(index 1981=100)

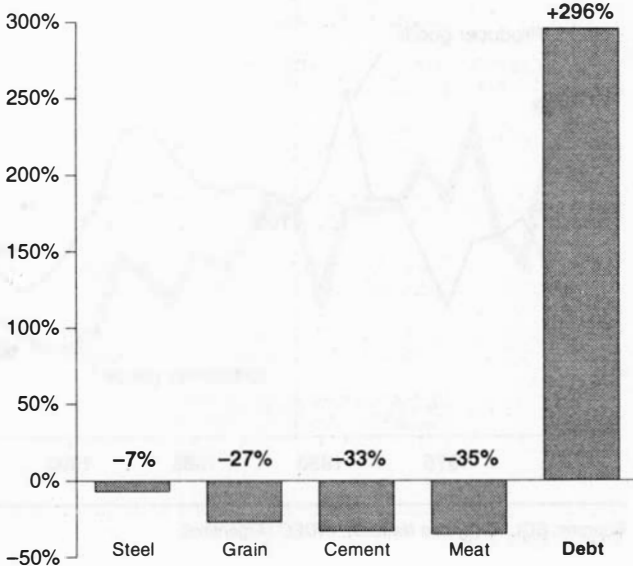


Sources: World Bank, ECLAC (United Nations), INDEC (Argentina).

government, and particularly those of President Menem's Harvard-trained economics minister, Domingo Cavallo, have worsened this already grave crisis, and are about to result in a total blowout of the Argentine banking system.

FIGURE 10

Argentina: growth of foreign debt versus production, 1981-93
(percent change)



Sources: World Bank, ECLAC (United Nations), INDEC (Argentina).

Cavallo and Menem are doing in Argentina almost exactly what Salinas and Finance Minister Aspe did in Mexico, only worse. Cavallo, indeed, seems well on his way to winning a Nobel Prize in Economics.

Some in Argentina understand that this is what is going on, and are trying to do something about it. Prominent among these is the former President of Argentina, Dr. Arturo Frondizi. Many of you know that Dr. Frondizi has also played a leading role internationally in the campaign to first free LaRouche, and now to fully exonerate him and his associates. But perhaps you are not aware of the fact that he and Lyndon LaRouche have known each other personally since 1984.

Dr. Frondizi was invited to attend this conference, but sent his regrets that he was not able to travel. But it is a great honor and pleasure for me to introduce Mr. Carlos González, who is Dr. Arturo Frondizi's political secretary, and who is with us here today in representation of President Frondizi [see *EIR*, March 3, 1994].

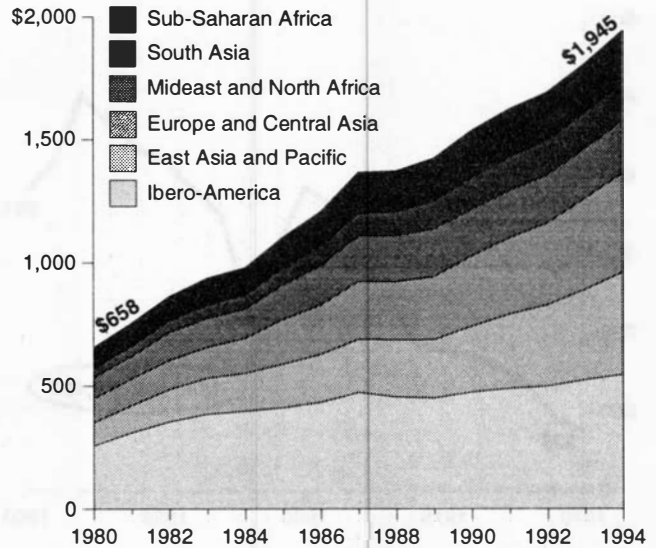
The world debt bubble

It will perhaps shock you to learn that the foreign debt bubble in Ibero-America is actually the *slowest*-growing among all major regions of the world. So, in one sense, the problems we have been looking at so far pale in comparison with those of Africa, or the former East bloc countries.

Figure 11 employs the official statistics published by

FIGURE 11

World foreign debt, by region
(billions \$)



Source: World Bank.

the World Bank, in their just-issued edition for 1994. It covers the growth of all developing sector debt from 1980 to 1994.

First, let's consider the total numbers (Figure 12). Total world debt tripled from \$658 billion to 1 trillion, 945 billion dollars in 1994—nearly \$2 trillion. Over that period, the developing sector paid their creditors over \$1 trillion in interest payments—\$1.71 trillion to be precise. Mind you, these are interest payments alone; they do not include any amortization or payment of principal that also occurred. So once again, we have a situation where \$658 billion was owed; \$1,071 billion was paid, which is way more than what was owed; and yet at the end of the period they ended up owing \$1,945 billion, or three times what they owed at the beginning. $\$658 - \$1,071 = \$1,945$. Bankers' arithmetic!

If we do the same calculations for each of the regions of the world, we have these results:

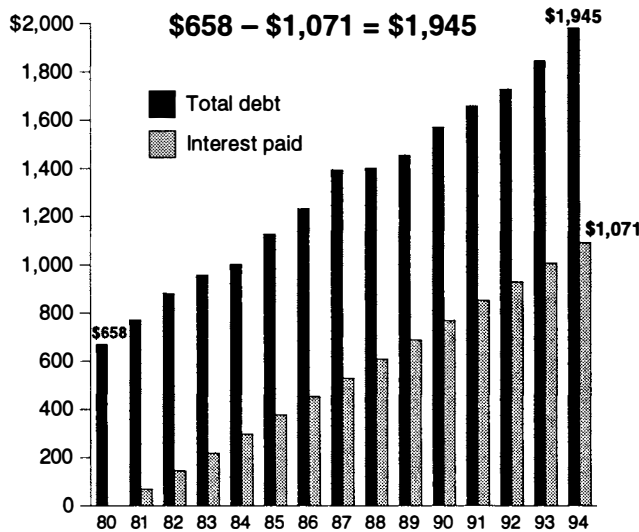
- East Asia and the Pacific owed \$95 billion in 1980 and paid \$200 billion. They ended up in 1994 owing \$415 billion.
- In the Middle East and North Africa, the debt owed was \$86 billion and \$113 billion was paid. They ended up in 1994 owing \$213 billion.
- South Asia owed \$38 billion, paying out \$61 billion. They ended up in 1994 owing \$156 billion.
- Sub-Saharan Africa owed \$84 billion and paid \$93 billion. They ended up in 1994 owing \$211 billion.

In the 14 years in question, every single region paid in interest a total amount that was more than their original for-

FIGURE 12

World foreign debt, and interest paid

(billions \$)



Source: World Bank.

eign debt in 1980; and yet in each case, the debt had doubled, tripled, or—in the case of East Asia and the Pacific—quadrupled by 1994. This particular region includes China, whose debt grew from a mere \$5 billion in 1980, to \$84 billion by 1993, one of the most rapid growth rates anywhere in the world.

Figure 13 ranks the regions of the world in terms of the average annual rates of growth of their foreign debt, over the period 1980-94. The world average is 8.0% and, as I told you, Ibero-America is the slowest-growing of all, at 5.5%. The Middle East and North Africa are next, at 6.7%, followed by sub-Saharan Africa at 6.8%. Then we take a jump to over 10%, with South Asia coming in at 10.6%, Europe and Central Asia at 10.7%, and East Asia and the Pacific leading the pack at 11.1%.

Let's look in a bit more detail at Europe and Central Asia, whose debt leaped from a mere \$97 billion in 1980 to \$403 billion in 1994, despite the fact that they paid twice their original debt in interest payments (Figure 14). What countries are we talking about here? I will read you some names from the official World Bank list, with their corresponding foreign debts as of 1993: Bulgaria \$12.3 billion; Czech Republic \$8.7 billion; Hungary \$24.8 billion; Poland \$45.3 billion; Portugal \$37 billion; Russia \$83.1 billion; Turkmenistan \$9.0 billion.

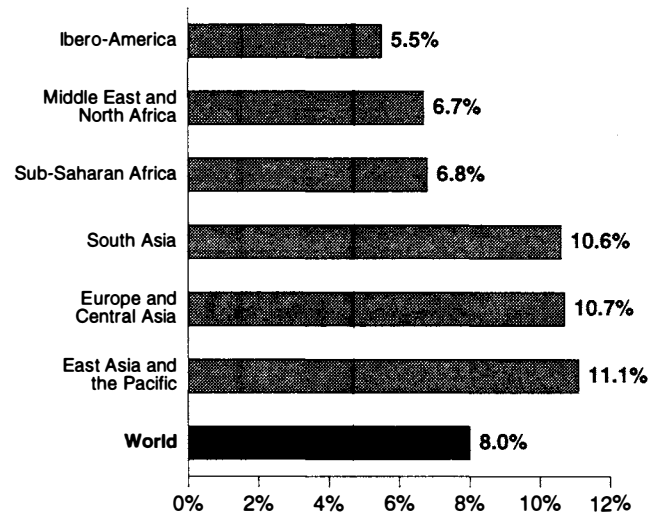
Get my point?

It may be possible for the oligarchy to Africanize Ibero-America—that is a question of political power and what they are able to get away with. But what will happen as they

FIGURE 13

Annual growth of debt, by region, 1980-94

(percent annual change)

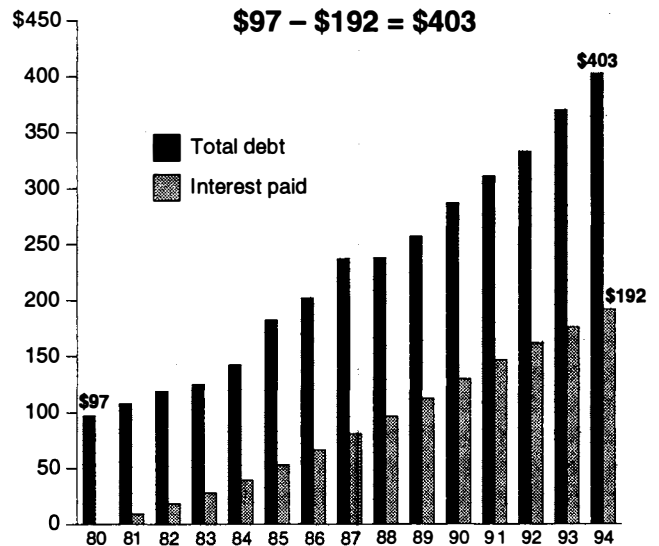


Source: World Bank.

FIGURE 14

Europe and Central Asia debt, and interest paid

(billions \$)



Source: World Bank.

attempt to “Ibero-Americanize” Poland, Hungary, and, above all, Russia? The total foreign debt of Mexico and Russia may be comparable, but the size of their arsenal of strategic nuclear warheads is not, if you see what I mean.

Mexico busts British-backed assassination network

by Valerie Rush

The Feb. 28 arrest of Raúl Salinas de Gortari on charges of masterminding last September's assassination of Mexico's ruling party chief and Senate leader José Francisco Ruiz Massieu, has triggered a political earthquake in this already-convulsed nation. Raúl Salinas is the brother of former President Carlos Salinas de Gortari, the George Bush protégé and one-time hero of the free-market ideologues—until he bankrupted his country. Brother Raúl, a notorious thug with long-standing connections to the Maoist terrorist networks in Mexico which evolved into the Zapatista narco-terrorists of Chiapas fame, had long been considered a political “untouchable.”

Only days earlier, Mexican Attorney General Antonio Lozano had announced the arrest of several individuals, including an accused second gunman, in connection with the March 1994 assassination of presidential front-runner Luis Donaldo Colosio, thus exploding the myth of the “lone assassin” that was being promulgated by the Salinas government.

With the arrest of Raúl Salinas, President Ernesto Zedillo has begun the process of unmasking the domestic side of an international apparatus, run from the top down by British intelligence, to destabilize the Mexican government and to stampede the population into the grip of the narco-terrorist Zapatista insurgency. What is becoming clearer by the day is that before this is over, “all the trees in the forest” may fall.

The assassins

At a late afternoon press conference on Feb. 28, Deputy Attorney General Pablo Chapa Bezanilla read an 11-page statement announcing the arrest of Raúl Salinas as both the “intellectual author” and paymaster for the Sept. 28, 1994 assassination of José Francisco Ruiz Massieu. Not only had

Raúl Salinas been in frequent direct contact with fugitive former Congressman Manuel Muñoz Rocha, who until now had been portrayed as the sole “intellectual author” of the murder, but Salinas had also paid him some \$80,000 and assisted his flight from the law. Prosecutor Chapa Bezanilla said that the evidence against Raúl Salinas was “absolutely conclusive.” In a radio interview the next day, he hinted at the possible complicity of former President Carlos Salinas as well, noting that Ruiz Massieu “could have gotten in the way . . . of the Salinista project. He could have gotten in the way of certain interests.” Asked if he meant both Salinas brothers, Chapa replied, “That’s right.”

Despite immediate and furious denials by the former President, the question on everyone’s lips is why Salinas’s administration, which ended on Nov. 30, 1994, had stuck to its absurd “lone assassin” theory for both murders, despite overwhelming contrary evidence. Indeed, the deputy attorney general in charge of the Ruiz Massieu investigation under President Salinas, Mario Ruiz Massieu (the brother of the murdered man), has himself just been indicted for having obstructed that investigation by deliberately diverting attention away from evidence which implicated Raúl Salinas, and for having bribed seven investigators to help in the coverup!

Ironically, Mario Ruiz Massieu had garnered international headlines last year by charging top leaders of the PRI ruling party with blocking his investigation. He had resigned both his post and his membership in the PRI in a high-profile staged protest, before going over to the PRD party, the electoral arm of the Zapatistas. The scandal his charges provoked conveniently fed into the Anglo-American media campaign at the time portraying the assassinations as the work of the so-called “anti-reform” or “dinosaur” faction of the PRI—a reference to hard-liners in the ruling party who had taken a

firm stance against any conciliation with the terrorists in Chiapas. The truth, as it is now emerging and as *EIR* stated from the outset, is that it is precisely the so-called “reform” wing—or, better stated, the “Zapatista wing”—of the ruling party, associated with former Mexico City Mayor Manuel Camacho Solís and with the likes of Raúl Salinas, who were behind the murderous intrigues now coming to light.

The conspiracy

As *EIR* has repeatedly emphasized in a series of articles, features, and Special Reports issued over the past two years, the Jan. 1, 1994 “indigenist” uprising in Chiapas, as well as the assassinations of Colosio and Ruiz Massieu, and of Roman Catholic Cardinal Juan Jesús Posadas Ocampo the previous year, were all orchestrated by British intelligence and the international financial oligarchy as part of a deliberate plot to shatter Mexico as a sovereign nation. The domestic side of this conspiracy includes a network of political thugs and terrorists, such as Raúl Salinas, all of whom emerged from the leftist swamp of the 1960s and 1970s, and who directly spawned the Zapatista uprising in Chiapas as part of this destabilization scenario against Mexico’s national institutions. Heading this nest of traitors is Manuel Camacho Solís, part of whose recently published *Memoirs* read suspiciously like the Zapatista manifesto.

Camacho is currently on a world tour in the company of two top British agents of influence—former Tanzania President Julius Nyerere and former Swedish Prime Minister Ingvar Carlsson—to publicize a recently completed report of the so-called Committee on Global Governance, of which the three are members, which promotes the British oligarchy’s one-world order. During a mid-February stopover in the former British colony of Belize to present the report, Camacho is reported to have met with “Subcomandante Marcos,” putative leader of the Zapatistas. Camacho is also known for his intimacy with San Cristóbal, Chiapas, Red Bishop Samuel Ruiz, otherwise known as the true “comandante” of the Zapatistas. After losing his bid for the PRI presidential nomination to Colosio back in late 1993, Camacho launched a vengeful, bloody rampage of murders and destabilizations, including the Zapatista revolt of January 1994. He then used this revolt to secure an appointment as the Salinas government’s “peace negotiator” with the Zapatistas, a high-profile post which he hoped had to use as a launching pad to the Mexican presidency. On March 23, 1994, candidate Colosio was murdered at a campaign rally.

Camacho’s fury at Luis Donaldo Colosio for having beaten him out of the PRI presidential nomination was so notorious that even Henry Kissinger wrote in an April 1994 post-mortem on Colosio that Camacho, unlike the other presidential contenders, had refused to either “congratulate or endorse” Colosio. Kissinger praised Camacho, and explained how he saw his role in Chiapas as “a highly visible platform to emerge as a candidate representing one of the smaller

parties or, in the extreme case, as a replacement for Colosio if the PRI candidate should falter.”

Colosio’s cancer-stricken widow was more explicit, and directly implicated Camacho in her husband’s assassination before she died.

Camacho’s hostility to current President Ernesto Zedillo is equally well-known, and has been the subject of numerous press commentaries warning Zedillo to “watch his back.” It comes as no surprise, therefore, that numerous cogs in the assassination machine now coming to light are linked in one way or another to Camacho. For example, it is widely known that missing former Congressman Manuel Muñoz Rocha, Raúl Salinas’s apparent partner in the Ruiz Massieu killing, was an ardent supporter of Camacho’s presidential bid.

So too was Hugo Andrés Araujo, currently a senator and head of the PRI’s National Peasant Confederation. Araujo was a longtime intimate of Raúl Salinas, and reportedly helped Muñoz Rocha climb to political power as well. Araujo helped Raúl Salinas organize the radical Maoist group *Antorcha Campesina* (Peasant Torch), which was brought into the ruling PRI party in 1985, despite the fact that its crimes included assassinating political opponents, land takeovers, kidnappings, and deployment of Jacobin mobs in poor neighborhoods. In 1990, several Mexican publications commented that Raúl Salinas’s appointment to the post of technical director of his brother’s anti-poverty funding apparatus Pronasol encouraged members of Peasant Torch “to undertake more daring actions.”

Araujo was also a co-founder of the leftist “Proletarian Line” group together with Marxist Adolfo Oribe Alva, who, like the Zapatistas’ Subcommander Marcos, trained at the Sorbonne in Paris under deconstructionist Marxist Louis Althusser. The Sorbonne is a center for training British intelligence-linked “action anthropologists” and other promoters of indigenist separatism, such as that of the Zapatistas in Chiapas.

Mexican sources report that the Zapatista movement in Chiapas has its origins in the early 1970s in the so-called Torreón Group from Tamaulipas, the original Maoist group which included Raúl Salinas and Hugo Andrés Araujo and which spawned a series of Zapatista precursor groups all influenced by Oribe Alva’s Proletarian Line. Another leading figure in the Torreón Group, Jaime de la Mora Gómez, was just arrested by the Attorney General’s office for “embezzlement.” De la Mora was undersecretary of agriculture and director of the Banco Rural under the Salinas regime, and it was he, under orders from his protector Raúl Salinas, who had named Manuel Muñoz Rocha to a post in Banco Rural in the state of Tamaulipas.

President Zedillo gave an emotional address to the nation at the time of Raúl Salinas’s arrest, in which he pledged to take the investigation to “the ultimate consequences,” no matter who falls. This time, the investigation is pointing in the right direction.

Paris meeting reveals paralysis of Middle East peace process

by Dean Andromidas

An international conference on "The Future of the Mediterranean Area after the Peace Process," held in Paris on Feb. 18-20, demonstrated that the Middle East peace effort is sliding into a deep crisis. While much can be said about the various disputes that surfaced, the underlying causes of this crisis lie outside the region.

Number one has been the drive by the British and their allies to destroy the process at any cost. This is being done through a wave of terror bombings in Israel and the Palestinian territories that has left dozens dead and wounded. More politically effective has been the World Bank's blocking of development assistance to the Palestinians, thereby undermining the political credibility of Palestinian Authority President Yasser Arafat and his ability to deal with the Palestinian rejectionists, particularly the Hamas group. Number two, more subjective but just as deadly, is the prevalent perception in the region that President Clinton is weak, besieged by the Conservative Revolutionaries in Congress. These factors have contributed to the parties' shifting their focus from the economic realm to negotiating over the political disputes: a deadly shift indeed.

The conference brought together Israeli Foreign Minister Shimon Peres, Palestinian Authority President Arafat, and Egyptian Foreign Minister Amr Moussa, who met with one another not only at the conference, but on other occasions during their stay in Paris. They also met French leaders, although these discussions apparently proved fruitless. In addition, Israeli Prime Minister Yitzhak Rabin, Jordan's King Hussein, and Egyptian President Hosni Mubarak addressed the conference via satellite hookup.

The conference was sponsored by Radio Shalom, a Paris-based Hebrew-language station that strongly supports the peace process, as an attempt to provide an international forum, while at the same time influencing the important French Jewish community. The latter is dominated by a right-wing Jabotinskyite current that has given lavish support to Likud party hardliner Ariel Sharon and the Israeli settlers' movement, the leading edge of Britain's wrecking operation against the peace settlement. It was widely perceived that

the conference was hijacked by the government of French Prime Minister Edouard Balladur, who attempted to transform it into an election event in his bid for the French presidency. Despite the presence of not only Balladur, but also Defense Minister François Léotard, Minister of Budget and Communications Nicolas Sarkozy, and Foreign Minister Alain Juppé, the French administration did not announce any new initiatives whatsoever. In fact, Balladur played up to the right-wing Jewish community, coming just short of saying that Jerusalem was the capital of Israel. Nonetheless, by the end of the conference, his government was in the throes of several scandals, proving the French political scene to be even less stable than the Mideast peace process.

Given that France currently holds the presidency of the European Union, the lack of any concrete proposals by the French government was singularly disappointing. In fact, Israeli Foreign Minister Peres saw fit to hold private meetings with Paris Mayor Jacques Chirac, rival to Balladur in the presidential elections. Peres also met French Socialist presidential candidate Lionel Jospin. The Israeli Labor Party traditionally has warm relations with the French Socialists.

Pessimistic atmosphere

In contrast to recent international conferences on the Mideast, a markedly cold atmosphere prevailed at this one. The speeches by Peres, Moussa, and Arafat at the inaugural session emphasized more the differences among the various parties, than the potentials for change. This political shift is directly related to a perception of the weakness of President Clinton following the U.S. mid-term election. This was nowhere more striking than regarding the Egyptian dispute over Israel's nuclear capability. Amr Moussa put forward the Egyptian demand for Israel to sign the Nuclear Non-Proliferation Treaty, as a precondition for Egypt's signature when the treaty comes up for renewal. During the past several weeks, this issue has brought Egyptian-Israeli relations to their lowest point in years. Observers, Egyptians and Israelis alike, point out that this has been a non-issue for years.

An Egyptian journalist, while making clear that the dispute was not aimed by any means at blowing up the peace process, emphasized that "Egypt and Israel are rivals; they are not enemies, they are rivals." He pointed out that the nuclear issue for Egypt is "a status question," and Egypt perceives that the peace process is at a stage where "Israel got the most out of it" and the Egyptians feel that as the leading Arab country, they must be seen "at least as equal as Israel." He pointed out that the nuclear question demonstrates that "some are more equal than others." The journalist nonetheless emphasized that a *quid pro quo* could be reached, once Egypt felt it was getting the U.S. backing it required.

However, the Moussa speech brought an unusually strong, if not angry, response from Peres, who charged that Israel cannot give up its deterrent at a time when countries such as Iran are openly committed to its destruction.

World Bank sabotage

At the conference, the gap between the Israelis and Palestinians appeared as wide as ever. The Israeli negotiating position was dominated by concern about the Islamic Jihad's terror bombings and demands that the Palestinians do more to restrain terrorists. Reflecting the consensus within the Israeli government on the terror issue, Israeli Environment Minister Yossi Sirid, a leader of the Israeli peace movement, while going so far as to give his full support to the formation of a Palestinian state, nonetheless came out with a hard line on the terror question.

The Palestinians' chief concerns were political: the status of Jerusalem, the Israeli settlements in occupied territory, and the borders of a Palestinian state. But clearly the situation has been aggravated by the World Bank's sabotage of aid for economic rehabilitation and development of the Palestinian territories. Everyone agreed that this was the precondition for the Palestinian Authority's ability to wage the necessary political struggle with their rejectionists. In fact, several Israeli speakers described the deteriorating conditions and detailed various emergency economic measures, including the construction of water desalination plants, emergency health care systems, and employment-creating industrial zones in both Gaza and the West Bank.

Dr. Avishay Braverman, president of Ben Gurion University of the Negev, in his presentation demonstrated the need for desalination as the only viable solution for the water problem, and underscored the almost complete failure of the World Bank and other international institutions to move forward on any economic development for the Palestinians. He underscored that the "house is almost on fire" and that the entire peace process is endangered (see box).

The Israeli settlements

Commenting on the stalemate between Israeli and Palestinian negotiators, Nabil Shaath, Palestinian Authority Min-

ister for Planning and International Negotiations, told a closing press conference that he saw the Israeli leadership in a state of "paralysis," the reason for which was "not understandable." He added that the only way to break the deadlock was to move forward, particularly on security and other problems, while opening up discussions now on such issues as the final agreement concerning the settlements, borders, and Jerusalem.

While the last two issues are the most difficult and would require the most compromise, the question of settlements is the hottest issue for the Palestinians and Israeli supporters of the peace process. The settlements are seen as a threat by Palestinians and also by many Israelis, and, along with deteriorating economic conditions, are perceived by Palestinians as demonstrating that the entire peace process has brought little change.

The settlers' movement is one of the principal tools of Britain's operation against the peace process, as *EIR* has shown (see *EIR*, March 11, 1994, "Massacre in Hebron: Time to Name Names"). With a leadership dominated by either Jabotinskyite extremist or religious fundamentalists, their support comes almost exclusively from outside Israel.

In France, the leading rightist Jewish organization is the Herut, and its youth group, the Betar. Their leader is Jacques Kupfer, who only the week before the conference held a Paris fundraising event for Likud leader Benjamin Netanyahu which netted 9 million francs for the settlers' movement. While the American Jewish Defense League and the Kach party tend to be middle-class Jewish kids turned small-time gangsters, in France, their counterparts tend to be just plain gangsters; they were very visible at the conference, and five of them were carried out of the conference hall by security personnel during the speech of Israeli Environmental Minister Sirid. Although no one would admit it publicly, it is believed that Kupfer has the unofficial support of French Interior Minister Charles Pasqua.

While Rabin has put off the question of dealing with the settlements, he and his government are committed to dismantling most of them. Yossi Sirid stated that his party is committed to turning over 92% of the occupied territories, and it is believed that the remaining 8% are the large settlements which form suburban Jerusalem. These are occupied predominantly by mainstream Israelis. A former Israeli ambassador at the conference told this reporter that "Rabin has to move on the settlements question; he is obligated in the agreements. It might be unpopular, but he should do it."

The settlers are not only a threat to Palestinian aspirations, but a threat to the state of Israel and even its Zionist principles. The settlers have more than once threatened civil war if the government moves against them. Rabbi Yoel Bin-Nun, chief rabbi of the Gush Emunim and currently living in a settlement, addressed the conference. While presenting the settlers' brand of Zionism and peace, and denying in effect

that such a nationality as "Palestinian" exists, apart from the "Arab" nationality, he concluded his remarks by saying that if peace were to occur, then the "cultural struggle will begin," not between Palestinians and Israelis, but among the Israelis themselves, between those who want a religious state of Eretz Yisrael, and those who see Israel as a secular state and a crossroads between Europe and the Middle East, Asia, and Africa.

The rabbi was passionately countered by Israeli writer Abraham B. Yehosha, who not only denounced Bin-Nun's brand of Zionism, but declared that the core of Zionism is "the right of return" of all Jews to the "State of Israel," as defined and recognized by the United Nations. He made emphatically clear that the Israeli state stands on international conventions and not on biblical texts or historical claims that are 3,000 years old.

Dr. Braverman: 'The house is almost on fire'

Dr. Avishay Braverman is president of the Ben Gurion University of the Negev, and a former senior economist with the World Bank. His speech to the Paris conference concerned desalination as the only viable solution to the water crisis. He made the following comment to EIR on the failure of the World Bank and international institutions to act quickly enough to support Palestinian economic development.

I would like to express my great concern about the pace of the economic development in the West Bank and Gaza. We are running out of time. While we Israelis are very much concerned that the peace process did not give us the security we desired, and today we experience more terror than we did before, on the other hand, when it comes to the Palestinians, there were great expectations with great fanfare about the fruits of economic development in the Middle East.

I say it loud and clear: The Middle East is a very difficult place. With a tremendous population growth of 2.5-3% a year, it needs a major transformation all over, but as far as Israel goes, the key issue for us is the economic development and the success of the Palestinians. Whatever will happen in other areas is important, but in our own backyard, it will be very difficult for us to function as a state if we are just a rich ghetto surrounded by hungry and angry people.

I am a veteran of the World Bank. I respect the World Bank; my former colleagues are trying to do an admirable job, trying to navigate the work of the World Bank. But you must know the limitations of the international organizations. As a matter of fact, I say it even more bluntly, because I feel the house is almost on fire.

Take a place like Gaza. Gaza is a small city; right now, we have a structure with the World Bank bureaucracy, the U.N. bureaucracy, now the European bureaucracy, the

Palestinian bureaucracy, and the cumbersome Israeli bureaucracy, with all their bilateral and multilateral relations. Each of these has a tendency toward slowness. You combine the five of them, and you have a nightmare. Now if we want to do things that are normally done on the international scene, then so be it, but that is a very long process. At the same time, time is so short, so scarce. The peace process can go up in flames.

So what is required, in my belief, is a completely different mechanism. It's like the story of Alexander the Great, about the Gordian knot: You have to cut through it. I would suggest an emergency action mechanism. It would probably have to be headed by a businessman who is really action-oriented. You have to start with Gaza. You have to create emergency programs for employment, sewage projects, health projects, and education. Some are for the longer term, but some must be implemented immediately. You need an action-oriented person who can swim the channel from one organization to another.

I am concerned because I feel that if the Palestinians are not economically satisfied, then Israel won't be happy about security, and the peace process may fall apart. It is not enough to move from conference to conference, and try to create new mechanisms. Look at Mexico: It was the U.S. administration and the Federal Reserve which saved it, not the IMF [International Monetary Fund] or the World Bank. The initiative has to come from people who put their butts on the line. Look at Russia, look at Ukraine and Algeria—places where there was transformation. The West was not very responsive. Talks began, but nothing followed, and now all these places are in crisis.

I think the situation is very dangerous. We raised a lot of expectations about the possibility of economic progress in the Middle East, but for me there is no new Middle East unless the Palestinians are moving. For us this is the greatest concern. Of course, there has to be political compromise, but I urge the President of the United States, I urge the key European leaders: Move to a new mechanism. If we want to move on Gaza first, if we want people to see that something has happened on the ground, we have to have a shorter, simpler, action-oriented mechanism. It's an emergency.

Russia undergoes 'real deconstruction'

Reflections by Gabriele Liebig on a conference of the Loccum Evangelical Academy on Jan. 27-29, on the theme of "Russia on New Paths."

Neither economics nor politics was the concern of this conference, and also only tangentially the war in Chechnya. Rather, the "non-official" representatives of today's Russian culture, literary people and artists, psychologists and journalists, expressed their views of the cultural situation in Russia. The theme was the intellectual condition of the Russians, how they think about themselves, and current world developments, the deep crisis of Russian identity, as well as whence ideas for overcoming the crisis ought to be sought.

How is the disintegration to be stopped, and the vacuum of the destroyed, discredited values of the former Soviet Union to be filled? Many speakers agreed that there are fundamentally two contrasting trains of thought with their corresponding mythologies: on the one hand, the Slavophiles with the myth of Holy Russia (the Third Rome), and on the other hand the Westernizers, who eagerly flank their reforms in the direction of the market economy, liberalism, and western-style democracy, with the "myth" surrounding Czar Peter I's reforms.

The former tendency was represented in the person of Moscow freelance writer Vladimir Mikushchevich, who, speaking loquaciously and in fluent German, put forward the viewpoint that the Russian people have found themselves since 1917 in a situation of exclusion, and that the First World War never really ended. The certainly correct assertion that the Bolsheviks denied the legitimacy of state power, the idea of law, led Mikushchevich to seek the lost legitimacy of state power in the Russian Orthodox Church. He cited, approvingly, another writer, who in his era preached that the solution was, "All Power to the Patriarch!" But apart from that, Mikushchevich said a lot that was right, especially when he referred to the courageous Patriarch Tycho, who had mounted resistance to the Bolsheviks, or the poet Osip Mandelstam.

Most of the guests from Russia lined up strongly with the Westernizers, upholding universal virtues as opposed to Russian values. The "clodhoppers" (Grigori Pomeranz's term) throw two things in particular up to them: First, the Russians had never had the opportunity to truly experience

universal humanity, because Peter the Great introduced progress by means of slavery. This is in fact a Russian problem. Secondly, the anti-Westerners need only enumerate how much—just in the last three years—of what is most harmful and most destructive has been imported from the West to Russia, in order to silence all counter-arguments. This argument reflects most prominently the present situation of politics, culture, and morality in the West.

"What is new in Russia?" asked Dr. Yevgeni Barabanov, from Bochum. "What is new is what was banned yesterday." Many novelties are of a virtual character: Something is taken over from the West, but only "so to speak," not really. Thus, only "so-to-speak democracy" rules in Russia, and a McDonald's restaurant means "so to speak" that the western market economy has been introduced.

Moscow writer Grigori Pomeranz, who was in a prison camp under Stalin for three and a half years, and later wrote essays which were circulated in *samizdat* proceedings (reproduced through mimeographed copies), and was only allowed to publish again in 1988, contrasted the two tendencies. The admirers of everything western let themselves be bewitched like teenagers by the allure of western consumption. Thereby they overlook not only the problems which are associated with it, but also the western work ethic, which is necessary for creating the economic basis for prosperity. The other side of the coin is hatred for everything western. In this connection, Pomeranz mentioned the filmmaker Stanislav Govorukhin ("The Great Criminal Revolution"), who gets right to the point in depicting many symptoms.

Pomeranz distinguishes three ideas of the state, which have left their stamp on Russian history: 1) the concept of the state of Ivan the Terrible, who wanted to make Russia into an empire after the Byzantine model, but organized it like a monastery; 2) the "Holland Utopia" of Peter the Great, who erected a new state on the ruins of the "Third Rome" and thereby was quite sure that greater Russia would never vanish into Europe; and 3) Lenin's idea of the rule of a "new type of party." But whereas earlier, great suffering was produced by the violent "Slavic" transformation of certain ideas, today we must speak of the "destructive power

of the lack of ideas.”

The old man sadly stated that in Russia the “indolence of disintegration” rules; everything which has become habitual to the Russians today, leads to ruin. In literature, the desire for extinction reigns and is seamlessly completed by the chauvinistic search for scapegoats. One cannot solve the Russian identity problem by making idols of the typical Russian character peculiarities. Hope for a solution to the crisis is offered uniquely and alone through a spiritual and ecumenical dialogue.

Here once again the question is posed: What is the West bringing into this dialogue, and what should it bring? While rejecting all tendencies to a narrow-minded Slavophile outlook, Pomeranz points out that hand in hand with cosmopolitan liberalism goes a misunderstanding of freedom as irrationality, such as the free circulation of pornography, the emancipation of homosexuality, post-modernism, and deconstruction—achievements which western civilization can hardly hold up with pride.

Western post-modern fashions

Dr. German Ritz from Zurich, who reported on the new literature in Russia, Poland, and Chechnya, also discussed this “new wave,” which is coming from America and “Mitterand’s Paris” (e.g., Jacques Derrida): The post-modern cannot formulate anything revolutionary or new, but only dissolve. The post-modern is the culturally pessimistic return of the always-monotonous and of meaningless husks of words.

In the course of the two days of discussion, it became clear that post-modernism and deconstruction (Derrida) are really the last thing which intellectually interested Russians of the younger generation need and want. Moscow psychologist Dr. Aleksandr Orlov said that Russia can do nothing with post-modern thinking, “because we live day to day in real deconstruction.” In order to survive intellectually, people in Russia are much more “in pursuit of the absolute” again, in the Platonic sense.

Prof. Liubaca M. Moreva from the EIDOS philosophy and cultural center in St. Petersburg likewise wanted to give a polemical rebuff to post-modernism—what western defenders of this miserable fad interpreted as “backtracking.” Post-modernism is the mental state of boredom and of the blind alley in which each seeks out his own little niche. The post-modernist wallows in “the feeling of inevitable decline,” she said. Killing and death are thus turned into idols, and thus apparently, the Chechen war comes to be viewed as “an experiment in the post-modern style.” Unfortunately, Dr. Moreva delivered all of this in the barely tolerable, cynical, wasted language of post-modern deconstruction.

Most of the conference participants had the same perception as myself. Only a pair of diehard representatives of virtual reality in German literature seminars occasionally threw the argument into the discussion, whether Russian

culture should no longer be examined “from the post-modern standpoint.” The audience reacted with some amusement, but in a later workshop, a moratorium on the word “post-modern” was briefly decreed.

Germans in the Russian perspective

It is not useful to recount every single speech, but a very lively closing speech by Dr. Irena Cherbakova on “Germany and the Germans from the Russian Perspective” stands out. She is currently on the Science Faculty in Berlin, and illustrated her topic in German, speaking informally with many examples drawn from her personal experience.

The Germans have always been represented in Russia, she explained, starting with the czar’s family; and everyone already knows Ivan Goncharov’s famous contrast between the German Stolz and the Russian Oblomov. In the natural sciences, especially in physics and chemistry, German has long been the dominant language. Relations between Russians and Germans only really became problematic in the 20th century. In this connection, she named not just the horrors of the Second World War and the pamphlets of one Ilya Ehrenburg, but also Stalin’s NKVD terror, which led to a situation in which anyone who read German books or had a picture of Hans Albers on the wall, was condemned as a German spy. Nonetheless, there are just as many examples for an unbroken positive attitude of Russians toward Germans and especially toward German literature.

Dr. Cherbakova told the story of an argument which she witnessed in the Moscow Metro, which illustrates the deep rift in the Russian identity today. A young man was arguing with an old war veteran, who had angrily exclaimed: “For you we shed our blood in the Great Patriotic War, in order to defeat the Nazis!” The young man’s bitter comeback was: “So what? If you had lost then, it would perhaps have gone better for us afterwards!” This identification with those who were defeated then, but who in the end had it so much better than the victorious Russians, is quite widespread, said the scientist.

The present-day attitude of the Russians toward Germany and Germans is predominantly positive. The Federal Republic of Germany stands as a model of overcoming the past, and people hope that especially the Germans will help them to overcome their enormous economic crisis.

The Loccum conference once again made it clear how much the West could contribute to bettering the situation in the East, provided that we ourselves shift into the right economic and intellectual-cultural position to do so. Hence the real deconstruction in the West—in the financial markets, in production of goods, and in our heads—must also be ended. As long as the only things the West exports to the former East bloc are economic shock therapy and post-modern knickknacks, the anti-western blood-and-soil tendencies will keep gathering strength. And the political consequences of that would be horrifying.

Sectarian war a threat to Bhutto government

by Ramtanu Maitra and Susan Maitra

The senseless killing of 20 members of the Shia community by unidentified gunmen inside two Shia mosques in Karachi on Feb. 25 portends the beginning of yet another wave of sectarian warfare between the majority Sunnis and minority Shias of Pakistan, to be conducted through local groups on behalf of Saudi Arabia and Iran. Already, revenge killings have been reported from the port city of Karachi.

The gruesome killing of the Shia worshippers, reminiscent of the Hebron massacre in the Israeli-occupied West Bank by a Zionist fanatic last year, intended to topple the Israel-Palestine peace efforts, will put an extra burden on the already-beleaguered government of Prime Minister Benazir Bhutto, which is completely at sea about how to deal with the steady breakdown of law and order in the country. This is particularly so in Karachi, the commercial capital of Pakistan and by far the most important port city of the country.

The Mohajir Qaum Movement (MQM)—a grouping of those who had left India to take up residence in Pakistan since the 1947 partition of the subcontinent—has continued its violent activity in Karachi, and some other cities in the province of Sindh where the Mohajirs have a dominant presence. The MQM is demanding more economic power and political clout and challenging the home base of the Pakistan People's Party (PPP), the main ingredient in the ruling alliance that administers Pakistan today.

The level of violence caused by the agitation over more than a decade by the MQM is unprecedented, and there is no indication whatsoever that the government in Islamabad has any clue as to how to resolve the conflict through negotiation. Instead, over the years, Islamabad has retaliated with its own disregard of law and order; as a result, Karachi has emerged today as one of the most dangerous cities in the world. Perhaps worse is the fact that Karachi has become the weak link of Pakistan, where proxy wars are fought by external forces, causing sectarian and religious conflicts and subverting the integrity of the nation from within. So far, the feudal Pakistan has found no answer to it.

The newer problem

By contrast, the Shia-Sunni strife in Karachi is a rather recent development, although the two sects have been at each

other's throats in Punjab, the North West Frontier Province, and Azad Kashmir—the Pakistan-held part of Kashmir—for years. Provocations against the Shias in Karachi go back to 1984, when Sunni extremists burnt down a Shia mosque and several surrounding stores owned by individuals belonging to the Shia community, during the ceremonies to mark Ashura, the festival of martyrs. But in subsequent years, the battlefield for extremists belonging to the two communities was elsewhere, while Karachi was experiencing heavy doses of violence orchestrated by the heroin and hashish traffickers, MQM and PPP activists, overzealous law and order men, Sindh secessionists, and the orthodox Jamaat-backed Muslim Leaguers and their student front groups.

Pakistan, a nation of 110 million people, is Sunni-dominated; Shias number anywhere between 20 to 30 million. Prior to 1980, or more precisely before the Soviet invasion of Afghanistan in 1979 and at the time that Ayatollah Ruhollah Khomeini was coming to power through a violent Islamic revolution in Iran, violent incidents between Shias and Sunnis in Pakistan were too rare to cause any concern to anyone. But the success of the Islamic revolution under Ayatollah Khomeini, and the Pakistani ruling elite's decision to become a strategic partner of the West to counter the Soviet threat to the "free nations" of South Asia, pitchforked Pakistan into the center stage of broader intrigues and conflicts. While drug running and illegal arms smuggling became the part and parcel of maintaining the so-called Jihad in Afghanistan, foreign interests in Pakistan were enhanced significantly.

Islamic interests

For the Saudis, Pakistan was a natural ally that needed consolidating. Most of the Sunnis, belonging to the orthodox Deobandi order, were more receptive to the orthodox Wahabism of Saudi Arabia than to the prevalent Sufism of Central Asia. Saudi interest in Pakistan, often propelled by western theorists and geo-strategists, has been to help bring into power in Islamabad a leadership which is pro-Saudi and keen to influence its neighbors—big and small—while promoting goodwill on behalf of the Saudi government. Large Saudi-funded mosques, like the impressive Faisal Mosque in Islamabad, were the visible end of the Saudi support-spectrum. The invisible end consists of Saudi support for political parties; umpteen academic institutions as well as many Islamic schools, such as the Jamaat-e-Islami; and such trained assassins as the Anjuman Sipah-e-Sahaba (ASS) in Punjab and the alleged Feb. 25 killers in Karachi, the Sipah-e-Sahaba Pakistan (SSP). While the Jamaat's role was to use Wahabi-style Islamic orthodoxy as the battering ram against all democratic political forces, the Sipah-e-Sahaba has been used to decimate pro-Iran interest groups and eliminate Shia leaders and movements.

If the Saudi agenda for Pakistan seems ruthless, it is no more so than what was promoted by Iran under the guise of



Pakistan's Prime Minister Benazir Bhutto. The killing of 20 Shia worshippers in Karachi puts an additional strain on her government.

“friendly moves by a friendly country.” The Shia groupings of the Tehrik-e-Nifaz-e-Fiqh-Jaffriya (TNFJ) of the North West Frontier Province, or the Tehrik-e-Jaffriya (TJ), active in Karachi, have all along been acting like paramilitary forces and an exact replica of the ASS. It is also evident that while the Sipah-e-Sahaba is politically linked to the Pakistan Muslim League, particularly to the Nawaz Sharif group—the major opponent to Prime Minister Bhutto’s ruling coalition—the TNFJ is aligned with the PPP. It is yet another matter how close the TNFJ will remain to the Bhutto government in the coming days unless the Feb. 25-style killings are not stopped forthwith. The killings at the two Shia mosques in Karachi are likely a message sent to Prime Minister Bhutto about things to come in the next wave of violence.

The first big Shia-Sunni conflict in recent years came to light in May 1984, when reports indicated that about 200 to 300 people were killed in a clash between the Shias and Sunnis in Gilgit in Azad Kashmir. Those clashes occurred around Gilgit and its neighboring villages, and eyewitness reports indicate that the Army and police took a “passive” role during the killings.

Pakistan’s chief martial law administrator at that time, Gen. Zia ul-Haq, resorted to sacking the Azad Kashmir government, censoring the news, and dissolving the Azad Kashmir provincial assembly. During the clashes, foreign diplomats, who reported on the incidents, claimed that the Shia community activists had raised slogans such as “Down with Saudi Arabia” and “Down with Pakistan.”

Grooming of the killers

Soon after the Gilgit incident came to light, the Anjuman Sipah-e-Sahaba group made its appearance in Punjab. It was widely known at that point that the ASS was the militant arm of the Jamaat-e-Islami, a pro-Saudi political grouping with a small base, but a lot of money. Soon Punjab became the happy hunting ground of the ASS, and one senseless killing followed another.

Despite a massive hue and cry from peace-loving Pakistani citizens, no action was taken to curb the violence perpetrated by the ASS. In 1988, weeks before Zia ul-Haq was killed in a plane crash along with a number of his close Army associates, the assassination of the TNFJ chief Allama Husseini had caused a furor in the North West Frontier Province. Iran did not take the matter lightly either, and sent a personal emissary from Ayatollah Khomeini to attend Allama Husseini’s funeral. The assassination of Allama Husseini and the hatred preached by the ASS toward the minorities in general and Shias in particular, all helped the Shia community to recruit more cadres to confront the ASS. The ASS was also accused of killing two Iranian diplomats in Punjab. Despite protests issued by Teheran, it was evident that Islamabad was not capable of effectively curbing either the ASS or the TNFJ.

Meanwhile, the proxy war between the two Islamic rivals in the Gulf, Saudi Arabia and Iran, continues to be fought in Pakistan at the expense of innocent Pakistanis. Pakistan’s endless tampering with Afghanistan, perhaps at the goading of some western powers, has furthered tensions between the Shia extremists and Sunni assassins within Pakistan. In Afghanistan, both Saudi Arabia and Iran, having staked their claims for a slice of the Central Asian pie, are vying with each other for an Islamic sphere of influence, through which trade with and religious conversions in Central Asia can be carried out with abandon. Neither the Saudis nor the Iranians have shown any intention of taking their hands off Afghanistan, and Pakistan, of course, continues to warm its hands in the Afghan fire.

The latest burst of violence, however, may pose a direct threat to the Bhutto government itself. MQM leader Altaf Hussain, self-exiled in London for over three years, has expressed anguish over the killings of Shia Muslims in Karachi, his claimed turf. It was not long ago that the Baluch secessionist movement was being conducted from London by Baluch leaders, and the increasing tendency of the MQM leaders to let it be known that the Mohajirs want Karachi as a separate entity, something akin to the Crown Colony arrangement the British have had with Hongkong, is to the point. In addition, the *Iran News* from Teheran has accused the Bhutto government of failing to provide adequate security to the Shias of Pakistan. The Tehrik-e-Jaffriya secretary general, Hasan Turabi, has said that “it is a conspiracy to create differences between the two sects,” and has accused the Bhutto government of dividing the Muslims.

New movement in Afghanistan changes the balance in Central Asia

by Adam K. East and Ramtanu Maitra

Long forgotten by the western world, Afghanistan has once again captured the headlines in the western press. News reports center on the emergence of a new group in Afghanistan, the Taliban (meaning religious students), who have captured nearly one-third of the country since their sudden appearance in September of last year. Evidence is accumulating, although it is not conclusive, pointing to the view that the well-equipped Taliban are being backed by Pakistani Intelligence Services (ISI), with Saudi Arabia, and the implicit support of the United States.

Following the defeat of the Soviet Red Army and its subsequent withdrawal from Afghanistan in 1989, the Afghan Mujahideen continued to fight the communist government for three years, and after its fall in 1992, they have been busy fighting among each other. Provided by weapons and funds from Afghanistan's immediate neighbors and other countries abroad, the rival Mujahideen groups have been ruthlessly tearing at the relics of this once-proud nation.

With the Koran in one hand and an AK-47 in another, the Taliban have drastically changed the political balance in the country. However, all are not religious students as suggested by most news accounts. The main body of this force is comprised by the former Mujahideen, who are from the Pushtun-dominated provinces of the south. There are also a number of religious students recruited from the Madrassas or religious schools and refugee camps from across the border in Pakistan. The Taliban, reportedly starting off with but a few hundred men, have seen their ranks swell to well over 25,000 men under arms.

The Taliban's initial conquest began about six months ago, when they seized an armory near the Pakistani border. Later on they entered Kandahar, the old royal capital in the south, Afghanistan's second biggest city. After fierce battles, they captured the city and turned their attention toward the south, the primary poppy-growing region of the country. There they torched the poppy fields and executed the drug traffickers. From Kandahar, the Taliban marched toward Kabul in the northwest, about 300 miles away. With astonishing success, they made swift progress toward the capital, capturing city after city.

Their biggest victory came against Gulbuddin Hekmatyar's Hizbe-Islami, who had allied himself with northern warlord Abdul Rashid Dostam, a former communist general,

against the forces of President Burhanuddin Rabbani and his military strong-man Ahmad Shah Masood.

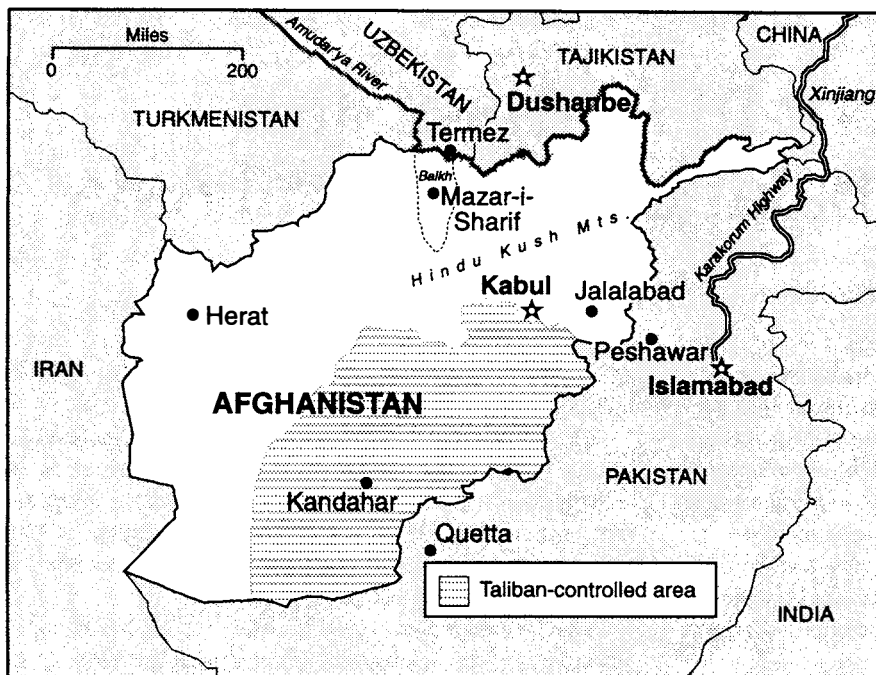
The Taliban say they are not seeking power, but favor an Islamic government, and are demanding the disarmament of all Mujahideen groups in the country. "We want a weapons-free Afghanistan, and we will try to collect weapons, which have caused destruction in our country," a spokesman for the group was recently quoted as saying.

The Taliban arrived at a time when United Nations special envoy to Afghanistan Mahmoud Mestiri was busy working out the final details of the latest peace plan for the country. The process was delayed by the nominal government's insistence that the Taliban should also participate in the peace process. President Rabbani, whose term expired on Dec. 28 of last year, has demanded the unconditional participation of the Taliban in the interim administration. Since all previous peace plans, such as the charters reached in Peshawar, Islamabad, and Mecca, have bit the dust, there is little hope for the current plan. Moreover, the Taliban have refused Rabbani's demand saying that they will not work with "criminals."

According to *The Hindu*, the Madras-based English news daily which is believed to have close contacts within the Indian Foreign Office, the interim council was to be headed by Sultan Mahmood Ghazi, a cousin of the former King Zahir Shah, with the former prime minister, Mohammad Yousuf, assigned this post again. Half of the 30-strong body was to be comprised of representatives of the Mujahideen and the chiefs in control of various regions, and the other half by independent persons. The Taliban will represent the Pushtun majority, and their military control so far has remained confined within the Pushtun-dominated areas.

Murky origins

There is much speculation about the Taliban's murky origins; their list of probable sponsors includes Pakistan, the United States, and Saudi Arabia. Over the past few years, Pakistani officials have on more than one occasion voiced their desire to establish a land route for trade with Central Asia—a land route which would have to pass through Afghanistan. The Pakistani port of Karachi is the nearest port city for the Central Asian states, and by air Islamabad is closer to Tashkent, capital of Uzbekistan, than it is to Karachi. Dushanbe, the capital of Tajikistan, is only an hour's flight from Is-



Area of Taliban control in Afghanistan

Islamabad, and by road through Afghanistan the distance from Dushanbe to Karachi is 2,720 kilometers. In contrast, the Iranian port of Bandar Abbas is 3,400 km, Vladivostok is 9,500 km, and Rostov on the Don is 4,200 km away.

Although Pakistan does not have the money to invest in Central Asia, it hoped to market its short route to the sea and provide services such as transport, banking, insurance, and business training programs. It also offers expertise and international contacts to help develop the textile industry in Central Asia. There was only one precondition to this—peace in Afghanistan—because Kabul controlled Pakistan's land access to Central Asia. For Turkmenistan and southern Uzbekistan, the shortest route to the sea lies through Iran, but for all other states it is through Afghanistan and Pakistan.

By reopening the ancient Silk Road, Pakistan would indeed become the gateway to Central Asia, greatly boosting its political and economic affairs. But the stakes in the game for influence in Central Asia are very high. Pakistan faces such strong contenders as Russia, which is out to reclaim the old Soviet empire; Turkey; and Iran. In order to avoid the chaotic city of Kabul, which the Taliban are now trying to control, there exists a proposal to rebuild the road from Termez to Mazar-e-Sharif in northern Afghanistan, and then to take Balkh province. Northern Afghanistan remains under the control of the Uzbek militia under Rashid Dostum, who is on good terms with almost all Central Asian leaders who have past Bolshevik connections.

The plan is to get the goods from Quetta to Karachi—an easy haul. Pakistanis are also in the process of building a deepwater seaport in Gwadar on the Makran coast. Pakistan proposed to Kazakhstan and Kyrgyzstan a new route from

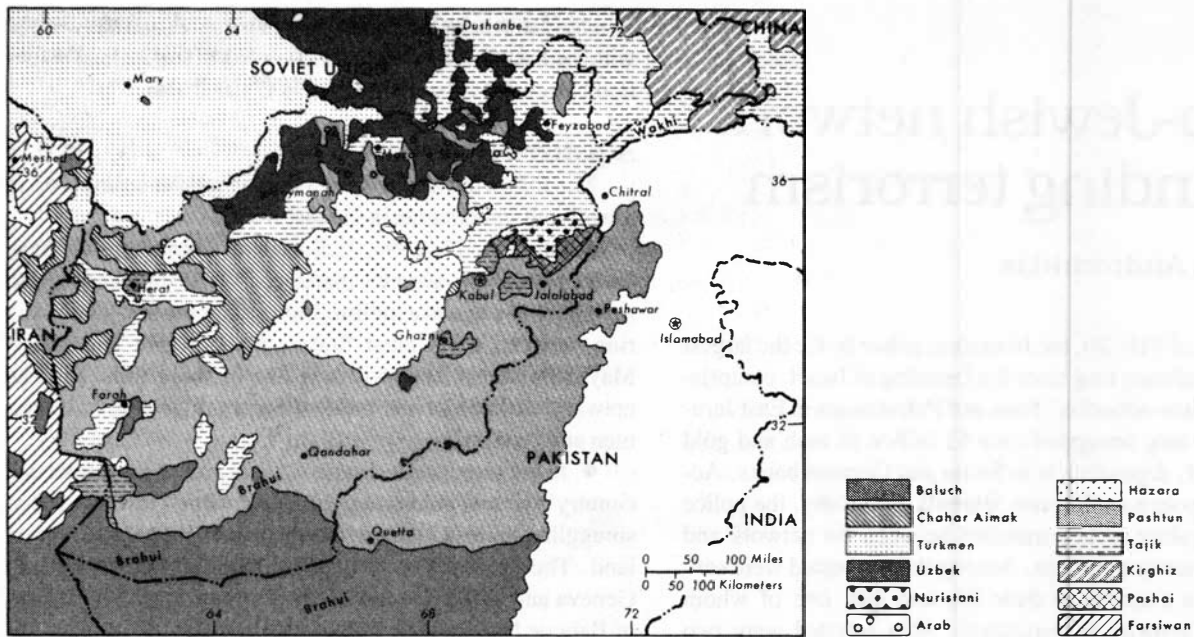
Alma Ata to Xinjiang to link up with the Karakoram Highway, which runs from the Chinese border to Islamabad. This route will only be passable during the summer months, but it would link Central Asia with China and Pakistan, thus opening up the old Turkestan to the sea for the first time in history.

De facto partition

The major outcome of the Soviet invasion of Afghanistan, and subsequent civil war, is that the border between Central Asia, or between the Turkic-speaking people and the Pushtuns, the largest group in Afghanistan, which previously ran along the northern slopes of Mazar-e-Sharif and the Amudarya River, was de facto changed and shifted southward to Kabul and the Hindu Kush mountains. Eight of Afghanistan's nine provinces are now inhabited by Central Asian people, mostly those who had fled Soviet rule over the years. Some 4 million Tajiks, 1.5 million Uzbeks, half a million Turkomen, and several thousand nomad Kyrgyz and Pamiri-Ismaelis (Aga Khanis) are now reportedly living in Afghanistan.

During the Afghanistan war, the Soviets went after the eastern Pushtun belt of Afghanistan, and dealt with Afghanistan's northern provinces lightly. The discrimination during the war was to fuel ethnic tensions between those of Turkic origin and the Pushtuns inside Afghanistan. The United States and Pakistan, meanwhile, boosted the image of Hekmatyar, the fully corrupted Pushtun, while the Soviet propaganda machine boosted Ahmed Shah Masood.

The 1992 revolt of Gen. Rashid Dostum against his mentor Najibullah sealed the fate of the Kabul regime and established the north as a separate Turkic political entity controlled by Uzbeks. The Uzbeks have now less in common with their



Pushtun brothers than ever before. Hence, in effect, the Soviet invasion of 1979 has led to the de facto partition of Afghanistan.

The advance of the Taliban, who are predominantly ethnic Pushtuns, has also made prominent the geographic division between the Pushtun-dominated provinces from the rest of the ethnic groups. The Tajiks, the second biggest ethnic group which Masood and Rabbani belong to, are mainly in the north and northwestern provinces of the country. Dostum's Uzbek group gets active support from the President of neighboring Uzbekistan, former communist Islam Karimov.

Should the Taliban stay in their present areas, or if there is a provocation of ethnic hostilities, it could very well mean the effective division of the country according to the old British plan of intelligence operative Bernard Lewis. This could also have undesirable consequences for Pakistan, since its North West Frontier Province, which is predominantly Pushtun, borders Afghanistan in the south.

Meanwhile, reports filtering into India indicate that the Taliban are advancing exclusively in areas controlled by the Pushtuns. The Taliban are also making other distinctions: Those Mujahideen groups close to Saudi Arabia have not been touched, which has raised further suspicions that the Saudis and the Pakistani intelligence, with tacit support from the United States, are running the Taliban circus. The Taliban have not ventured into regions controlled by Dostum. If the Taliban do not attack Dostum's area, *The Hindu* claims, then Pakistan and Saudi Arabia are de facto accepting the original Soviet plan to shrink Afghanistan's borders and make Kabul the northern limit, while northern Afghanistan becomes the buffer zone or the cockpit. That would prevent the "Islamic fundamentalism" of the Pushtuns travelling north and thus keep the CIS somewhat immune from the fundamentalists' "at-

tacks." Meanwhile, Iran has again expressed fear that the new forces emerging in Afghanistan will go after the Shias there.

General Dostum has reportedly threatened that any move by the Taliban to capture Kabul and other territory in the northern reaches might lead to a pronounced ethnic confrontation and division of Afghanistan along Pushtun/non-Pushtun lines.

Unexpected Chinese reaction

No developments in this part of the world go unnoticed by Beijing. China has already showed its hostility to all Islamic provocations in Xinjiang, otherwise known as "Chinese Turkestan." China would not hesitate long to seal the Karakorum Highway (which links Pakistan to China in the north) if it detects any questionable activity which is guided from Islamabad. An uprising two years ago in Xinjiang underlines the nervousness of the Chinese over the emergence of any Islamic movements in the area. There are reports of an uprising in April 1992 which was led by Abdul Kasim, an Islamic leader of the Free East Turkestan Movement. According to Chinese authorities, the group, made up of Uighurs and Kyrgyz, had been armed and trained by the Afghan Mujahideen. A ruthless crackdown was carried out, and the Islamic leaders were arrested. China, taking the matter very seriously, closed the Khunjerab Pass and the Karakorum Highway, and informed Pakistan that China would question its relations with that country if Islamabad failed to check the activities of Islamic militants based on Pakistani soil.

The Pakistani example should be a warning to the United States not to walk into a trap which British geopoliticians, who have had ample experience in this region, might be setting up. China will not look favorably on any operations by the United States ostensibly to "solve" regional problems.

Arab-Jewish network is funding terrorism

by Dean Andromidas

In the week of Feb. 20, the Jerusalem police broke the largest money-laundering ring since the founding of Israel, comprising both "ultra-orthodox" Jews and Palestinians in East Jerusalem. The ring smuggled over \$1 billion in cash and gold out of Israel, depositing it in Swiss and German banks. According to police spokesman Shmulik Ben Ruby, the police are investigating money transfers between the network and Palestinian terrorist groups. Among those arrested were several yeshiva students in their 30s and 40s, one of whom was Tov Tarabelo, of Jerusalem. Also arrested were two Palestinian money changers, Shamir and Talil Asila, well-known in Jerusalem.

Although Ben Ruby could not name the banks involved, *EIR* is investigating possible links to Geopol's Union Bancaire Privée (UBP), which is a target of both South African and U.S. Justice Department officials for money laundering and illegal gold smuggling.

Mideast sources see the development as related to President Clinton's executive order to seize the bank accounts of Jewish and Arab terrorist groups operating in the United States. It is said to demonstrate growing U.S.-Israeli cooperation in an effort to foil terrorist operations aimed at sabotaging the peace process. In a related development, Israeli Prime Minister Yitzhak Rabin named a new head of Israel's General Security Service, or Shin Bet. Codenamed "KAF," he is reported to be an expert on right-wing extremist Jewish groups. His appointment led to protests and legal action by rightist groups, all of which failed to block his appointment.

This case is the latest in a series which points to possible coordination among U.S., Israeli, and South African intelligence networks which are targeting UBP and allied networks. UBP Chairman Edgar De Picciotto is on the board of directors of George Soros's Quantum Fund and, according to Swiss banking sources, his banking career is based on the support of the British and the Rothschild banking empire. *EIR* has documented how these networks intersect in Switzerland through a small company called Geopol SA, whose directors include Pierre Hafner, a director of CBI Holding, the mother company of UBP; Elisabeth Kopp, former Swiss justice minister and wife of Hans Kopp, who is a convicted felon and lawyer representing corporations reputedly linked to organized crime; Helmut Raiser, top arms dealer and mastermind of the Condor missile project; and Laurent Murawiec, a former associate of *EIR* who now works with the enemies of

Lyndon LaRouche. UBP is British in pedigree and has worked with the Iran-Contra crowd of Oliver North and Anti-Defamation League of Edgar Bronfman's B'nai B'rith.

A pattern of arrests

The following law enforcement operations culminated in arrests and indictments in the last weeks:

- On Nov. 27, 1994, U.S. federal agents arrested Jean Jacques Handali, account manager at UBP in Geneva, and several others tied to a multimillion-dollar money-laundering ring between the United States, Switzerland, and Israel. Mayer Balass of Tel Aviv was one of those indicted. The network was comprised predominantly of Jewish businessmen and criminals.

- In the same week, South African authorities broke that country's largest gold-smuggling ring, which was accused of smuggling no less than eight tons of gold a year to Switzerland. The proceeds were deposited in accounts at UBP in Geneva and at the Banque Multi Commerciale, a subsidiary of Banque Nationale de Paris.

- The same week, French police arrested Anthony Gabriel Tannourri, based on a complaint by Prince Constantine of Liechtenstein, who charged that Tannourri defrauded him in a \$3 million deal involving gold. Tannourri is a Maronite Lebanese who has played the bagman, deal-maker, and swindler over the last two decades. His name has appeared in the investigations of Licio Gelli's P-2 lodge in Italy, the Bulgarian drug connection of the early 1980s, the arms deals to Iran and Iraq, and the financial scandals of the late 1980s. Despite his lowly origins from the streets of Beirut, he mysteriously acquired a 2% shareholding of Assicurazioni Generali, which he used as collateral for various arms deals and financial manipulations. Generali is the Trieste-based Italian reinsurance company which functions as a manager of the *fondi* of the leading families of the Club of the Isles. Among its board of directors are representatives of the British and Dutch royal families, Carlo Torre e Tasso, and leading financial interests, several of whom, such as Carlo De Benedetti and Claude Bebear of France's AXA insurance, are personal friends of Edgar De Picciotto of UBP. Despite Generali's official denial of any relationship with Tannourri, his 2% holding represented one of the company's largest single shareholdings.

Among his most recent escapades was a business relationship with Florio Fiorini, who is sitting in a Swiss jail accused of fraud in the SF 3.5 billion collapse of the Geneva-based SASEA Holding. According to sources, he left Switzerland under suspicion of involvement in money laundering and gun running. He is considered a frontman for Libya, and he played a role in the privatization of the Libyan Tamoil.

- According to the Jerusalem police spokesman, in December they made their first arrest in the Jerusalem case. The man arrested had 25 kilos of gold he was preparing to illegally transfer out of the country.

Tide begins to turn against Greens

Environmentalist insanity in Germany is meeting stronger opposition, as reactions to the Rhine flood show.

The Feb. 19 elections for state parliament in Hesse were another black day in German parliamentary democracy: They brought the reelection of the "red-green" government coalition of Social Democrats and Greens, and, worse, showed a significant increase of votes for the Green party, from 8% (in 1991) to 11%. The Greens will try to capitalize on their increased vote with more anti-industrialism.

Yet, there are also countermoves. Reality, once it turns catastrophic, wipes all sympathies for ecologism off the agenda. This is the lesson learned by the Dutch Greens after the most recent flooding which threatened the lives of several hundred thousand citizens because the dikes that should have protected them, proved to be weak and too low, because no work had been done on them for 20 years due to ecologist obstructionism.

The fact that at the peak of the flood, a quarter-million Dutch citizens had to evacuate their homes, caused a public outcry against the Greens. All of a sudden, the government of the Netherlands found that ecologism ranked second to reconstruction, and a national emergency project to flood-proof 700 kilometers of dikes was passed by the cabinet and parliament within a few days after the flood had subsided.

The Dutch have been "pioneers of ecologism" in Europe. If the seemingly omnipotent Greens can suffer a setback there, can it happen elsewhere?

It can, and it did. The Rhine flood also hit Germany, though it was of smaller dimensions—the dikes were

stronger than in the Netherlands. But the public outcry against the Greens could be heard even in the state of Hesse. There, the population was up in arms over a World Wide Fund for Nature (WWF) initiative presented at the end of January at the peak of the flood, for turning several densely populated areas into emergency flood zones to absorb excess water.

At a press event in Frankfurt on Jan. 31, Emil Distel of the WWF in Germany called for a broad-scale "renaturalization" of the Rhine, to return it back to the riverbed it had about 150-200 years ago. Besides radical measures such as accelerated deurbanization of the region and decreased agricultural use of lands, the WWF recommended that the entire area around the city of Trebur in southern Hesse be turned into a special flood zone. This would put 20% of the region under water during flooding, surround only parts of the urban area with a dike system, and turn the city into an island in the water. The city, which fought a similar WWF plan in 1993, attacked the new plan as "out of this world."

In 1993, Trebur proposed an alternate controlled flooding area closer to the Rhine—the uninhabited Kühkopf swamp area. This project, however, met fierce opposition from the WWF, which stated that the arable lands and even parts of the urban areas of Trebur were of "less value in ecological terms" than the Kühkopf. In other words, flood the people.

Strong public opposition prevented the state government from debating the WWF plan, and the ecologist pro-

posal for the "renaturalization of the riverscape" (which had been prepared long before the flood) was shelved. Part of the after-effect of this was that in the Feb. 19 state elections, many voters in the districts close to the Rhine and Main rivers deserted the Social Democrats, which lost up to 10% of the vote. Many voters even stayed away from the polls entirely.

But voter abstention helped the Greens, who control the yuppie constituencies in the rich quarters of certain urban districts. In the Frankfurt banking area, the Greens received 27% of the vote! But elections and reality are two different things: As the Trebur case showed, the Greens will be faced with strong resistance once they propose specific projects.

In other regions, the same phenomenon can be observed. At the end of February, in order to transfer an ocean liner that had been built in the inland Meyer shipyard in Papenburg on the Ems River, to the seaport of Emden, the Ems had to be deepened by 50 cm—a project which ecologists and the Green party fought fiercely on grounds of "protecting nature."

But the population protested. In the summer of 1994, there were repeated demonstrations against the Greens. In one, 3,000 protesters, many from the shipyard, carried banners reading "WWF Job-Killers." The Greens were defeated. The state government of Lower Saxony, also a red-green coalition, backed the protesters; the project went ahead.

Another defeat was suffered by the Greens in Lower Saxony. Reviewing the recent floods, the minister of environmental affairs, Monika Griefahn, unexpectedly overruled ecologist views and gave the go-ahead for an ambitious dike-building program along the North Sea coasts of the state. Griefahn is a former top manager of Greenpeace in Germany.

International Intelligence

Russian armored losses rival World War II

Gen. Aleksandr Galkin, head of the Russian Defense Ministry's Main Armored Directorate, gave figures showing that Russia suffered losses of armor in Chechnya not seen in Europe since the Second World War. General Galkin's statistics, released on Feb. 21, indicated that a total of 225 Russian tanks and armored personnel carriers (APCs) have been destroyed in fighting to date. He added that "90%" of these losses occurred over the three-day period of Dec. 31-Jan. 2, during the first disastrous attempt to take Grozny.

In those three days alone, 200 Russian tanks and APCs were destroyed. This would point to a figure substantially higher than the total losses given by Defense Minister Pavel Grachov of 534 Russian soldiers killed.

John Paul II calls illiteracy 'hidden evil'

Pope John Paul II's 1995 Lenten message is titled "Illiteracy: The Hidden Evil." The message was dated Sept. 7, 1994 and released by the Vatican on Jan. 26. Ash Wednesday, the beginning of Lent, the traditional Christian 40-day season of penance, this year fell on March 1.

The message reads in part: "During the season of Lent, I would like to reflect with all of you on the hidden evil which deprives a great number of poor people of many possibilities for progress. It likewise deprives them of victory over marginalization and hinders them from attaining true freedom. I am speaking of illiteracy. . . ."

"This terrible affliction helps to keep vast multitudes of people in a state of underdevelopment, with all the scandalous misery which that brings. . . . [W]here there is illiteracy there is more hunger, disease and infant mortality, as well as humiliation, exploitation and all kinds of suffering, than there is elsewhere."

The illiterate worldwide, he said, "is the human through which reaches out to us, ask-

ing us for a gesture of brotherhood. . . ."

"Actions undertaken to favor access to reading and writing are the first condition for helping the impoverished to mature intellectually and to lead their lives more independently. Literacy and education are an essential duty and investment for humanity's future, for 'the fulfillment of the whole man and of every man,' as Paul VI said (*Populorum Progressio*, 42). . . ."

"In the midst of the people, the greater the number of those enjoying a sufficient education, the better will the people be able to take their destiny into their own hands. In this, literacy training helps cooperation between nations and peace in the world. The equal dignity of individuals and peoples requires the international community to take steps to overcome the damaging inequalities which the illiteracy of millions of human beings still causes."

Greenpeace caught again in 'whale' of a lie

On Feb. 22, the Japan Whaling Association exposed another instance of bald-faced lying on the part of Prince Philip's spinoff, Greenpeace. Greenpeace had announced to the press on Feb. 14 that it had "caught the Japanese whaling fleet hunting whales in the newly created Antarctic whale sanctuary."

However, as a press release from the Japan Whaling Association pointed out, the ships "caught" by Greenpeace were on a research mission announced to the International Whaling Commission last May, cleared with the IWC Scientific Committee, and authorized under Article VII of the International Convention for the Regulation of Whaling.

Moreover, there is no "newly created Antarctic whale sanctuary." It was not approved by the IWC Scientific Committee, the Commission for the Conservation of Antarctic Marine Living Resources, the Intergovernmental Oceanographic Commission, or the Scientific Committee on Antarctic Research. Even if it had been approved, only commercial whaling was to be banned, not whales taken for scientific research. Ja-

pan takes about 300 minke whales—an abundant species with 760,000 in the Antarctic, for research every year.

There is no evidence of any decline in any whale stocks in the past decade, according to the Japanese press release, which likened Greenpeace interference with research operations to the destruction of research and medical laboratories by animal rights terrorists.

NATO opens discussions with North Africa

NATO opened its dialogue with five Middle East and North African states on Feb. 24. NATO Secretary General Willy Claes held talks with representatives from Morocco. NATO sources said separate meetings would follow later in the day with Israel, Egypt, Mauritania, and Tunisia.

U.S. State Department spokesman Christine Shelly said on Feb. 24 that "NATO doesn't have any position against the religion of Islam," but NATO had agreed to begin a dialogue with some of the Mediterranean countries on a range of issues, including security issues. Asked about fears in Europe regarding "Islamic fundamentalists," Shelly replied: "It's not Islamic fundamentalism per se, it is the risks and threats which are posed by radicals and extremists, who then would employ or could employ violence or violent means, terrorism, in order to try and achieve their political ends." She added, "It's the risks to security of those nations in the Mediterranean area" which will be discussed.

Belgium like Italy? Agusta scandal spreads

The "Agusta" affair is pushing Belgium to the brink of an Italian-style disintegration, the daily *La Libre Belgique* warned in a Feb. 24 editorial. At issue is the new revelations and rumors in the resumed investigation of the 1988 bribery scandal around the Belgian government's purchase of helicopters from the Italian Agusta firm. The daily warned

Briefly

that the integrity of the political system and of the state as a whole is in danger.

The scandal has, indeed, the potential of wiping out the entire leading strata of the Socialist party, one of the three parties in the government coalition, immediately before early general elections. Regionalist and separatist parties that are based on anti-socialist populism, such as the right-wing Vlaamse Blok, may benefit from the paralysis of the Socialists.

This is expected to increase tensions with Wallonian regionalist movements, splitting the nation in two. There will be repercussions among Belgium's neighbors, to which the most radical currents among the regionalists are politically attracted: the Walloons to the French; the Flemish to the Netherlands and to Germany.

On Feb. 23, former Economics Minister Willy Claes confessed in an interview with Belgian national television that he did recall a meeting of the Socialist Party leadership in early 1989 during which the prospect of an Agusta "donation" to the party was mentioned. On Feb. 28, an opinion poll was published by a Belgian daily, clamoring for Claes to step down from his current post as NATO secretary general.

Dutch-style euthanasia bill introduced in Australia

The "Rights of the Terminally Ill Bill," which purportedly allows patients to terminate their lives in a humane manner, was introduced into Australia's Northern Territory Parliament on Feb. 22 by Chief Minister Marshall Perron. The private member's bill has the full support of the federal government, as shown by statements from the Minister for Health and Human Services Dr. Carmen Laurence. Bishop Collins of the Northern Territory Catholic Diocese and the Territory's head of the Australian Medical Association, Tom Kyle, have both have spoken out against the bill.

The legislation is identical to the infamous Netherlands law, except that a "medical practitioner" or a "health care provider" can administer the prescribed fatal sub-

stance. The health care provider does not have to be medically qualified and is defined as a "hospital, nursing home or other institution . . . and any nurse or other person whose duties include care of the patient." Patients need only be over the age of 18 and have a terminal illness from which they are expected to die within 12 months, to come under the legislation. This will grant the physician or other appointed "health care provider" immunity from prosecution, as in the Netherlands.

The legislation has been referred to a parliamentary committee to receive submissions until May. A senior staffer from Perron's office said, "We got material from the Voluntary Euthanasia Society for the drafting of the bill."

Peru-Ecuador spat gets used against sovereignty

The foreign ministers of Peru and Ecuador met with international mediators from the Rio Protocol in Montevideo, Uruguay on March 1, where a second cease-fire was signed to allow for the withdrawal of troops from both sides and for the deployment of neutral observers to the Peru-Ecuador border on March 8. An earlier cease-fire agreement had failed to stop bloody warfare in the contested jungle area.

Despite these renewed efforts to solve the border conflict through the channels of the existing treaty protocol, there are continuing efforts by forces outside the region to use the conflict as a battering ram against national sovereignty. Thus, the *Economist* from London editorially commented on Feb. 18 that, "coming so soon after the Mexican economic debacle, it [the conflict] is an untimely reminder of the enduring strength of another jaguar-trap in the path of the region's modernization: Latin American nationalism." The *Economist* goes on to propose that "in an ideal world, Ecuador and Peru might agree to cede the area on both sides of the Condor Cordillera as a demilitarized reserve for the jungle Indians who are its main inhabitants."

● **BILL CLINTON**, in his Feb. 23 address to the Canadian Parliament, criticized Quebec separatism. But on the same day, he became the first U.S. President to meet with members of the Bloc Québécois, the leading separatist group.

● **BORIS YELTSIN** on Feb. 25 cancelled his planned visit to Copenhagen, for the mid-March United Nations social affairs summit there, where he was supposed to meet with German Chancellor Kohl, among others. The Russian President's decision was interpreted as a sign of poor health and the deepening power struggle in Moscow.

● **EGYPTIAN** authorities have banned the distribution of Conrad Black's *Jerusalem Post* in Egypt. The move, announced in late February, was a reaction to a *Post* editorial charging that Egyptian Foreign Minister Amr Moussa and Egyptian Secretary General of the Arab League Abdel Meguid are anti-Israel.

● **IN SWAZILAND**, the southern African enclave, AIDS is a factor in the majority of illnesses of babies admitted to hospitals, it was announced on March 1 by Health Minister Derek von Wissell. He previously warned that 1 in 5 children aged 15-19 already has the HIV infection.

● **AMNESTY** International, the British intelligence-run "human rights" front, is running into morale problems on its staff. The *Times* of London reported on Feb. 28 that Amnesty used funds to pay hefty school and nursery fees for the children of top executives.

● **JACQUES FOCCART**, a top aide to the late Gen. Charles de Gaulle, has just released his memoirs in the form of a 500-page interview. It is said to contain the first admission by a French official of a French role in the assassination of Cameroon opposition figure Felix Moumie in 1960 in Geneva.

California's Nazi eugenics laws behind Proposition 187

by Mark Calney and Leo Scanlon

As the legislative agenda of the "Conservative Revolution" sputters to a halt in Congress and faces further rebuttals from state legislators, it is clear that the reports of popular support for draconian "reform" of the welfare and food stamp programs, as advocated by House Majority Leader Richard Armey (R-Tex.) and Sen. Phil Gramm (R-Tex.), was a myth created out of whole cloth. It will soon be clear as well that the passage of California's Proposition 187—which was touted as the second great leg of the Conservative Revolution in the November elections—was a "victory" built on shifting sand.

The authors of Proposition 187 have lied about the nature of immigration in the United States, and have fabricated the evidence which alleges a "crisis" of immigration policy. The networks involved represent a long tradition of hostility to the U.S. Constitution, and the anti-immigration propaganda today is based on the same fraudulent social science, pioneered in the United States in the 1920s and 1930s, which was called on to justify the race purification policies of the Nazi Party in Germany.

It is disturbing that such low-grade propaganda schemes could have as great an impact as they did on the electorate in California, but already many people are waking up to the fallacy that Proposition 187 represents.

What is more important, is that citizens understand the strategic significance of the immigration, for there is much more at stake here than foolish prejudices.

The history of immigration restriction in the United States illustrates the role this issue has played as a marker for broader strategic concerns. From the founding of the nation through the end of the 19th century, American System economic policies fostered an active recruitment of skilled and unskilled labor from Europe. The pamphlets circulated by Benjamin Franklin and his allies advertised the freedom of opportunity, and the high wage levels which work in the

New World offered. This attitude persisted despite perennial campaigns of nativist movements against Catholic immigrants. These outbursts reflected prejudices which were common in the republic, but did not shape national policy until the 20th century.

There was some anti-immigrant agitation in the late 19th century, and laws were passed preventing "labor contracts" and similar mechanisms which allowed low-paid workers to be temporarily imported but never settled. The 1892 Chinese Exclusion laws directed at Chinese labor on railroad projects are a well-known example. But the United States maintained, into the 20th century, its strategy of encouraging immigration to build a populous and, thus, powerful republic.

The next great wave of agitation was directed not at people from Africa, Asia, or Ibero-America, but at German immigrants who had been settling the Midwest in increasing numbers since the end of the Civil War. The propaganda directed against them was as bloodcurdling and racialist as any written against Spanish or Asian immigrants today.

The issue involved was not merely a racial or ethnic conflict. The attack on German immigrants in the United States was organized by the British secret services beginning in 1914, and escalated as the British House of Windsor prepared for war on the European continent. By 1917, it had been made illegal in more than 17 states to speak or sing the German language, and rowdy mobs, whipped up by agents of the British war propaganda machine, routinely stopped the performance of German Classical music and drama. This cultural warfare did not abate with the end of World War I, but escalated dramatically. By 1921, the United States saw the first successful legislation designed to limit immigration. These laws allowed a number of each nationality to immigrate equal to 3% of the number of that nationality residing in the country as of 1910. This law completed the destruction

of the census as it was designed by the founders, and turned it into the instrument of social control and manipulation that it is today.

By 1924, new legislation cut the numerical quotas to one-half of the 1921 levels by allowing in only 2% of the 1890 number of a given nationality. This began the phase of overt discrimination against southern Europeans and Slavs which would continue through World War II, when millions of Jews, fleeing persecution in Europe, were denied entry into the United States because of such immigration restrictions.

The population control measures which the House of Windsor has been advocating represent a death warrant for the American Republic. Immigration restriction, eugenics, and environmentalism are each integral to that insidious campaign.

Rethinking their support

On Jan. 27, pro-Proposition 187 activists held a rally on the steps of the Glendale courthouse in Southern California, to demand that President Clinton stop his proposed financial stabilization of Mexico and to promote a "Proposition 187-style" anti-immigration amendment to the U.S. Constitution. Glenn Spencer, the spokesman for the group, told the assembled media, "It boils down to this: Do we want to retain control of the Southwest more than the Mexicans want to take it from us?" He compared the conflict to the Vietnam War, saying, "It's a struggle between two groups of people for territory."

Flush from their victory in the California election last November, backers of Proposition 187, such as the Federation for American Immigration Reform, are now openly demanding such anti-American measures as a moratorium on legal immigration and refugee entries.

But many Californians who voted for Proposition 187 are starting to question their support for what they thought was a measure to stop state government subsidies allegedly going to illegal Mexican immigrants. Many voted for this proposition in order to protest the ubiquitous growth of "government bureaucracy," and only now realize that Proposition 187 mandates the creation of a veritable gestapo informant machine to identify "suspected illegals."

As usual, such populists are "a day late and a dollar short." Those who designed and funded the initiative, such as the Pioneer Fund, and some of its political supporters, such as Gov. Pete Wilson (R) and the Conservative Revolution crowd, have long advocated a radical authoritarian role for government—whenever it comes to reducing population.

Their theories and programs are heir to the legacy of the eugenics movement in California—the movement which inspired and energized the Nazi movement and the government it created in Hitler's Germany. It is also instructive that the environmental movement has always been an arm of the eugenics movement. The Nixon administration provided a fertile ground for this unwholesome brew, and the same forces today have created the support for Proposition 187. This picture will be repugnant to many who have supported 187 in



E.S. Gosney, founder of the Human Betterment Foundation.

the hope that they are challenging the "liberal establishment." All the better. The founders of this republic knew well that there is only one defense against the tyranny of populist ignorance: the truth.

California's race 'scientists'

Now that we know the laws of heredity, it is possible to a large extent to prevent unhealthy and severely handicapped beings from coming into the world. I have studied with great interest the laws of several American states concerning prevention of reproduction by people whose progeny would, in all probability, be of no value or be injurious to the racial stock. I'm sure that occasionally mistakes occur as a result. But the possibility of excess and error is still no proof of the incorrectness of these laws.—Adolf Hitler¹

It was California's race "scientists" who shaped the creation of the Nazis' German Law on Preventing Hereditarily Ill Progeny. A representative of the American Committee on Maternal Health visited Nazi Germany in 1935 and, after discussions with members of the Nazi administration and the judges of their Heredity Health Courts, stated:

The leaders in the German sterilization movement state repeatedly that their legislation was formulated only after careful study of the California experiment as reported by Mr. [E.S.] Gosney and Dr. [Paul] Popenoe. It would have been impossible, they say, to undertake such a venture involving some 1 million people without

1. Otto Wagener, *Hitler aus nächster Nähe: Aufzeichnungen eines Vertrauten 1929-1932*, ed. Henry A. Tuner (Frankfurt am Ullstein), 1978, p. 264.

drawing heavily upon previous experience elsewhere.²

In 1909, Charles M. Goethe, a prominent Sacramento banker and funder of the eugenics movement in the United States, wrote and organized the passage of the California Sterilization Law, making California the second state to enact such a measure (the first was Indiana). By 1930, in the wake of the Supreme Court decision in *Buck v. Bell*, which backed compulsory sterilization, California aggressively exercised its "state's right" to enforce the "eugenic sterilization" of 6,787 human beings who were considered "genetically defective." That is more than twice the number of forced sterilizations that took place during that period in all the other states of the Union combined.

The number of non-"Aryans" sterilized in California was higher than their respective proportion of the total population of the state. African-American inhabitants over 21 years of age made up 1.5% of the 1930 state population, but comprised 4% of the total sterilized. Some 20% of the men and 11% of the women sterilized were not U.S. citizens, with the proportion of Latin races being particularly high. According to California's eugenicists, "Mexican-Indian stock . . . showed an average of intelligence lower than that of the American Negro."³

The California Sterilization Law was organized in direct response to what Goethe termed the "eugenic aspects of immigration control. . . . The most pressing problem was to halt the then current inflow of millions of 'new immigrants.'"⁴

Goethe had been chairman and organizer of the Immigration Study Commission which monitored the enforcement of the Quota Acts of 1921, 1922, and 1924, which eugenicists referred to as the "Second Declaration of Independence." The primary focus of the group, however, was to lobby to extend the Johnson Immigration Restriction Act to include Ibero-America, especially to restrict Mexican immigration.

Human Betterment Foundation breeds race 'scientists'

Goethe later founded the Eugenics Society of Northern California, which led to his involvement in the establishment of the Human Betterment Foundation (HBF) in Pasadena in 1929. The founding chancellor of Stanford University and an original HBF trustee, David Starr Jordan, was vice president of the Eugenics Society of England. In 1912, one year after the death of British eugenics pioneer Sir Francis Galton, Jordan attended the First International Congress of Eugenics, held at the University of London, as a vice president of the

American delegation.

Jordan was also one of the original trustees of the Carnegie Foundation, which took over financing of the operations of the Eugenics Record Office (ERO) in Cold Spring Harbor, New York.⁵ ERO was founded by the Harriman family as the U.S. branch of Galton's eugenics laboratory. Jordan is probably better known today as one of the founders of the Sierra Club and the founder of the Bohemian Club of Northern California.

The HBF was incorporated as a charitable organization in 1929 in the city of Pasadena by E.S. Gosney, a former sheep rancher and banker. Paul Popenoe, a biologist, eugenics author, and director of the Los Angeles Institute of Family Affairs, became the secretary of the HBF and its chief "researcher" and spokesman. The HBF maintained a staff of about 30 drawn from California's top universities, the medical establishment, lawyers, bankers, media executives, religious leaders, and others.

HBF's members included: Harry Chandler, president of the *Los Angeles Times*; Henry M. Robinson, an original trustee of the HBF and president of Los Angeles's First National Bank, who was one of the three American members of the Inter-Allied Reparations Commission following World War I (the other two being Charles Dawes and Owen Young); Rabbi Rudolph I. Coffee of San Francisco, who served as vice president of the California Prison Association; Samuel J. Holmes, professor of Zoology at the University of California at Berkeley and author of *The Trend of Race* (1921) and *Studies in Evolution and Eugenics* (1923); Robert Millikan, founder and administrator of the California Institute of Technology (an HBF trustee); William Munro, formerly of Harvard, who set up CalTech's humanities program; and Lewis M. Terman, head of the Department of Psychology at Stanford University who developed the Stanford Binet IQ test.

The University of Southern California has always been a hotbed of eugenics theorists and activists. Rufus B. von KleinSmid, president of USC from 1921-47, was a member of the HBF, as was Justin Miller, the dean of the USC Law School and an original trustee of the HBF. In addition to holding various positions at the U.S. Department of Justice and serving on the Washington, D.C. Court of Appeals, Miller was vice chairman of the executive committee of the U.S. National Commission for Unesco (1947-50). Unesco was created to spread the pagan and racist theories of Julian

2. Marie E. Kopp, "Legal and Medical Aspects of Eugenic Sterilization in Germany," *American Sociological Review*, 1, 1936, p. 763.

3. Paul Popenoe and Roswell Hill Johnson, *Applied Eugenics*, p. 294. Macmillan Company, New York, 1933.

4. C.M. Goethe, *Seeking To Serve*, p. 182. Keystone Press, Sacramento, 1949.

5. Averell Harriman's father E.H. Harriman was given the Union Pacific Railroad through capital supplied by the British royal family's personal banker Sir Ernst Cassell. With the resulting fortune, the Harriman family created the U.S. branch of Sir Francis Galton's laboratory as the "Eugenics Record Office" at Cold Spring Harbor, New York in 1910, thus launching the eugenics movement in the United States. The Carnegie foundation shared in the management of this eugenics center. In 1931, Averell Harriman merged his personal bank with Brown Brothers, the family firm of Bank of England Governor Montagu Norman. The following year the Harriman family sponsored the 1932 world eugenics meeting in New York to promote Adolf Hitler's race program.

Huxley and other retainers of the House of Windsor.

Joseph Widney, USC president prior to KleinSmid, wrote a tome in 1907 entitled *Race Life of the Aryan People*. Widney was a straightforward racist who stated, "The Black and the White could live together with the White as master . . . but they can not live together as equals"; he promoted a Darwinian vision of a new global Aryan empire.

The goal of the HBF was to implement the objectives stated by Sir Francis Galton in his *Memories* (1908), where he wrote that the first object of eugenics "is to check the birth rate of the unfit, instead of allowing them to come into being, though doomed in large numbers to perish prematurely. The second object is the improvement of the race by furthering the productivity of the fit by early marriages and healthful rearing of their children."

Then, as now, the race purification movement depended greatly on the "private studies" which it financed in order to generate the hysterical propaganda in favor of its legislative agenda. The HBF reiterated that "its first major problem is to investigate the possibilities for race betterment by eugenic sterilization, and to publish the results."⁶

Extensive research to survey the data on California's sterilization law had been undertaken by Gosney and Popenoe and published in 1929 as a book entitled *Sterilization for Human Betterment*. That study received the "most hearty and unreserved cooperation of the State Department of Institutions" (formerly the State Department of Lunacy) which had conducted the sterilization operations. Aaron J. Rosanoff, California Commissioner of Lunacy from 1920 to 1940, was also chairman of the Committee on Immigration of the Eugenics Research Association, and worked with Charles Davenport, the director of the Eugenics Record Office in Cold Spring Harbor.

Spreading the 'success'

HBF vigorously campaigned to spread the "success" of California's compulsory sterilization law to other states and internationally. Their publications included books and pamphlets and a popular textbook, *Applied Eugenics*, written in 1918 by Popenoe and Roswell Hill Johnson, which was in daily use in classrooms of higher learning around the nation until the start of World War II. In 1933, the year that Hitler came to power, a newly revised edition was released and translated into Japanese.

Rudolph Hess, the deputy leader of the Nazi Party, employed a popular Nazi expression with the identical theme: "National Socialism is nothing but applied biology." This phrase was first coined in 1931 by German eugenicist Fritz Lenz. Lenz worked closely with California's HBF and co-authored, with Eugene Fischer, the German textbook on eugenics. Popenoe had translated a 1924 article by Lenz about the German eugenics movement, which stated that there was

6. Paul Popenoe and E.S. Gosney, *Twenty-Eight Years of Sterilization in California*, p. 41. Human Betterment Foundation, Pasadena, 1939.

virtually no difference between U.S. and German eugenicists *except that the United States was more advanced in terms of legislation.*

The HBF called for the mass sterilization of the "eugenic deficient," which included not only those termed insane or "mentally deficient," but also those with inherited diseases and physical defects such as the blind, deaf, and epileptic, as well as the economically dependent. They calculated that 4% of the population were "mentally disabled" or "deficient" and had to be sterilized. This number was determined to be 200,000 Californians and 4.8 million in the entire United States. Adding in those people who were termed "mentally diseased," the HBF estimated that the number of those needing sterilization nationally to be "nearly 10 million." These figures do not include other categories of "deficient" people, such as the blind.

As in Nazi Germany, race purification was always touted as a form of "fiscal conservatism." The HBF estimated that maintaining 60,000 "mental defectives" in institutions cost the taxpayers \$30 million a year in direct outlay (1929 dollars). Sterilization of "mental defectives" inside and outside of institutions, the HBF asserted, will eliminate those costs through the removal of future generations of "mental defectives." On a global scale, they estimated the savings to be \$5 billion annually.

The attack on a living wage

Finally, the eugenicist movement aggressively opposed the labor reform efforts which were catalyzed internationally by the work of Pope Leo XIII and his collaborators. Catholic activists, Protestant reformers, and Jewish organizers all were fighting to eliminate the misery and slave-labor conditions which prevailed wherever the "Manchester School" of free trade held sway. The eugenicists knew that a "family wage" was the surest guarantee of family formation, and demographic expansion.

In their book *Applied Eugenics*, Popenoe and Rosewell presented the full and consistent basis for the argument which has been revived by Gramm and Armev in their speeches opposing President Clinton's attempt to raise the minimum wage:

A minimum living wage is desirable for every man, but the idea of giving every man a wage sufficient to support a family can not be considered eugenic. . . . It is an attempt to make it possible for every man, no matter what his economic or social value, to support a family. Therefore, insofar as it would encourage men of inferior quality to have or increase families, it is unquestionably dysgenic.⁷

This fundamental aim of the Conservative Revolution today is obscured by their touting of "family values."

7. *Applied Eugenics*, p. 334.

The 'California model' emigrates to Germany

The Germans are beating us at our own game.

—Joseph S. DeJarnette, member of the Virginia sterilization movement

In 1932, the Third International Congress of Eugenics, held in New York City's American Museum of Natural History, outlined the race and population program of the Anglo-American financiers (the Harriman and Mellon families especially) who bankrolled the movement. Representatives of a new party in Germany, acclaimed internationally for their radical fiscal conservatism and commitment to reducing Germany's national debt, were in attendance. Months later, their leader, Adolf Hitler, would come to power.

Dr. Ernst Rudin, a representative of the new Nazi movement, was elected the federation's president at that 1932 congress. Rudin was head of the Munich-based Kaiser Wilhelm Institute for Psychology and the Kaiser Wilhelm Institute for Anthropology, Eugenics, and Human Heredity (Berlin) which was created and funded by the Rockefeller Foundation. (See Anton Chaitkin's "Rockefeller and Mass Murder," *New Federalist*, Aug. 22, 1994.)

The congress was opened by Charles Davenport, its incumbent president and the Harriman family operative from the Cold Spring Harbor eugenics center, who said, "Can we by eugenical studies point the way to produce the superman and the superstate? Progress will come slowly. . . . I think we are justified in having faith that the future will bring precise knowledge in human biology, and education will establish the desired mores."

California had already established an impressive track record on that front. It was to California that the new Nazi regime of Germany looked for help in its quest to obtain the eugenicists' dream of "race purification." And indeed, the Rockefeller-Rudin apparatus became a part of the Nazi state, when Rudin was appointed head of the Racial Hygiene Society.

As part of the Task Force of Heredity Experts chaired by SS chief Heinrich Himmler, Rudin and his staff drew up the Nazi sterilization law. The law was adopted in July 1933 and described as an *American model law*. U.S. eugenicists were ecstatic.

Popenoe of the HBF (and also a member of the board of directors of the American Eugenics Society in the 1930s, 1940s, and 1950s) wrote an article in the U.S. eugenics *Journal of Heredity*, which praised Hitler for placing "his hopes of biological regeneration solidly on the application of biological principles of human society." He stressed:

Hitler is surrounded by men who at least sympathize with the eugenics program. . . . The policy of the present German government is therefore to gather about it the recognized leaders of the eugenics movement, and to depend largely on their counsel in framing a policy which will direct the destinies of the German people, as

Hitler remarks in *Mein Kampf*, "for the next thousand years."⁸

Declaration of Independence attacked

Such fawning praise for the Nazis by U.S. eugenicists was no surprise. In 1933 (as they had earlier in 1918), Popenoe and Johnson attacked the U.S. Declaration of Independence and "the self-evidence of the truth that all men are created equal. . . . That phrase has long been a favorite with the demagogue and the utopian. . . . The American educational system is based largely on this dogma, and much of the political system seems to be grounded on it."

They identified the unity between those "right" and "left" forms of tyranny which arise from this rejection of the premise of the U.S. Constitution. "Fundamentally, eugenics is anti-individualistic and insofar a socialistic movement, since it seeks a social end involving some degree of individual subordination. . . . Good government is then an aristo-democracy. In it the final control rests in a democratically chosen legislature, to which *only the qualified* may be candidates" (emphasis added).⁹

In response to the international outcry against Nazi eugenics laws which was raised by sane governments and individuals, Nazi spokesmen continually stressed that their laws were not as "radical" as those already implemented in the United States, especially California. Unlike the system in the United States, they noted, someone who was slated for sterilization in Nazi Germany could appeal their case to the Heredity Health Courts. They also reminded critics of how the U.S. Supreme Court had upheld compulsory sterilization in 1916 and 1927.

Nazi propaganda gleefully reported that according to a survey of the HBF, the overwhelming majority of Californians supported sterilization laws. In 1930, Gosney and Popenoe's book *Sterilization for Human Betterment* had been translated into German and widely circulated.

As opposed to the demands of the California HBF—to sterilize 4% of the population—Hitler stated that his modest proposal was to sterilize only 400,000 Germans, about 1% of the population.

Conversely, eugenicists elsewhere used the passage of the Nazi sterilization law to their advantage. Joseph DeJarnette, a leader of the Virginia eugenics movement, sent a letter in 1934 to the state government demanding that the state extend its sterilization law to more closely resemble the comprehensive German law.

After Hitler came to power, collaboration between the German and American Nazi eugenicists significantly increased. Popenoe was given prominent coverage in the Nazi press as an internationally renowned eugenics expert. Goethe traveled annually from California to Germany after 1933 to

8. Paul Popenoe, "The German Sterilization Law," *Journal of Heredity*, 25, 1934, p. 260.

9. *Applied Eugenics*, pp. 43, 306-311.

exchange information and observations among eugenicists.

During the latter half of 1933, the HBF mailed a pamphlet regarding the California experience in forced sterilizations to German race hygienists and Nazi administrators responsible for enforcement of the German race laws. Gosney praised the fact that, "with the adoption of a eugenic law by Germany, more than 150 million civilized people are now living under such a law."

Herbert Linden, one of the top Nazi politicians who promoted sterilization, used the California HBF pamphlet to further the cause of the German sterilization law. Linden, a prominent member of the Health Department at the Third Reich Ministry of the Interior, later became a chief organizer in the physical extermination of more than 100,000 mentally handicapped people.

In 1934, the California eugenics movement, with the help of a German Nazi who was visiting with his fellow eugenicists in Pasadena, organized an exhibition at the Los Angeles County Museum to promote the eugenics program of the Nazi government, especially sterilization.

In 1936, Harry Laughlin, the assistant director of the Eugenics Records Office in Cold Spring Harbor, thought that "Hitler should be made honorary member" of the Eugenics Research Association.¹⁰ He purchased and circulated an English version of the motion picture "Erbkrank" ("Hereditary Defective"). It was a sterilization propaganda film produced by the Racial Political Office of the Nazi Party which depicts mentally handicapped people as being "lower than animals" and costing the state millions of marks.

Laughlin convinced millionaire Wickliffe Draper and his Pioneer Fund, which would later finance California's Proposition 187, to finance the distribution of the Nazi film. A flier advertising the film was sent to biology teachers at 3,000 U.S. high schools in the United States.

On the related issue of immigration, Nazi "race betterment" proponents were particularly impressed by how America's immigration policy combined eugenic and ethnic selection. In 1934, Nazi race anthropologist Hans F.K. Günther told an audience at the University of Munich that "American immigration laws were accepted by the overwhelming majority, although the United States appeared the most liberal country of the world."

At the 1936 conference of the International Federation of Eugenics Organizations in the Netherlands, HBF's Charles Goethe, as president of the Eugenics Research Organization, explained to the delegates that the United States had taken strong measures to prevent the further admission of undesirable immigrants and to purge the existing population.

His eugenics colleagues in California had already put forward their program on immigration (which had been translated into German), which included the statement: "No one

10. Laughlin Papers, "Hitler and the Jews," handwritten comment in the margin of a *New York Times* article "Nazis Open Race Bureau for Eugenic Segregation," May 4, 1933.

will be admitted to the United States as a permanent resident, who is not superior to the average of the population already here. . . . Large numbers of persons should not be admitted, who are radically dissimilar to the present population."¹¹

The fraud of cost

The proponents of Proposition 187 claim that illegal Mexican immigrants cost the California taxpayers approximately \$18 billion a year. This estimate is based on a study by Donald Huddle titled "The Net Costs of Immigrants to

In response to the international outcry against Nazi eugenics laws, Nazi spokesmen continually stressed that their laws were not as "radical" as those already implemented in the United States, especially California. As opposed to the demands of the California Human Betterment Foundation—to sterilize 4% of the population—Hitler stated that his modest proposal was to sterilize only 400,000 Germans, about 1% of the population.

California." The study, which Governor Wilson has constantly referred to, was commissioned by the Carrying Capacity Network, a zero-population-growth group based in Washington, D.C. Paul Ehrlich, a fanatic anti-population advocate, is a member of its board.

(The idea of "carrying capacity," i.e., the limit of population related to an allegedly fixed limit of resources, originally comes from the 18th-century Venetian hoaxster Giammaria Ortes. It was plagiarized by British East India Company propagandist Thomas Malthus, and published in his treatise "An Essay on the Principle of Population.")

In February 1994, a response to the material produced by the modern advocates of the "carrying capacity" hoax was released by the Tomas Rivera Center, a think-tank in Claremont, California. "How Much Do Immigrants Really Cost?" a study by Dr. Jeffrey Passel, exposed the Huddle and related studies to be statistical frauds based on a fallacy of composition.

For starters, Passel discovered that the Huddle study made a \$30 billion mistake. Huddle's projections were based

11. *Applied Eugenics*, p. 291.

on assuming that no immigrants die or leave the United States after 1992, and that immigrants who enter after 1994 pay no taxes. Huddle excluded from his report (to name only some of the more egregious examples) Social Security, gas, and sales taxes paid by immigrants in California. The statistically irrefutable conclusion is that immigrants actually make a net contribution to the California economy of more than \$12 billion a year.

The Conservation Foundation

How then does this fakery become so entrenched in supposedly “conservative” quarters, such as the machine allied to Governor Wilson? While Wilson was a U.S. senator, he was simultaneously on the board of trustees of the malthusian Conservation Foundation, along with Interior Secretary Bruce Babbitt and George Bush’s good friend William K. Reilly. These men, and the ideas they represent, should be carefully studied by those farmers, ranchers, and miners who supported John Huffington’s Senate bid.

The Conservation Foundation was a eugenics propaganda organization begun by the families tied to the House of Windsor and its allies in Holland and Belgium. These are the networks who launched the World Wildlife Fund in 1961. Its U.S. founder was Henry Fairchild Osborne, the nephew of Fairchild Osborne, who co-hosted the 1932 International Eugenics Conference cited above. The foundation also helped to spawn such groups as the Environmental Defense Fund in the 1960s.

The financial backers of Proposition 187 share the same profile. Proposition 187 was co-authored and promoted by the Federation for American Immigration Reform (FAIR), an organization founded in 1979 by William Paddock, author of the “Paddock Plan.” As a U.S. State Department agronomist, Paddock co-authored the book *Famine 1975! America’s Decision, Who Will Survive?* His plan was simple, as he restated in a 1975 interview about his book: “The Mexican population must be reduced by half. Seal the border and watch them scream.” Asked how this population reduction would be accomplished, Paddock replied, “By the usual means: famine, war, and pestilence.”

In a 1980 interview, Paddock stated, “If you do anything to increase food production through more agricultural technology, all you are doing is increasing future suffering. . . . Think how prosperous Mexico would be today if it had the population of 1933, eighteen million.”

In 1973, Paddock, along with Garrett Hardin, founded the Environmental Fund, with money from the Mellon family. The fund described itself in its statement of purpose as “an effort to stimulate thinking about the unthinkable”—that governments must implement coercive, not voluntary, birth control. In 1979, Paddock spun FAIR out of this Environmental Fund, in order to have an organization dedicated to ending immigration into the United States.

In 1980, there were five directors of FAIR. Besides Paddock, one was former Standard Oil (i.e., Rockefeller) vice

president and Gulf Oil (i.e., Mellon) president Sidney Swensrud. The chairman was Dr. John Lanton, a board member of the Environmental Fund who was also president of Zero Population Growth (ZPG) and a member of the Club of Rome.

Proposition 187’s co-author, Alan Nelson, was an employee of FAIR, which accepted more than \$1 million from the Pioneer Fund. The Pioneer Fund, as cited above, was founded by eugenicist Harry H. Laughlin of the Eugenics Record Office with money provided by Wickliffe Draper. The Pioneer Fund continued to finance the American Eugenics Society and Birthright, Inc. through 1945, and has continued to fund eugenics “research” by those who purport to show that African-Americans are genetically inferior to whites.

The recipients of Pioneer Fund grants include Arthur Jensen, Roger Pearson, Hans J. Eysenck, Robert A. Gordon, J. Philippe Rushton, and Linda Gottfredson. The fund also bankrolled such publications as *Aryan Evolution*.

Eugenicists and environmentalism

There is nothing new in the close connection between the eugenicist movement and the environmentalist movement, and only those ignorant of history will be shocked to learn that the Nixon administration was a launching pad for both.

In April 1970, Henry Kissinger’s geopolitical games in Southeast Asia were exacting a toll in blood that threatened to bring down the Nixon administration. At just this moment, a bipartisan group of prominent advocates of population control—Nicholas deB. Katzenbach, William Draper, Clare Booth Luce, and other Anglophile luminaries—put their efforts behind a drive to build campus support for “Earth Day.”

The idea of mobilizing college students behind some “cause” other than ending the Vietnam War, represented a godsend to the administration, and millions of dollars (from the now notorious CREEP coffers of Nixon’s reelection campaign), as well as the public endorsement of Nixon and other officials, were put behind the “anti-pollution” movement.

The establishment network backing “Earth Day” was the population control movement, and especially its leader, John Moore. Moore, “the Dixie Cup King,” had organized the merger of Margaret Sanger’s Planned Parenthood Federation with his own World Population Emergency Campaign in 1961. His movement, which was earlier called the “eugenics movement,” had its roots in the malthusian theory that social problems are the product of genetic inheritance.

In Moore’s view, the missing element in the fledgling environmentalist movement of 1970, was a clear commitment to population control. So, in conjunction with the Nixon administration, he put his money, and his paid spokesman—Paul Ehrlich—to work, building campus events nationwide, centered on the theme “people pollute.”

On April 22, 1970, “Earth Day” dawned and anti-war protesters grabbed up Ehrlich’s book *The Population Bomb*, a propaganda piece which has long since been discredited. But Moore reprinted Ehrlich’s hook in the millions of copies for the occasion, and by the end of the day, the protest junkies

were hooked on an ideology that kills more people every year than all the bombs dropped on Vietnam.

Environmentalism's racist roots

Moore and Ehrlich were united by their common devotion to the work of William Vogt, chief of the Conservation Section of the Pan-American Union. In 1948, Vogt co-authored *Human Breeding and Survival* with Guy Irving Burch, and the two collaborated with Fairfield Osborn (son of the race propagandist Henry Fairfield Osborn) in writing *Our Plundered Planet*, which launched the postwar effort to unite the conservation movement with the eugenics movement.

Vogt's most famous work was his 1949 *The Road to Survival*, with an introduction by Bernard Baruch; it received an enthusiastic reception by book clubs and the media. The book attacked modern medicine and modern agriculture and argued that the Catholic Church and its opposition to population control represented the greatest "threat to the environment."

Vogt later became the national director of the Planned Parenthood Federation of America, and in this capacity came to the attention of John Moore. Moore decided to put his energies and money behind the eugenics cause. He revived the faltering Population Reference Bureau, reorganized the sterilization movement as chairman of the Association for Voluntary Sterilization, Inc., and unified these movements under the Planned Parenthood Federation. He then organized a provocative ad campaign which gathered the signatures of many prominent Americans, which pushed the "population bomb" thesis, blamed crime and environmental degradation on the infant poor, and cultivated the theme that the Roman Catholic Church is the major threat to civilization. Full-page ads blamed the pope for the fact that the world's poor people do not earn enough money to pay for food. "Pope Denounces Birth Control as Millions Starve," was one typical headline.

The assault on the image of man

Those, like the sponsors of Proposition 187, who proffer that man is biologically or geographically determined, are inherently anti-American and promote an oligarchical world view. Sir Francis Galton, originator of all the modern pseudo-scientific gobbledygook of eugenics and the eugenical strain within genetics, based his thesis on the absurd assertion that the qualities of mind are as heritable as physical traits.¹²

This view of man as a mere beast was openly admitted in a HBF editorial published in the *Eugenics* journal:

It is an interesting fact that much of the leadership of

12. The "bell curve" originates from Sir Francis Galton's perversion of German scientist Carl Friederich Gauss's so-called "law of error," which Gauss had developed to calculate the mean of errors made in the measurement of "true" physical quantities such as planetary positions. Galton, however, was not interested in the mean but the distribution of the deviations from it, and unscientifically applied it to human traits.

eugenics in the United States has been found not in the graduates of the older institutions of classical learning, but among the graduates of the agricultural colleges, who were more accustomed to view man as an animal, and who realized that as an animal he was just as capable of improvement as were species of domesticated animals and cultivated plants.¹³

What makes mankind different from the animals and plants—the creative potential of the human mind—is what the eugenicists and their kind negate. It is precisely that quality which distinguishes man as being created in the image of God, and enables him to participate in the ongoing creation and perfectability of the universe.

As economist Lyndon LaRouche has proven, man willfully expands his population exponentially through his continuing mastery of natural law via scientific discovery and newly defined resources, as no other species can. An idea, such as a scientific discovery, has no weight, size, or other physical quantifiable existence, other than whether or not its application successfully increases what LaRouche termed "relative potential population density" of the nation and mankind as a whole. That quality of creativity is how humanity demonstrates its "improvement." It is not generated from the soil where one lives, or from the color of one's skin.

As HBF president Gosney stated, the enemy of these eugenicist criminals is "modern civilization, human sympathy, and charity [which] have intervened in nature's plan," because "the weak and defective are now nursed to maturity and produce their kind."¹⁴

Such un-Christian, anti-human views are echoed today by the depopulation genocidalists, like Paddock, who demand that no modern technology, medical aid, or food be made available to the underdeveloped nations of the world.

If anyone today still doubts that eugenics and eugenical breeding are a fraud, they should simply make a close examination of that household which is its strongest and most active advocate: the British royal family.

When this article's co-author Mark Calney ran in the Democratic Party primary for governor in the last election, he warned that Pete Wilson was attempting to blame illegal aliens for California's economic collapse just like Adolf Hitler blamed the Jews for Germany's problems. During the spring of 1994, Calney warned Wilson that he had better clean out the insane usurious policies of such things as derivatives in Orange County or the state was headed toward a much bigger collapse. Well, Orange County's economy did collapse, and it wasn't caused by illegal aliens in the county treasurer's office.

13. "The Human Betterment Foundation," editorial reprint from *Eugenics*, Vol. II, No. 3, March 1929, pp. 17-21. (The American Eugenics Society, New Haven, Conn.).

14. Gosney and Popenoe, *Sterilization for Human Betterment*, p. v. Macmillan Company, New York, 1929.

Budget amendment defeat slows Conservative Revolution

by H. Graham Lowry

The dramatic defeat in the U.S. Senate of the Balanced Budget Amendment on March 2 was a major blow to the Gramm-Gingrich gang's attempted juggernaut against the constitutional government of the United States. Though repulsed by the slenderest margin of only one vote, the Conservative Revolutionists may have lost far more by baring their fangs in the face of defeat—and exposing the fascist nature of their “Contract on America” for the entire nation to see.

The Balanced Budget Amendment, which would destroy the Constitution under the guise of amending it, is the acknowledged centerpiece of the Contract with America. The failure of the Contract's pushers to ram it through the Senate has stalled them at a point where the entire package might be defeated in detail, despite a string of victories in the House. Senate Majority Leader Robert Dole (R-Kan.) has threatened to bring the amendment back up for another vote any time he thinks he can win, but his strongarm tactics during the first round left many Democrats far less willing to collaborate.

A political explosion was touched off on the evening of Feb. 28, when the Senate resumed its meeting for the scheduled vote on the Balanced Budget Amendment, concluding a month-long debate. Dole revealed that its backers were still one vote short of the required two-thirds majority, and declared he would force a recess overnight to continue their arm-twisting to get it. An irate Robert Byrd (D-W.V.) was permitted to speak without objection to the stunned chamber, before Dole could move for adjournment.

‘Sleazy’ tactics backfire

“If we had known that we were going to reach this kind of travesty, this senator would never have agreed to that unanimous consent agreement” on the vote, Byrd declared. “And it may be harder to enter into agreement hereafter. . . .

We're tampering with the Constitution of the United States. This is no place for deal-making, backroom huddles.” He denounced the “sleazy, tawdry” maneuver to postpone the vote “so that additional pressures can be made on some poor member in the effort to get this vote.” Though visibly shaken by Byrd's attack, Dole wrapped himself in the pollsters' claims that “80% of the American people” want the amendment passed, and forced the Senate into adjournment anyway—leaving “a lot of blood on the floor,” as Joseph Biden (D-Del.) later put it.

Matters went from bad to worse for the Conservative Revolutionists on the morning of March 1, when two of the key targeted Democrats called a press conference before the Senate could even reconvene. Kent Conrad and Byron Dorgan of North Dakota had declared they would only support an amendment with a guarantee that the Social Security Trust Fund would not be looted to balance the budget. During the Senate debate, Republican leaders had repeatedly rolled their eyes heavenward and declared they would never dream of doing such a thing.

Conrad revealed, however, that in “discussions” with them the previous evening, “the first suggestion was, ‘Well, we will stop using the Social Security Trust Fund surpluses in the year 2012. Does that satisfy you?’ ” When Conrad replied, “certainly not,” they asked, “how about if we stopped . . . by the year 2008?” Even as the dust from this bombshell was still settling, House Speaker Newt Gingrich (R-Ga.) was lying to reporters in the House wing of the Capitol that “we're prepared to guarantee Social Security's not going to be touched, period.” The jig was up.

The Republicans' duplicity on Social Security had been blown, and the refusal by North Dakota's senators to sign on to the deal left the amendment still one vote short of passage.



House Speaker Newt Gingrich at a recent press conference. The defeat of the Balanced Budget Amendment, a centerpiece of his and Phil Gramm's "Contract on America," was accomplished by exposing the unbalanced thinking of their Conservative Revolution.

Dole delayed one more day, reconvened the Senate in a bitter rage, and watched the amendment go down by a vote of 66-34. The final tally was recorded as 65-35, when Dole switched his vote to the minority column, so that he would be permitted under Senate rules to move for reconsideration without debate in the future.

Broader concerns for the country

President Clinton declared in a statement following the vote, "The Balanced Budget Amendment has been defeated because Republicans could not provide enough Democratic senators with the simple guarantee that Social Security would be protected in any balanced budget amendment procedures." Though that issue was the publicly exploitable flank, opposition to the measure had clearly taken on a more fundamental character, grounded in much deeper concerns.

Conrad had elaborated during an interview on March 1 on Fox-TV's local "Morning News" program that "my principal concern is that we not loot the Social Security Trust Fund to balance the budget." But by "the plain language of the amendment," it is very clear that the entire fund "will be used, every penny of it." His other major concern, however, was that there was no "special provision in the case of economic emergency, so that we don't put the country at risk." He noted that cutting spending and balancing the budget "was exactly the wrong policy 60 years ago in the midst of the Depression."

President Clinton had sounded the same theme in blasting

the amendment during his weekly radio address on Feb. 25. "That kind of extreme fiscal policy makes a small recession worse. In its most exaggerated form, it's what helped to turn the economic slowdown of the 1920s into the Great Depression of the 1930s." The previous day he had dispatched four top administration officials to deliver a special briefing at the White House, where the amendment was denounced as "potentially dangerous" and "horrendous economic policy." National Economic Council Chairman Laura D'Andrea Tyson warned, "People who are voting for a balanced budget amendment should project themselves back in history and think about Herbert Hoover. He was well-intentioned. He wanted to have a balanced budget, and all of the studies suggest that his attempts to have a balanced budget made the Depression considerably worse."

The 'Revolution' unmasked

During the week prior to the Senate vote, it also became much more broadly apparent that the Gramm-Gingrich gang were anything but well-intentioned. The would-be pirate king, Sen. Phil Gramm himself (R-Tex.), declared for President of the United States on Feb. 24 at a Nuremberg-style rally at Texas A&M University. Welfare recipients have to "get out of the wagon and help the rest of us pull," he ranted. "I want to stop building prisons like Holiday Inns. I want to make prisoners work. . . . And if I have to string barbed wire on every closed military base in America, I'm going to put these people in jail and keep them there," he bellowed. "In

the postwar period we have been like a little rich kid in the middle of a slum with a cake. . . . But what we have to share with a hungry world is not our cake, but the recipe we use to bake that cake. That recipe is private property, free enterprise, and individual freedom! And in a Gramm administration we will keep the cake and share the recipe."

During that same week, Gingrich and his fellow privateers in the House churned out subcommittee recommendations to slash \$17 billion from programs to help the nation's poor. The carnage included the proposed elimination of the federally funded school-lunch program (which provides many poor children with their only meal of the day), and turning it over to the states under block grants with no strings attached. Those grants would be pegged, for the next five years, at funding levels of less than *half* the rate of increase authorized during 1989-94. Low-income housing funds would also be cut by \$7.2 billion; another \$1.3 billion would be slashed by terminating summer youth programs already authorized for 1995 and 1996.

The Conservative Revolution's slave-labor program, being marked up in the name of "welfare reform" in the House Ways and Means Committee, was also revised to require the states to move 50% of their welfare caseloads (up from 20%) into "work or related programs" by the year 2003. Gingrich continued his own surfing along the Third Wave, publicly revealing a scheme to chop unemployment benefits and workmen's compensation, in favor of "retraining" for low-wage jobs.

The glassy-eyed worshippers of the "Contract on America" have settled into so many seats in the House, that they may still be able to pass substantial excretions of their stinking agenda. But the Senate fight over the Balanced Budget Amendment put the entire scheme under much closer scrutiny, and clearly undercut the prospects of Senate concurrence with whatever the House might attempt to force into law. The American people also saw much deeper behind the mask of the Conservative Revolution, and may soon wonder at Phil Gramm's claim that "I begin this race in a stronger position than any candidate has ever begun a race for the presidency."

American economist and statesman Lyndon LaRouche, in his radio interview with "EIR Talks" on March 1, denounced "the populist nuts of America who have been campaigning to have a balanced budget amendment." The complete collapse of Britain's Barings Bank had just reconfirmed his ninth economic forecast. "The only thing that could be done to keep the United States and other nations from plunging into the depths of the worst depression in perhaps the past 500-odd years," LaRouche said, "would be the United States using its power of debt to replace a *new* financial system to reorganize the system which it's put into bankruptcy, to keep us going." The proposed amendment "would prevent that, and prevent a number of other things," he said. "If this amendment goes through, the United States is virtually a gone bunny as a nation."

Russian lawmakers say IMF 'reforms' are dead

by Jeffrey Steinberg

Three leaders of the emerging political institutions in Russia have called upon the United States to abandon its support for monetarist policies and help Russia steer a new, post-communist course more in line with the national school of political-economy associated with America's 19th-century economic boom, and best represented today by Lyndon LaRouche.

Adrian G. Puzanovsky, deputy chairman of the Committee on Economic Policy in the Russian Duma (parliament); Nikolai A. Chukanov, also a member of the Duma and co-chairman of the Regions of Russia Association; and Gennadi Sklyar, a member of the Council of the Public Chamber attached to the office of the President of the Russian Federation, spoke to the Washington press corps at the National Press Club on March 2. They delivered their frank assessment of the political and economic crisis in Russia, and expressed their concerns about the judicial railroad of Lyndon LaRouche. The three were in Washington for a week of meetings sponsored by the Schiller Institute.

Monetarism is killing Russia

Puzanovsky delivered an assessment of what 10 years of perestroika has done to Russia: The country is now deindustrialized, science and education have been degraded, and worst of all, Russia is being depopulated. "Never in modern Russian history has the population fallen. We have gone 30 years backward in standard of living. It can only be compared to Africa," he stated. Puzanovsky attributed this crisis to Russia's "naive and uncritical acceptance of monetarism, our one-sided belief in the open market."

Now, however, Russian parliamentarians and intellectuals, convinced of the bankruptcy of monetarism, are studying alternate economic models. Puzanovsky cited U.S. President Franklin Roosevelt's New Deal program, the theoretical heritage of the national school of political-economy, and the recent writings of Lyndon LaRouche as "intellectual resources" that are being tapped in the effort to forge a new direction for the reform process. Puzanovsky co-chaired hearings in February in the Duma on the defense of domestic markets, during which a policy statement by LaRouche on the Russian economy was presented on LaRouche's behalf.

Puzanovsky identified LaRouche and Alvin Toffler as two Americans whose contending ideas are being hotly debated among the Russian intelligentsia today. In response to

a question, Puzanovsky voiced his personal preference for LaRouche's work, citing LaRouche's proposals for a new "Silk Road" and a development corridor down through the Adriatic region as particularly exciting proposals.

Sklyar was equally blunt in his assessment of the Russian crisis, which he described as a "crisis of our way of life." Every political institution, especially the office of the President, is at a low point of popularity, he said. "Criminals and speculators live best and there is a huge and growing polarization, with the poor becoming poorer and more numerous. . . . We cannot let Russia become a country of bandits and speculators."

Chukanov added his voice: "Russia must develop new institutions with new policies that are neither communist nor primitive monetarist."

Constitutional elections key

All three Russians emphasized the importance of the upcoming elections in Russia. In December, there are nationwide elections for the Duma, and sometime in 1996, a presidential election is to take place, according to the Constitution. Sklyar cautioned that the entourage surrounding President Boris Yeltsin are desperate to cling to power. "They know that the alternative to power is going to prison, and so they will fight hard to remain in power," he said.

If the elections go forward, the Russians predicted that a new center-left combination would emerge inside the Duma. Chukanov emphasized the role of the independently elected members of the Duma (as opposed to those who were elected as part of the party slates and linked to either Yeltsin or Vladimir Zhirinovskiy), which now constitute the second largest voting bloc in the body. Chukanov is the co-chairman of a newly formed organization called the Regions of Russia Association, which represents three-quarters of the autonomous regions inside the Russian Federation. At a founding conference on Jan. 28, Chukanov was placed in charge of drafting a platform for the organization. He told the Press Club audience that he is working on a comprehensive set of tax and investment laws that would remove some of the onerous tax burden from private companies, would provide for investment tax credits to encourage Russian savings to be directed into industrial growth, and other measures.

All three men also emphasized that they would raise their concerns about the LaRouche prosecution during meetings in Washington. Chukanov noted ironically that in Russia, LaRouche is known as a leading critic of the monetarist policies that have wreaked havoc on the nation, but that it appears that criticism of monetarism is forbidden in the United States. He said that the use of the power of the courts and of the state to silence an opponent was a standard practice of the Soviet Marxist state, and that the treatment that LaRouche received in the United States is therefore not unfamiliar to Russians.

U.S. Supreme Court realignment puts Rehnquist in minority

by Edward Spannaus

Chief Justice William Rehnquist, who has sanctioned the execution of innocent prisoners and all but destroyed the U.S. Supreme Court as the guardian of constitutional rights, has recently found himself in the minority on a couple of important cases. With two new Clinton appointees—Associate Justices Stephen Breyer and Ruth Bader Ginsburg—the high court has taken a couple of small steps back from the bloodthirsty practices of Rehnquist and his allies which have dominated it for more than a decade.

In recent years, the Supreme Court under Rehnquist's domination was reversing precedents willy-nilly and throwing out fundamental constitutional rights, virtually destroying the constitutional function of the Supreme Court as the supreme and independent guardian of the rights of citizens under the U.S. Constitution and the Bill of Rights. Two of Rehnquist's favorite dogmas have been "finality of judgments" and "federal-state comity." This is just technical language for "states' rights"—meaning that if a state convicts a defendant, rightly or wrongly, the federal courts should not interfere by "second-guessing" the state courts. Never mind that this nation fought a bloody civil war to establish the principle that the federal Constitution and the federal Union are superior to the states. For Bloodthirsty Bill Rehnquist, it is better to permit a state to execute an innocent prisoner, than for the federal courts to "interfere" with the "finality" of the state's judgment.

This reached the point where, in 1992, even judges who supported the death penalty—Harry Blackmun, John Paul Stevens, and Sandra Day O'Connor—began to question whether it could be fairly applied because of the rulings of the Rehnquist majority.

A step in the right direction

The two recent rulings which indicate that the court is pulling back, if ever so slightly, from the extremes of the Rehnquist majority, came on Jan. 23 and Feb. 21.

In the first ruling, Clinton appointees Breyer and Ginsburg were part of a 5-4 majority issuing a ruling which slightly eased the standard for a showing of so-called "actual innocence"; this ruling came in a *habeas corpus* case involving a

Missouri death row inmate, Lloyd Schlup. Schlup had been granted a reprieve by the governor just nine hours before his scheduled execution, because a videotape was produced—which had never been brought to trial—showing that he was in a prison cafeteria food line just minutes after the murder for which he was convicted had been committed.

In overturning the lower court rulings, the U.S. Supreme Court said that Schlup should have an opportunity to persuade a lower court that his execution would be a “miscarriage of justice,” by presenting new evidence of his innocence. In so doing, the high court slightly eased the standard of evidence which an inmate must meet before a *habeas corpus* petition could be granted. The lower court rulings had said that Schlup must show “by clear and convincing evidence” that “no reasonable juror” would have found him guilty except for a constitutional error at his trial. The Supreme Court opinion, written by Justice Stevens, said that, in order to gain a federal court hearing, Schlup should be required to show that “a constitutional violation has probably resulted in the conviction of one who is actually innocent.” The nuance is that “probably” is a less severe standard than that of “clear and convincing evidence.”

Rehnquist, in the minority, wrote a dissenting opinion in which he accused the majority of adopting a “watered down and confusing” standard. Also dissenting were Justices Anthony Kennedy, Antonin Scalia, and Scalia’s clone Clarence Thomas.

The second significant ruling, on Feb. 21, was also a *habeas* appeal, and it slightly eased the standard of “harmless error.” This ruling was written by the newest Supreme Court Justice, Stephen Breyer, who said that a federal judge who finds that there was constitutional error in a trial, but who is uncertain as to whether it affected the jury’s verdict, must give the benefit of the doubt to the defendant, and should not disregard the constitutional violation as “harmless.”

It may not seem like such an extraordinary idea—to give the benefit of the doubt to someone who might otherwise be executed or spend his life in prison—but it marked a potentially significant shift in the tone of Supreme Court rulings from those of recent years.

Justice Breyer, who joined the court in late 1993, noted in his ruling that the purpose of *habeas corpus* is to protect against unconstitutional convictions and to ensure fair trials. He said that the rule he was enunciating—to require a judge who is in “grave doubt” over whether the constitutional violation affected the verdict, to side with the defendant—would protect against a person being wrongly convicted or executed.

Breyer said that the number of guilty prisoners who might win acquittals at new trials, would be small compared with the number whom the state “would wrongly imprison or execute” if judges could not give inmates the benefit of the doubt.

The Feb. 21 case involved an Ohio inmate, Robert

O’Neal, whose jury trial ended in convictions for murder and kidnapping, and who is serving a life sentence in an Ohio state prison. O’Neal filed a *habeas corpus* petition in federal court, and the court found several constitutional violations. A federal appeals court disagreed on all but one of the findings of constitutional violation. The appellate court found that the jury instructions at his trial had been erroneous, but it nevertheless denied a writ of *habeas corpus* on grounds that the error had been “harmless.”

When O’Neal appealed that ruling to the U.S. Supreme Court, the position of the State of Ohio—that the error was “harmless” and that O’Neal’s petition should have been denied—was supported by 48 of the 49 other states, and by the U.S. Justice Department.

Procedure over truth

The effect of the *O’Neal* ruling is to limit the impact of a sharply contested 1993 ruling authored by Chief Justice Rehnquist in *Brecht v. Abrahamson*, which limited the grounds for *habeas* appeals on the basis that they would undermine “the finality of convictions,” i.e., exalting procedure over the search for truth.

Brecht was a 5-4 decision, with Rehnquist in the majority. Justice Byron White, in his dissent in that case, noted that the federal courts are supposed to play an independent role as the “guardians” of the constitutional rights of citizens, but that under the rulings of the majority, the interpretation of the federal Constitution was being left up to the states.

Justice O’Connor, also dissenting in the 1993 *Brecht* case, argued that the central purpose of the criminal justice system is to arrive at accurate determinations of guilt and innocence, but that this was being undermined by increasingly rigid standards for *habeas* review (much of which, incidentally, she had in the past supported). She commented sardonically that there are few errors which by now are not forgiven as “harmless.”

Rehnquist didn’t invent the idea of “harmless error,” but he has extended it to absurd lengths. At first, no constitutional violation was considered harmless. Then, it came to mean that a constitutional violation would be considered harmless unless it could be shown to have affected the jury’s verdict, or the outcome of the trial.

But in Rehnquist’s hands, it came to mean that any constitutional violation is “harmless” if there is sufficient evidence of guilt. What this means in practice is that if the judge, or the appeals court, thinks you are guilty, *any* violation of your constitutional rights is tolerated, because you should have been convicted anyway.

In the Feb. 21 *O’Neal* ruling, Rehnquist again found himself in the minority, along with Scalia and Thomas. Clinton appointees Breyer and Ginsburg were joined in the new majority by O’Connor, David Souter, Stevens, and Kennedy.

LaRouche on Chicago radio, urges rapid financial reorganization

On Feb. 27, the day after the Barings bankruptcy case broke into the news media, Lyndon H. LaRouche, Jr. was interviewed by Edward Vrdolyak and Ty Wansley on WJJD Radio in Chicago, Illinois. A partial transcript of his exchange with the radio interviewers follows.

WJJD: Good morning, Mr. LaRouche. Tell us about, first of all, when you started your political movement, and how you feel that you were persecuted by the federal authorities, and ultimately went to a federal prison, and now you're out again, and what are you doing now?

Give us a quick idea of that.

LaRouche: Okay, fine. I got into teaching, I filled in initially, to teach a course back in 1966. I was teaching that one-semester course, essentially on the graduate level, from about 1966 to 1973. Out of this there came a movement which was dedicated to addressing the crises which were building up under current U.S. economic policy and cultural policy. Later on, in the course of things, we made many enemies among big bankers around London, especially. London is the center of international finance.

By the way, it's all coming down right now, Barings Bank has gone under. The Bank of England's in a quandary, and this mess will go on until March 10.

WJJD: Barings is supposedly this wildcat trader in Singapore, and it cost them \$800 million for some high-risk investments.

LaRouche: That's a cover story. They're an official trader in Singapore. The entire Singapore market has gone down. Now, current this morning, the losses are up to \$1.1 billion, and they will be growing over the next nine days. The Japan market dropped down to 16.8 on the Nikkei this morning. It will be going down below 16,000; at that point, a number of smaller Japanese banks will be going under, there will be a chain reaction. The Bank of England is not trying to stop the situation, it cannot, because the contracts are out, and the contracts are ticking, and \$1.1 billion is not the end of it. It's going to be much bigger.

WJJD: What effect will that have upon the American economy?

LaRouche: This is a blowout of the entire international derivatives system. It means that the entire policy of the Federal Reserve System over the past 15 years and longer, is finished, especially since 1982, since then-Vice President George Bush, as President of the Senate, pushed through deregulation, which allowed the derivatives as well as the junk bonds to go forward. And that whole system is going. This is the great crash of 1995. It's going to have global impact. Orange County was part of it, Mexico was part of it, other countries are part of it. And now the *queen's own banks*, first Warburg and now Barings, are going down, because of derivatives. And Barings is officially bankrupt.

WJJD: All right, Mr. LaRouche, please tell us what can be done to solve the American economic problems.

LaRouche: First of all, back in 1946 to 1950, in the immediate postwar period, 60% of the available U.S. labor force was employed in producing useful physical goods and improvements in infrastructure. Today, industrial employment is down below 20% of the labor force. We have the wildest, most unregulated speculation in history. The parasites are making money; the people and the productive enterprises are losing money, and shrinking. We have to reverse the policy which was put into effect gradually over the period 1964-71, '72, the crazy policy which we've been living under since that time. It's come to an end, and the point is: Do we have somebody in Washington not only with the information but the guts, and the power?

WJJD: What do you do?

LaRouche: I'm doing everything I can to encourage some people in Washington to prepare to do what's necessary.

WJJD: If I made you the President of the United States, or the Speaker of the House, or the President of the Senate, with all the votes that you needed: What would you do?

LaRouche: I would immediately reorganize the financial system.

WJJD: How?

LaRouche: I would use the Executive powers of the President to recognize that, in fact, an international financial bank-

ruptcy has occurred; that in effect, the Federal Reserve System as the central bank *is itself bankrupt* as a system; that most of the New York major banks, the financial system, are also bankrupt; that unless we stop this thing, the thing is going to come down in a chain-reaction implosion.

WJJD: Mr. LaRouche, if you were given full power and authority, what would you do in the short term, what would you do in the long term to protect and improve our American economy?

LaRouche: First of all, we have to bring chaos under control. You cannot have banks going down like tenpins and nobody there to pay out the money.

So, the banking system is bankrupt; what do you do? You put it in financial reorganization. You put it under financial reorganization protection, which means that some people with large amounts of money, won't be able to move it. It means that people who have savings or pensions and so forth, tied up through the banks and so forth, they will be able, under regulated conditions, to get at their money, which means there's no reason for them to panic or run.

Then, on top of that, you have to get a recovery system going at the same time. That means the President has to go to the Congress. I would say he has to get, right now, about \$2 trillion in money-creating authority. That's not inflationary, contrary to people like old Dumbo down there in Texas, Phil Gramm.

WJJD: Are you saying that this is worse than the S&L crisis in our country?

LaRouche: Oh, absolutely. The S&L crisis was simply a baby shoe dropping relative to what this thing is. This is big, that is, the whole system is going. I don't know whether this event is going to cause the whole system to go.

WJJD: How do we get \$2 trillion?

LaRouche: Look at Article I of the U.S. Constitution. And look at the way Hamilton handled it, and look at the way Lincoln handled it.

WJJD: They never got \$2 trillion worth.

LaRouche: All right. You control the banking system. You're reorganizing it. So therefore, you go to a national banking policy. You loan that money out at 1 to 2%, to major construction projects which are going to get the economy started again, kick-started, which are needed. . . .

WJJD: Where do we get this money from? We just print it up?

LaRouche: Print it up. Well, that's what the Federal Reserve does; except they charge us up to 8% now, or they've gone as high as 18% for their money, which they print out of thin air.

So, instead of having a private corporation printing up money at high interest rates—that's wrong—you have to have regulated issuance of money as loans for things which are necessary to keep the economy moving, and to expand it. And you use the same banks which you force to keep their doors open under financial reorganization. Loan this money out to certain types of things they're authorized to loan it for. . . .

The trick is, to try to keep the economy going and expanding without missing a step because of the crisis. That's what the President has to do, with the help of the Congress. If we don't do that, we've got chaos.

WJJD: Well, certainly you've been a long-time presidential candidate, and many people are wondering—many people hear the term "LaRouchie," and they panic. What in the heck is a "LaRouchie"?

LaRouche: Well, there is no such thing. That was one of the terms that was invented.

WJJD: Do you intend on running again for the White House?

LaRouche: I'm technically running right now. I'm a registered pre-candidate. Have been.

WJJD: And probably always will be.

LaRouche: I don't know. I'm getting kind of old, you know. I'm still vigorous, in good shape. But there are limits to this, you know.

WJJD: Who invented the term "LaRouchie," and why is that so—

LaRouche: Well, this came out of a salon which was created as part of a public/private special operation against me, which was started by Kissinger in the summer of 1982. It went into operation . . . under the President's Foreign Intelligence Advisory Board authorization of January 1983, which was picked up by the Justice Department, which set it into operation under orders from the intelligence community.

The propaganda side of this, the press coverage, came out of a guy called John Train. He's a London-linked private banker in New York, close to McGeorge Bundy, who runs a firm called Smith and Train, which was taken over by Rothschild interests, and he's still operating on contract with them, an executive contract. He set up a private salon which included the ADL [Anti-Defamation League], NBC, *Readers' Digest*, and sections of the intelligence community, and some—

WJJD: *Readers' Digest* is after you, too?

LaRouche: They were in on it.

WJJD: And NBC?

LaRouche: They were coordinating it. NBC was flagship, ADL was prominent. But mostly it came out of people who were in the George Bush side of the intelligence community.

WJJD: That's a heck of a fleet.

LaRouche: What they did, is they coordinated, in 1983, a series of meetings among these press people and others. Led by NBC, in January 1984, they went with a package, and from 1984 through and beyond the point of today, the same propaganda line manufactured under the direction of John Train, a London-controlled banker working with a Kissinger-controlled, or Kissinger-kick-started intelligence operation, have controlled every major news media coverage of me, from that day to this. This is a longer run than Joseph Goebbels had.

WJJD: How did they define a "LaRouchie"?

LaRouche: They use terms which don't really mean anything, have no substantive content, but they have a sound, a ring to them, a flavor. That's why it was done.

For example, you saw the most frequent one, which was cooked up by the Train salon, which is almost in the spellchecker in the computers of the press agencies. Whenever the name "LaRouche" would come up in a news report, the spellchecker would change it to "political extremist Lyndon LaRouche." And this operation you saw back in March 1986 in Chicago: That was run by these guys.

WJJD: Mr. LaRouche, one thing we know. Out in the open, you got indicted for being supposedly, I don't know what the ultimate conviction was for, I've got the documents in front of me. But they started by saying millions of dollars were not handled properly, you were indicted by the Feds, and you went to jail for several years.

LaRouche: Well, that was all a fraud. There was no crime committed.

WJJD: You went to jail for how long?

LaRouche: I was in jail for five years.

WJJD: And what was your sentence?

LaRouche: Fifteen.

WJJD: Fifteen, and you did five. What were you ultimately convicted of, whether you think it was a sham or not?

LaRouche: It's not that I *think* it's a sham. It *is*, on the record, a sham. In other words, everything they said, government documents say they lied.

WJJD: What were you convicted of?

LaRouche: I was convicted on something like a little less than \$200,000 of, it was called mail fraud. It was one count of conspiracy to commit mail fraud. . . . What they did was

they bankrupted three companies illegally, then charged my friends and I with being guilty for the losses of money to the credit of those firms, because the government illegally bankrupted the firms.

WJJD: What are you doing now, Mr. LaRouche?

LaRouche: I'm doing the same thing I always did.

WJJD: You're a political activist.

LaRouche: And I'm running as contributing editor of a magazine. I'm in the middle of intelligence work, economics and related intelligence work, which is what I do.

WJJD: And you're a longtime economist, we all know that.

LaRouche: Yes, right.

WJJD: And you're saying that right now we are in the middle of one of the gravest economic crises that this country has ever faced.

LaRouche: Yes, right. Certainly in this century.

WJJD: That's scary. Is it worse than the Crash in '29?

LaRouche: Absolutely. Much worse. Remember, back then, more than 20% of the U.S. population were farmers. You had a lot of industrial structure. It was a big collapse, a lot of suffering, there were no safety nets such as the type that Newt Gingrich is trying to tear apart now. . . .

WJJD: Of the major players in government, whether it be in the House or the Senate, or President, or people who want to be President, who would you say you could most closely identify with, or who has more of what you agree with, than the others?

LaRouche: Well, I would say that on the Republican side, I would have some respect for Dole as a human being. He knows a few things. He's a very sarcastic, harsh guy, but he's not stupid. Of the rest of the pack generally that's running: I wouldn't give you two cents for the pack.

On the Democratic side, I think that President Clinton, I don't want to exaggerate his capabilities, but he's very much underrated by the press. He's an intelligent young guy. He reflects the generation that came up out of college back in the late 1960s. He's got some of the problems there, but he is intelligent, and he is the President we've got on watch now.

WJJD: You think he's pretty much okay.

LaRouche: Oh, I don't know. I think he's the guy on watch, and I think he's worth helping, whether you always agree with him or not. He's the guy you've got to deal with.

WJJD: But that's true of any President.

LaRouche: Yeah, but he's the guy who has the chance of doing the right thing.

House panel takes the axe to social spending

In keeping with their Contract with America, Republicans on the House Appropriations subcommittee responsible for the departments of Labor, Education, and Health and Human Services imposed massive cuts on the budgets of these institutions, eliminating rural housing loans, nutrition programs for children and pregnant women, and assistance to the poor and elderly for protecting their homes against the cold. Subcommittee Chairman John Porter (R-Ill.) said that 84 programs will be eliminated.

David Obey (D-Wisc.), a ranking Democrat on the committee, warned that the cuts were making way for "somebody's capital gains tax," referring to Republican promises to reduce capital gains taxes. Obey said that the proposals would eliminate 125,000 summer jobs this year and deprive 6 million low-income households of heating assistance.

The Republican proposal is aimed at eliminating the Low-Income Home Energy Assistance program. In addition, a \$4.2 billion rollback of spending previously agreed on hit some of President Clinton's pet programs, such as job-training and education.

Also on Feb. 23, Republicans on the House Economic and Educational Opportunities Committee passed a measure that would end the national school lunch program and distribute the money to the states for them to decide how to use. At a meeting with House Democrats on Feb. 22, President Clinton said that it would be a "terrible mistake" to end the free meals in schools for poor children, a program that House Republicans were trying to put a spending ceiling on. "We have no intention of abandoning the American people to unproven theories and extreme positions," the President said.

"We're going to stick up for people," House Minority Leader Dick Gephardt (D-Mo.) said. Speaking together with the President, Gephardt called the Republican cuts "mean-spirited" and "wrong." "They won't help our people," he said.

Unity among the Republicans over the extent of the austerity package started to crack, with Pat Roberts (R-Kan.), chairman of the House Agriculture Committee, recommending on Feb. 24 that the Republicans abandon attempts to replace the food stamp program with direct cash payments to the states. "We want one program at least to be a safety net for people who are truly needy," Roberts said.

GOPers defy Clinton veto on freeze of regulations

House Republicans approved on Feb. 24 a bill that would put a one-year freeze on new federal regulations, ranging from food safety ordinances to nuclear waste disposal. In the vote, 51 Democrats joined 225 Republicans to send the bill to the Senate, where it is liable to meet stiffer opposition. The President is expected to veto the measure.

Although the bill automatically exempts what it calls routine regulations, it is still unclear to how many items exactly the strictures will apply. The freeze is to remain in effect until the end of the year or until Congress enacts permanent restrictions on the government's regulatory authority.

Republicans hope to override a veto in the House, but admit that the legislation awaits a much more uncertain fate in the Senate. One of the items exempted by the Republicans is the stipulations needed to regulate the duck-hunting season. In the House de-

bate, the bill was broadened to include a freeze on rules related to the Endangered Species Act.

New ethics charges plague House Speaker

Three House Democrats filed a complaint on Feb. 23 that Speaker of the House Newt Gingrich (R-Ga.) violated the rules of the House and federal law by accepting up to \$200,000 in free television time from a cable TV operator with business interests pending before Congress.

The three Democrats, Patricia Schroeder (Colo.), Cynthia McKinney (Ga.), and Harry Johnston (Fla.) called on the ethics panel to determine whether a cable station's airing of Gingrich's college course may not constitute an illegal gift. The cable company, Mind Extension University, which has begun airing the speaker's classes, is a part of the Alexandria, Virginia-based Jones Intercable. Jones Intercable has numerous issues before Congress, including a request to waive a 1987 bill so that it can purchase the Public Broadcast Corp., whose funding House Republicans recently cut.

Gingrich is interested in eliminating federal funding for public broadcasting and throwing it out on the private market. Jones Intercable is interested in purchasing Mind Extension University, which beams college courses to 26 million households nationwide. It provided Gingrich with 20 hours of free broadcast time which, according to specialists, is worth \$150,000 to \$200,000.

House rules prohibit a member from receiving gifts that total more than \$250 from any single source in a one-year period. The Ethics in Government Act bars lawmakers from so-

liciting or accepting anything of value from a person seeking official action from Congress or from someone whose interests may be substantially affected by the lawmaker's actions.

Gingrich threatens aid cutoff to Russia

House Speaker Newt Gingrich (R-Ga.) threatened on Feb. 21 to cut off aid to Russia if it continues to aid Iran in its nuclear program. The statement comes less than two weeks after a visit to Washington by Israeli Likud party leader Benjamin Netanyahu, in which one of Netanyahu's chief purposes was to "warn" the United States about the Iranian nuclear energy program.

Netanyahu met with Gingrich on Feb. 6. Echoing Netanyahu's statements, Gingrich said Iran's Islamic fundamentalism is "the largest short-term threat on the planet. . . . We need to take a grip on how dangerous Iran is, and we need to have a strategy that says this current regime cannot be allowed to get weapons of mass destruction, period, under any circumstances. . . . I don't think we can go to the Holocaust Museum . . . [and] say how sad it is and then wait until Iran takes over Tel Aviv."

Clinger calls for probe of Ron Brown

Rep. William Clinger (R-Pa.), chairman of the House Committee on Government Reform and Oversight, called on Feb. 27 on Attorney General Janet Reno to appoint an independent counsel to investigate the business dealings and financial disclosures of Commerce Secretary Ron Brown. Clinger, who has been on the warpath against Brown for some time, claims

that his staff has found evidence that Brown may have broken the law by filing inaccurate financial reports, accepting outside income while serving as commerce secretary, and giving Congress misleading information about his business dealings.

The Justice Department, at Clinger's behest, began a formal inquiry into allegations against Brown at the end of February and has 90 days from that point to decide whether there are grounds for appointing an independent counsel.

Brown's attorney, Reid Weingarten, called Clinger's allegations "a partisan effort to prematurely influence Justice's investigation." Weingarten said that any inaccuracies in Brown's financial disclosure reports are not evidence of any criminal wrongdoing.

Ethics committee whitewashes Faircloth

The Senate Ethics Committee, chaired by Sen. Mitch McConnell (R-Ky.), has ruled that Lauch Faircloth's (R-N.C.) investments in the pork industry (estimated at \$19 million) do not conflict with his chairmanship of the Environment and Public Works subcommittee on Clean Air, Wetlands, Private Property and Nuclear Safety. The subcommittee also has jurisdiction over waste production in the swine industry.

In March 1994, Faircloth co-sponsored a bill along with Jesse Helms (R-N.C.) requiring the secretary of agriculture to regulate and authorize the federal purchase and eradication of diseased pigs. Faircloth has major interests in at least nine hog-farming operations in North Carolina. He also owns more than \$1 million in stock in Lundy Packing Co., North Carolina's

largest independent hog-processing company, and at least \$100,000 of stock in Smithfield Foods Inc., a major American pork processor.

Congress moves to take control of District

Congress made the first moves to take more direct control over the running of the nation's capital, Washington, D.C., by creating a "control board" which is to deal with the city's shaky finances. A hearing on Feb. 22 rejected Washington Mayor Marion Barry's plea for a federal bailout of the city's finances.

Barry has agreed to a control board to oversee the city's finances and management in an effort to ward off the more radical solutions being mooted, such as the appointment of a "receiver" with the power to single-handedly slash government spending. Although Barry has introduced massive layoffs of city workers, Congress is still not satisfied.

"The District has conspicuously failed to implement the type of dramatic spending reductions and financial controls that are the only avenue left to deal with the situation," argued Thomas Davis (R-Va.), a freshman who heads the House subcommittee on District governance.

Barry argued that Congress should reimburse the city for old bills, foot more of the cost of retirees' pensions, give the city authority to tax commuters, and agree to manage and pay for the city's Medicaid programs and prisons, responsibilities which do not normally fall on city governments. Some Conservative Revolution ideologues, such as House Speaker Newt Gingrich (R-Ga.), intend to use the District as a guinea pig on which they can test their radical theories of government.

National News

Clinton to ban contracts with strikebreakers

Vice President Al Gore, speaking on Feb. 20 before the AFL-CIO's Executive Committee winter meeting, told labor leaders that President Bill Clinton will soon issue an executive order prohibiting federal agencies from signing contracts to buy goods or services from companies that had permanently replaced workers lawfully on strike, according to the *New York Times*. The order would also authorize, but not require, the secretary of labor to terminate existing contracts with companies hiring replacement workers.

The order comes after the Senate last year rejected a bill, which passed the House, that would have banned the hiring of permanent replacement workers for strikers. Gore also said that the President would veto bills aimed against organized labor, including efforts to repeal the Davis-Bacon Act of 1936, requiring federally contracted construction companies to pay prevailing wages, and the Service Contract Act of 1965, which requires similar wage considerations for service contractors.

GOP nomination: Gramm, Alexander in, Weld out

Sen. Phil Gramm (R-Tex.) announced his candidacy for the Republican nomination for President on Feb. 24 in College Station, Texas. He was endorsed by four senators, as well as by Texas Gov. George W. Bush, and was introduced by Hollywood actor Charlton Heston.

His announcement was preceded by a fundraising dinner in Dallas attended by 2,800 contributors. Gramm's campaign spokesman Gary Koops said the event raised \$4,149,280. That exceeded the previous record of \$2.1 million, also set by Gramm in his 1990 Senate campaign.

Former Tennessee Gov. Lamar Alexander announced his candidacy on Feb. 28 in his hometown of Marysville. As George Bush's education secretary, Alexander

helped usher in the proposed America 2000 school "reforms." He has so far vowed to abolish the Department of Education, promising to turn its functions over to the states. "Since 1981, I've urged that we get the federal government totally out of elementary and secondary education," he told NBC. "Same with welfare, same with job training. People in this country want decisions moved back home." Populist nostrums aside, Alexander, as University of Tennessee president, became involved in Chris Whittle's televised commercial education operations.

Also on Feb. 28, Massachusetts Gov. William Weld announced he would not seek the presidency, claiming he did not want to be "an absentee father or an absentee governor." Notwithstanding, Weld demurred that he would consider the vice-presidential slot if asked.

Death penalty spreading despite soaring costs

Under the impetus of the Conservative Revolution, several states are now considering the introduction of the death penalty. New York State will pass the death penalty by early March, in a deal struck between legislators and Gov. George Pataki. The New York Catholic Conference and the state's National Association for the Advancement of Colored People have both condemned passage of the bill. All of New York's Catholic prelates and thousands of leaders from other denominations have signed a request to the legislature for a year-long moratorium on a capital punishment law.

The Iowa House was scheduled to approve a death penalty bill in late February, while the state Senate vote was expected to be close. Gov. Terry Branstad said he would sign the bill. In Wisconsin, a new bill limiting capital punishment to those who kill children under age 16 is expected to be introduced. In Massachusetts, the reelection of Gov. William Weld has innervated the move for the death penalty. The warden of North Dakota's state penitentiary, a death penalty opponent, has warned he might resign if the bill introduced there should become law.

Meantime, it has been revealed that im-

plementing the death penalty in a state such as New York can add \$1 billion to annual budgets, which are otherwise facing drastic cuts in services.

Houston Democrats hand GOP an election reversal

Less than a week before Texas Sen. Phil Gramm announced his presidential campaign, the Conservative Revolution suffered a significant defeat in Houston, the fourth largest city in the country, when voters repudiated a Republican city council candidate who had campaigned as an anti-government conservative and called for 10% across the board budget cuts. Elected was Democratic former Judge John Peavy to the at-large council seat. The special election was called to replace Sheila Jackson Lee, a Democrat who was elected to Congress in November.

In the November elections, the population of Harris County (which includes Houston) voted heavily Republican. Texas law allows the voter to mark the ballot for a straight Republican or Democratic vote rather than for individual candidates. For the first time, a large number of Texans voted the Republican ticket this way, sweeping out of office all Democratic judges (including all minority judges, such as Peavy), and helping Republicans George W. Bush and Sen. Kay Bailey Hutchison.

In the Feb. 18 polling, Peavy won his councilmanic seat by 53-47%.

Discovery delayed in Jones suit vs. Clinton

A federal judge in Little Rock, Arkansas has granted President Clinton's motion to delay all discovery in Paula Jones's sexual harassment lawsuit against Clinton, pending appeals court rulings on whether she can proceed with the suit. Clinton's lawyers had asked U.S. District Judge Susan Webber Wright to stay her Dec. 28 order that allowed the taking of sworn statements from witnesses and other fact-finding procedures.

Briefly

Clinton has appealed to the Eighth Circuit Court of Appeals in St. Louis, trying to get the lawsuit thrown out.

Jones, who charged that Clinton, while governor of Arkansas, had sexually harassed her, only brought the suit after his election to the White House. In December, Judge Wright held that the trial should be delayed until Clinton is no longer President, but that discovery could proceed. Jones has appealed the judge's decision to delay the trial.

The new ruling means that discovery could be delayed until after the 1996 elections. Clinton's lawyer Robert S. Bennett called the ruling a "significant victory for the institution of the presidency."

Jones is known to have mapped her legal strategy with British journalists and others who are seeking to force Clinton from office through such specious scandalizing.

D.C. court briefed on LaRouche exoneration

Civil rights veteran Amelia Boynton Robinson briefed approximately 30 judges, prosecutors, federal magistrates, probation officers, and court clerks at the U.S. District Court for the District of Columbia on the urgency of exonerating Lyndon LaRouche, during her address to the court's celebration of Black History Month on Feb. 16. Robinson, vice chairman of the Schiller Institute, which LaRouche and his wife founded in 1984, stressed that the nation's very survival depends on whether statesman LaRouche is exonerated and can "sit at the policymaking table."

Mrs. Robinson, who was nearly beaten to death 30 years ago during the voting rights march from Selma to Montgomery, Alabama, told the court officers: "The pen with which [President] Johnson signed the Voting Rights Bill was signed with blood. Many people gave their lives to stir up controversy. The problem today is, you have people saying, 'I don't want you to disturb my way of life.' But there has to be controversy, if there is to be positive change. We were very unpopular in Selma. Blacks were unpopular. Whites who spoke out were unpopular. But wherever there is unity, there

is strength." We need that unity today, she said, to rid the nation of its economic cancer and the cancer of hate and divisiveness.

"Many nations in the past have either called in wise men or have refused to get the wisdom of people when it's necessary. Whether we in America listen to our wise men today will determine if this nation survives," she warned. People today think they're free, but nobody is free, no nation is free, until the inalienable rights of every American and everyone worldwide are realized, she said, which is why she is demanding that Lyndon LaRouche be exonerated and "be allowed to sit at the table and share his wisdom."

Farrakhan blasts Fed, central banking system

Nation of Islam leader Minister Louis Farrakhan gave a lesson in American history to 15,000 people on Feb. 25 in Chicago, as part of the week-long events leading up to Saviors' Day on Feb. 26.

In a four-hour presentation motivating his call for 1 million black men to march in Washington in October, Farrakhan outlined the difference between the economic policies of America's Founding Fathers and the anti-American policies that led to the 1913 establishment of the Federal Reserve System. While the Founding Fathers had a limited vision, which did not include people of color, he said, their principles were based on the universal rights of all people. "This is the special quality embedded in the founding principles of America."

He continued: "The Founding Fathers knew that a privately owned bank was unthinkable. They knew that this would undermine the sovereignty of the nation. They knew that only Congress should have the power to print currency and issue credit and loan money. They fought aggressively against private banks controlling the printing of money and the issuance of credit."

Farrakhan documented the history behind the founding of the Federal Reserve. Shortly thereafter, he continued, the IRS, FBI, and the Anti-Defamation League were created to consolidate the coup d'état against the sovereignty of America.

● **HILLARY CLINTON** told a television interviewer on Feb. 20 how "amazed" she is by First Lady Dolly Madison during the War of 1812. "Here's this woman who saves these treasures from the White House in the face of the advancing British, about to burn the White House down, and she just rushes around and she cuts out the Gilbert Stuart portrait of George Washington and escapes. . . . Every time I see her portrait, I think what an incredible example of patriotism that represents."

● **MILTON FRIEDMAN** called for an end to U.S. public education, arguing that the post-industrial society and free trade have ushered in the "revolutionary" age of cheap labor, making an educated workforce unnecessary. The Mont Pelerin Society economist, who advocates the legalization of drugs and defends the practice of usury, prescribed a formula for radical deschooling in a Feb. 19 *Washington Post* commentary.

● **VIRGINIA ACLU** chief Kent Willis called on Feb. 17 for legalization of drugs and an end to the war on drugs. Speaking to a Virginia Commonwealth University audience, he cited Milton Friedman, William F. Buckley, and George Shultz: "They have all concluded that the war on drugs does not and . . . will not work, and that our only way out is to declare peace."

● **BROOKINGS** Institution fellow Cliff Gaddy, interviewed Feb. 23 on public radio's "As It Happens" show, blamed the existence of crime in Russia on the lack of complete free enterprise. Gaddy's analytic "skills" were sharpened several years ago by participating in a statistical study of the economics of Russian prostitution.

● **SCHOLARS** in Rome, reports *EIR*'s visiting correspondent there, have traced the term "Christian Coalition" to an eating club formed by the resident lions at the Roman imperial Circus Maximus.

Deregulated, or deranged?

A stopped clock is always right twice. And so it is not surprising that the Conservative Revolution gang, in their demonic attack on the powers of the federal government of the United States, has latched on to the monstrosity of environmentalist regulations. Without a doubt it would be a good thing if the Environmental Protection Agency (EPA) were disbanded, and the body of law connected to so-called protection of the environment, adopted over the past 20 years, were simply suspended, pending careful review.

The intent by the crowd of House Speaker Newt Gingrich (R-Ga.) and Sen. Phil Gramm (R-Tex.), to freeze the government's powers to make rules, would especially impinge on the 20 major environmentalist laws which lay the basis for the myriad of regulations which are in truth a vicious attack upon the U.S. economy. Their proposals would effectively prevent any new regulations—these include requiring an adequate risk assessment on the economic havoc which might be caused by the regulation, and also a plan to compensate landowners whose property would be de facto devalued by such a regulation.

But these Republicans, who are trying to capitalize on anti-environmentalist sentiment to push their own agenda, fail to call attention to the fact that George Bush rightly called himself the “environmental President.” Many of these regulations were put into place during his term in office, and the EPA itself was created by Richard Nixon.

What Gingrich and Gramm never mention is the role of Prince Philip's World Wide Fund for Nature in spawning the environmentalist movement; these same forces are orchestrating a campaign in support of Gingrich and Gramm's Conservative Revolution in the United States.

The present “conflict” between the regulatory fascists, who are up in arms against any curtailment of their powers to summarily shut down whole sectors of the U.S. economy in the name of “protecting” the environment, and the deregulatory fascists, who would end all social benefits, including social insurance and pension programs, in the name of decentralizing the economy, is reminiscent of the situation in Germany

right before Hitler came to power. On the one side, there were the radical Nazi street gangs led by Gregor Strasser, and on the other the communist hooligans who opposed them.

Even should the clock be rolled back on environmentalist regulations, there would be no reason to celebrate, if at the same time the entire economy collapses. The Conservative Revolution poses a far greater threat to the economy of America than even the worst excesses of the environmentalists.

We can hope that soon enough, as the number of instances of economic collapse multiply, the insanity of the Contract on America (as President Clinton has correctly amended its name) will become glaringly obvious. After all, how many instances, such as the Orange County bankruptcy, the crash of the peso in Mexico, and now Barings Bank going under, do people need to realize that the whole rotten edifice is about to collapse on their heads?

A year ago, Lyndon LaRouche issued his ninth economic forecast, in which he proved that a crash would be inevitable as long as the financial-speculative game was allowed to continue unchallenged, and to continue to parasitize those areas of the productive economy which still functioned—at least to some extent.

The hypothesis upon which the Conservative Revolution crowd operates, is the Benthamite delusion that all of human existence is regulated by a hedonistic calculus of how to optimize the pleasure one feels, against the pain one must suffer. According to this theory, every individual seeks to maximize his or her own situation at the expense of everyone else. For them, everything is explained simply by answering the question: Who is doing what to whom? Who is cheating whom? Above all, who is cheating on the contract which God made personally with me?

The environmentalist movement is pure evil, and the Conservative Revolution is equally evil; the Gingrich-Gramm crowd denies a necessary role for government to preserve the existence of the national economy. The question before us is not to take sides between evils, but to introduce the rule of reason.

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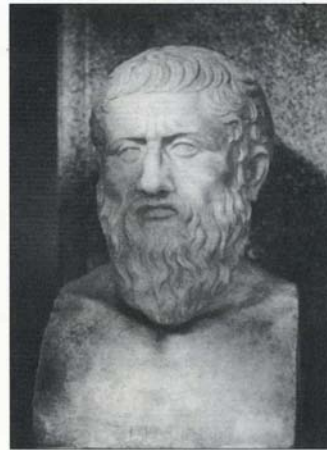
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