

# EIR

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## From the Associate Editor

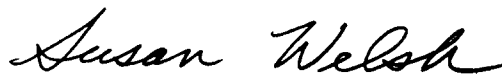
In a week-long deployment, supporters of the LaRouche political movement fired 4,000 “smart weapons” in and around the April 16 meeting of the Group of 22 in Washington. Those “weapons” were copies of last week’s *EIR*, with its major theoretical article by Lyndon LaRouche on “The Principles of Long-Range Forecasting.”

That barrage of powerful ideas, while it did not achieve a breakthrough, did definitely place the idea of LaRouche’s New Bretton Woods policy in the minds of policymakers from around the world. Will they act before it is too late? Or, will they take the route of Germany’s young von Moltke in World War I, who, by his vacillation and cowardice, his desperate effort to *avoid defeat* at the hands of the British, ensured that he could not *achieve victory*?

By way of introducing the extensive coverage of the Washington meetings which you will find in this issue, it is useful to recall how LaRouche situated the fight, in an article titled “Will the April 22-Nations Effort Succeed?” (*EIR*, March 6):

“The proposition facing all sane governments today, is: The *Titanic* (the world’s presently existing financial and monetary system) is sinking; nothing can save it. Can we save the passengers (the people), the nations, and the physical (not financial) economy of those nations? The answer is: Yes; it could be done, and that quickly; but, only if the knowledge and the will to act appropriately are summoned. This is possible, only if the presently sitting President of the U.S.A., Bill Clinton, changes his policy, in time, and acts to bring together a group of nations which will ram through the needed reforms, whether or not the British monarchy likes it.

“In short, what is required, immediately, is a return to the kinds of international and national financial and monetary regulation which were in force under the form of the Bretton Woods agreements in operation during the pre-1959 period. Only one modification need be added to those former Bretton Woods policies: in light of the hopeless bankruptcy of virtually all the world’s leading central banking systems, a system of national banking, echoing the policies of U.S. Treasury Secretary Alexander Hamilton, is indispensable for a recovery. If you don’t approve of Hamilton, you have chosen, probably, to die of economic chaos world-wide.”



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## Group of 22 debates 'new financial architecture'

by William Jones

The Finance Ministers and central bank governors of 21 nations plus Hong Kong met in Washington on April 16 at the invitation of U.S. Treasury Secretary Robert Rubin, to discuss the shape of the "new architecture," as Rubin likes to characterize his idea of revamping the international financial system. The idea itself came out of the Asia-Pacific Economic Cooperation (APEC) meeting in Vancouver last year, where Asian leaders called on President Clinton to convene such a meeting, where the countries in Asia could meet with the developed nations and nations of Ibero-America, which had also been hit hard by financial dislocations. The meeting occurs at a point when all eyes are focussed on the crisis in the Japanese banking system, the symptom of a broader international, systemic financial crisis.

In a speech at the Brookings Institution on April 14, setting the theme of the week's flurry of meetings—the G-7 Finance Ministers, the Special Group of 22, and the IMF Interim Committee meeting—Rubin indicated something of the shape such a new architecture should take. "A half-century ago, when the world was emerging from a very different period of history, Franklin D. Roosevelt urged Americans to support him in working with other nations to create international institutions that would spell the difference between a world caught again in the maelstrom of panic and economic warfare . . . and a world in which the members strive for a better life through mutual trust, cooperation and assistance. The result was the Bretton Woods institutions—the International Monetary Fund and the World Bank—followed later by a range of other collaborative arrangements, such as the World Trade Organization, central bank networks, and the regional development banks."

"Throughout their history, the international financial institutions have had to adapt to a changing global economic

landscape, and they have, by and large, done so successfully," Rubin continued. "But over recent years, the pace of change in the global economy has accelerated. The Asian crisis has demonstrated how badly flawed financial sectors in a few developing countries, and inadequate risk assessment by international creditors and investors, can have significant impact in countries around the globe."

### The New Bretton Woods

Rubin's reference to Roosevelt's founding of the Bretton Woods system was significant. Over one year ago, Lyndon LaRouche issued a call to President Clinton to convene a New Bretton Woods conference to create a new, stable, global monetary system to replace the bankrupt IMF-World Bank system. This call quickly rallied support from numerous political quarters from around the world. Leading financial figures such as Japan's Deputy Minister Eisuke Sakakibara also began speaking of the need for a "New Bretton Woods."

When Rubin was asked by a LaRouche associate, attending his Brookings speech, about LaRouche's call for a New Bretton Woods, Rubin responded, "I don't know what a New Bretton Woods is. I don't know quite what that means. I think it was enormously important to the success of the global economy for the past 50 years." Referring to his vision of the "new architecture," Rubin said, "Probably when all is said and done, the changes would not, in their totality, be as far-reaching as the original Bretton Woods. And secondly, the original Bretton Woods, as I recollect it at least, was the creation of a set of institutions at a moment in time. I think what this will be is a period of change, some of which change has already taken place, and much of which lies ahead, rather than a single moment in time."

At the meeting itself on April 16, the issue of a New





*Members of the Japanese delegation arrive at the G-22 meeting at Washington's Madison Hotel on April 16. Third from the right is Shozaburo Nakamura, the State Secretary for Finance.*

Bretton Woods provided the backdrop, if not the substance, of the meeting. Members of the Schiller Institute were standing right in front of the Madison Hotel as Group of 22 delegates arrived, with a banner reading “LaRouche—New Bretton Woods System Now” (shown on the cover of this magazine). Groups of LaRouche supporters were chanting, “Hey, hey, ho, ho, the IMF has got to go.” Another chant was “Robert Rubin we say thanks, not a nickel to the banks,” referencing Rubin’s famous comment about the financial crisis.

While providing the background, the idea of a New Bretton Woods was not presented at the meeting. A member of the Korean delegation, who spoke to *EIR* following the meeting, said that they would have liked to have raised the issue of a New Bretton Woods at the meeting, but, given the meeting’s format and orientation, decided not to. There was, however, a very intense discussion of some of the issues that would have to be a part of such a system. Rubin made clear from the beginning that the delegates were not there to complete the “new architecture.” “The purpose here tonight is to exchange views, to learn from each other, and to move the process forward,” Rubin said. “We do not expect to reach definitive conclusions tonight.”

### **Hot money, capital controls**

One of the key items of discussion during the evening was short-term capital flows, the “hot money” which had been at the root of much of the “Asian crisis.” Speaking at a press conference arranged by the Japanese delegation after the Madison meeting, Shozaburo Nakamura, the State Secretary for Finance at the Japanese Finance Ministry, said that he had, at the meeting, underlined the importance of dealing with the

huge amounts of short-term capital flows, the hot money, to which he attributed the crisis in the Japanese banking system. “The Asian crisis resulted from a massive movement of private funds,” Nakamura said. “The monitoring of these private funds is very important.” Nakamura said he was calling for an investigation of how these movements actually influenced the “Asian” crisis. Nakamura had put the issue on the table both at the IMF meeting and the meeting of the G-22.

Nakamura remarked that the Malaysians had also expressed concern over the hot money. “Malaysia also mentioned that short-term funds were a threat to their country,” Nakamura said. Malaysian Prime Minister Mahathir bin Mohamad had, earlier last year, attacked the speculators as the cause of the collapse of the Malaysian currency. Nakamura said that his own call for monitoring the hot money had received support from Secretary Rubin at the Madison meeting. “Rubin said my points were very important,” Nakamura said.

Actual capital controls, which would not only monitor but actually regulate such hot money, were also an item of discussion. When *EIR* asked Rubin about this after the meeting, he said, “Capital controls were brought up at the meeting. Some people felt they are an appropriate component of the architecture of the future. Others have doubts and reservations. But I have no doubt that a lot of thought will be given to that suggestion.” He continued, “My instinct is that those countries considering them will not decide to employ capital controls. But it is clear, that is one of the ideas on the table.”

The other question under heated discussion concerned the role of the IMF in this new architecture. Rubin himself had underlined on numerous occasions that the “IMF would be in

the center” of any new architecture. But there were definitely strong opinions regarding what role — if any — the IMF should play. In characteristically diplomatic manner, Nakamura had also brought up the IMF. “I had stressed the need for transparency of the IMF itself,” he said. “Other countries share the same viewpoint.” No one attending the meeting, however, would go as far publicly in their critique of the IMF as Italian Foreign Minister Lamberto Dini had done in an interview with *La Repubblica* on April 14. “The IMF is an institution born after the war which so far has undergone few changes in structure and operational methods. We need a deep reform and a rethinking of the whole logic through which it operates,” Dini said. It’s clear that numerous delegates at the Madison were thinking as much, even if they didn’t dare to express it openly.

Rubin indicated, in comments to reporters at the Madison, that arriving at the “new architecture” would take time. “We made a lot of progress in our thinking,” he said, “but there is an enormous amount of work left to do. These are very complex issues, issues of how the risks of the 21st-century global financial markets are going to be dealt with. There is no question that there was universal agreement, that we must have mechanisms both on the preventive side and on the side of dealing with risks that we don’t have today. You’ll see not a single moment, but an evolution taking place, possibly over years.”

### Three working groups

The decision was made to form three working groups which would concentrate on the three major areas around which the meeting had been organized: 1) increased transparency and disclosure; 2) strengthening financial systems and market structures; and 3) appropriate burden-sharing between the official and private sectors in times of crisis. The working groups will begin their work in the spring and present their considerations some time in the fall.

The “steady” pace of deliberation may be rapidly outstripped by the accelerating pace of the financial collapse itself. As Rubin himself readily admitted in his introductory remarks to the Madison gathering, “In a world in which trillions of dollars flow through international markets every day, there simply will be not enough official financing to respond to the scale of crisis that could potentially occur.”

Monitoring the hot money flows alone will not prevent an explosion, if the flows themselves cannot be effectively regulated. And, without the stability of the fixed exchange rates that a New Bretton Woods would provide, it is well-nigh impossible to carry on the trade and long-term investment required for the world’s glaring infrastructure needs. It is all well and good for Secretary Rubin to attempt to “bring our thoughts together and bring about an international consensus” on the new architecture, but that great mother of invention, Necessity, may force a fundamental change in financial institutions, long before all the parties find themselves fully in agreement with the required solutions.

# Behind the scenes, bankers fear the worst

by Marcia Merry Baker

During the week of April 13-17 in Washington, D.C., contingents of financial officials from around the world gathered for dozens of events connected to the International Monetary Fund mid-year conference and related institutional confabs. While the proceedings of all these institutions were pre-scheduled for business-as-usual deliberations, the statements and exchanges in and around the sessions were anything but. They show the impetus building for a New Bretton Woods process, away from the failing institutions and practices of the IMF era.

An intense debate process is under way, especially on the questions of hot-money flows, and the need for capital and currency exchange controls. This issue, upon which Malaysian Prime Minister Dr. Mahathir bin Mohamad launched a fight at the annual IMF meeting in September 1997, directly addresses the central issue of the speculators versus the sovereign nation-state. On Sept. 21, 1997, in Hong Kong, the weekend Dr. Mahathir spoke out on this, the *Wall Street Journal/Asia* carried front-page coverage attributing Mahathir’s action to Lyndon LaRouche’s influence. According to that view, you would now have to think LaRouche has managed to be everywhere at once, to account for the denunciations of financial speculation coming forth from all sides.

For example, an official from the Bank of Japan told *EIR*, following the April 15 meeting of the Group of Seven in Washington, “Mr. LaRouche is right that the excesses of the floating exchange rate system are intolerable. We cannot have a situation where an Asian company is worth \$2 billion one day, and the hedge funds come in and speculate down the currency, and then the company is worth only \$500 million the next day, so the foreigners can buy it up. . . .

“The problem is that we cannot even get close to dealing with this exchange rate issue, until we deal with how to monitor the hot money, and with the world banking crisis. The hot-money flows, the hedge funds, the foreign private sector bad bank loans to countries such as Indonesia, are a huge factor which is dwarfing the IMF and the governments. The private sector money flows and debt are far, far too big for the IMF to control.

“The major focus of the G-7 meeting today was actually this issue: How to get the private sector banks and others involved in the process of reform of the world financial architecture; how can we get the private sector to cooperate? That is why we are insisting on studies on this matter. How can the governments get some idea on how to control this?”



The final communiqué of the Group of Seven, issued on April 15, contains a clause (Paragraph 8) on the “undesirable” results of volatile exchange rates, which “exacerbate” large national imbalances (see *Documentation*).

### The IMF and hot-money flows

Japan’s Vice Finance Minister Eisuke Sakakibara, along with Bank of Japan Governor Masaru Hayami, stressed at their April 15 press conference after the Group of Seven sessions, that a study should be undertaken of the IMF and hot-money flows. Hayami, in a prepared statement, announced that Japan had made a formal request to the G-7 that the IMF be required, first, “to implement its own transparency and disclose more fully all documents, letters of intent, policy framework papers, conditionalities, and so on” being demanded of nations; and second, that the IMF “make a study of excessive short-term currency and capital flows, and ways in which to monitor them.”

At his press conference following the G-7 discussions, Sakakibara pointed a finger at the United States, on the menace of speculative volatility: “In fact, there was also extreme concern about the volatile situation in the U.S. financial markets,” he said.

Others, especially in Germany, are also sounding the alarm. According to the German economic daily *Handelsblatt* on April 16, Bundesbank President Hans Tietmeyer stated at a press conferences in Washington, D.C., that stormy developments on international stock markets have to be carefully watched, and that money supply expansion is dangerous. Though wanting to avoid giving any market signals, Tietmeyer warned, “However, there is no way around raising some questions: What is behind this development? What are the driving forces? Where are the financial resources coming from?” It would be a great error to review the situation of the world economy without looking at the monetary issues, he said. Perhaps, monetary expansion in Europe has been relatively moderate. But in Japan, monetary aggregates are showing remarkable expansion. Once there is a backlash on stock markets, we could end up with severe problems, Tietmeyer warned.

On the same day, the German weekly *Die Zeit* warned that the stock market mania is pushing stock prices “ever farther away from the real economy.” The profits which stock market investors are realizing now, have to be produced in the future by real companies. This will prove to be an “illusion,” the weekly said. Therefore, “the stock market boom is posing a risk for the national economies.” The “speculative bubble” will expand, until it suddenly bursts, as the crash of 1929 and the Japanese bubble of the 1980s have shown.

Around the globe, there are similar bubble-bursting warnings. On April 15, the *Business Times* of Singapore ran the headline, “Dow Will Come Down to Earth.” The article, by Chua Soon Hock, chief strategist at Sanwa Bank in Singapore, reported the facts of the last three years’ galloping asset inflation in the United States, and, psychologically, the “many

similarities between the current scene and that of 1929 . . . people behaving like a herd of cattle.”

### The Japan crisis

Expansion of monetary aggregates is proceeding at hyper-inflationary speeds in Japan, the United States, and elsewhere. The volume of Japanese bank liquidity in the system increased by 50% from March 1997 to March 1998. As of mid-April, central bank interventions on behalf of the yen had become the order of the day. On April 13-14, the Bank of Japan sold \$12 billion worth of U.S. Treasury bills and bought yen, in attempts to stop the collapse of that currency. This was in addition to \$10 billion worth of Treasury bills sold the previous week for that purpose.

Japan was the daily focus of attention at the Washington meetings, though not always on the public agenda. The Bundesbank’s Tietmeyer said on German radio Deutschlandfunk on April 15, “Japan is perhaps the country which causes us the greatest concern at present.”

Then, after the April 15 Group of Seven meeting, which nominally addressed assistance for Japan, on April 16, the yen dropped 2.3% in Tokyo, from 128 yen to the dollar to 131 yen to the dollar, after “the markets” decided that the G-7 Finance Ministers’ April 15 communiqué did not give enough of a pledge of joint Japan-U.S. intervention. Based on the rate of the yen’s fall, the Tokyo Nikkei stock average fell below the key 16,000 level, down 2.5% to 15,883. As the week closed, the market rumor was that if the yen falls any more, foreign investors will begin dumping Japanese stocks, to avoid taking big losses on the stocks’ dollar value.

This drop in Japan, is a “thar-she-blows” signal of unprecedented chain reactions of financial crashes ahead. At the same time, other events in mid-April spotlight how vast bubbles of all kinds of obligations are unmanageable, and only bankruptcy-style reorganization among nations, will save the people—the financial system is unsalvageable. Anything else will be chaos. In New York City, on April 15, the debtor-creditor meetings began on dealing with some \$74 billion of foreign debts of the nation of Indonesia, which has been in a de facto debt moratorium since January. Indonesia, the fourth most populous nation in the world (202 million people) is under destructive orders from the IMF, and under fierce hardship for lack of alternative international support. The UN Food and Agriculture Organization issued a food report on April 14, that said that emergency supplies of food must come in, to relieve what are already massive shortages.

One way to sum up the state of affairs, is to use the “S” word, for *systemic* crisis. The German daily *Frankfurter Allgemeine Zeitung* said, in an April 16 article, headlined “Worry Over Japan,” that the “S-word” was circulating everywhere behind the scenes in Washington. The real worry of G-7 Finance Ministers and central bankers is Japan, it said. It’s no secret, that Americans and Europeans fear that Japan is plunging “into deep recession, which could trigger a deflationary downward spiral with devastating consequences for Asia and

for the global economy. So far, the menacing word of a systemic crisis is only being whispered.” But, in addition to the “overall perplexity” of how to deal with the Japan problem, “there is growing fear of tectonic shocks to the world monetary and financial system.”

### IMF’s official word

But what does the IMF say? We leave mention of this until last, since the IMF is part of the disease, not the cure, for financial crises. On April 13, the IMF released its report, “IMF World Economic Outlook,” which has been coming out yearly, or twice yearly, since 1980, covering what the IMF calls “ongoing surveillance of economic developments and policies” in its 180 member-countries. The report contains begrudging references to some “risk” in globalized financial markets; but otherwise, the IMF goes out of its way to absolve hedge funds of any responsibility of causing harm to nations.

As for the IMF view on the overall condition of the world economy, the IMF report states that “financial turmoil in Asia that erupted in mid-1997 has abated since January. . . . Nevertheless . . . considerable uncertainty remains about the resolution of the crisis.” Therefore, according to the report, the IMF has revised its global growth forecasts downward. In Chapter I, it said, “This issue of the *World Economic Outlook* projects world output growth in 1998 at just over 3%, compared with projections of 3½% in the December *Interim Assessment* and 4¼% in the October 1997 *World Economic Outlook*.”

IMF Research Director Michael Mussa added on April 13, at a press conference releasing the report, “The growth forecasts for Japan as of the published version of the *World Economic Outlook* has been knocked to a flat zero. Given recent data for Japan, it now looks as if zero may be a little bit difficult to materialize.”

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## Documentation

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# Growing nervousness about the systemic crisis

### From the G-7 communiqué

Paragraph 8, “Exchange rates”:

“We reaffirmed our view that exchange rates should reflect economic fundamentals, and that excess volatility and significant deviations from fundamentals are undesirable. We emphasized that it is important to avoid excessive depreciation where this could exacerbate large imbalances. In light of this, we support appropriate steps by Japan aimed at stimulating domestic demand and reducing external imbalances, also correcting the excessive depreciation of the yen. We will con-

tinue to monitor developments in exchange markets and to cooperate as appropriate.”

### Participants in the Washington meetings

From **Japanese Deputy Finance Minister Eisuke Sakakibara’s** a press conference in Washington, April 15:

*EIR* asked Sakakibara: “As you know, the American economist Lyndon LaRouche already in February 1997 called for a New Bretton Woods monetary system, as have you, Romano Prodi of Italy, and other world leaders. Please share with us your ideas on how to create a New Bretton Woods.”

Sakakibara replied: “I recall being quoted about this, but I did not call for a New Bretton Woods. What is being discussed now are modifications to the IMF, and then possibilities for a new world financial architecture. At the G-7 meeting, as Dr. Hayami explained, Japan made two proposals. First, that the IMF disclose all their operations and documents, including letters of intent, policy framework papers, conditionalities, and so on; and second, that the IMF report to us on a study of ways in which we can monitor excessive flows of short-term capital.”

At the close of the press conference, *EIR’s* correspondent showed Sakakibara a copy of his March 1 *Mainichi News* interview, in which he was quoted, “I believe that many world leaders may well be starting to contemplate the idea of a financial agreement along the lines of the Bretton Woods agreement.”

“Well, I see that you are right, it seems that I *did* say that!” Sakakibara answered.

“Everyone talks about the bad debt of the Japanese banks,” *EIR* then asked, “but just now, you mentioned the problems on Wall Street. What about the giant derivative holdings of New York banks such as J.P. Morgan? Don’t you think all that speculative debt on both sides of the Pacific has to be reorganized, to have any new financial architecture?”

“Well, you are right, and as Federal Reserve Chairman Greenspan says, there are certainly also some financial excesses in the United States,” Sakakibara replied.

**Choi Joong-Kyung, Republic of Korea, director of the Financial Cooperation Division of the International Finance Bureau, Ministry of Finance and Economy,** statement to *EIR* in Washington on April 15:

Fixed exchange rates are “ideal,” but hot money poses increasing risks to the world financial system, Mr. Choi said, during the IMF annual meeting. “A fixed-rate system would be the ideal world monetary system, because excessive movements in exchange rates are harmful to trade, investment, and most importantly, to the development of our people and our national economies,” he said. He was responding to Lyndon LaRouche’s proposal for a New Bretton Woods system.

International currency “hedge funds” and similar speculators, however, have created an intractable problem for the monetary system, Choi pointed out. “The problem today is

that we have no way to monitor or control the effects of rapid motion of cross-border capital flows, so-called 'hot money,' which can do a lot of damage in a short time to years of a country's hard work."

Asked about the questionable \$25 trillion derivatives holdings of Wall Street banks such as J.P. Morgan, which are pressuring Korea about its financial problems, but concealing these bad assets of their own, Choi agreed that we have a *global* financial crisis, not just an "Asian" crisis, which should concern people around the world.

"Financial derivatives are another example of highly-speculative financial instruments which have attained a great weight in the international financial system, amounting to trillions of U.S. dollars worth of assets," he noted.

Without addressing these gigantic hot-money flows, off-balance-sheet derivatives assets, and the rise of similar speculative paper, he said, a rational fixed-exchange-rate currency system is impossible. "Because of these problems, we can't fix exchange rates today, so while the fixed-rate system is the ideal system, today the floating-rate system is the practical system which is left to us."

Americans as well as Asians need to take a hard look at these speculative processes, because they pose increasing risk to the world economy as a whole, he concluded. "As the IMF's *World Economic Outlook* notes, 'the risk of crisis is rising, including the scope for international contagion,' because of these financial methods," Choi said. "The entire global financial system is now running at higher and higher risk.

"This problem of speculative risk is a global problem which should concern citizens in the Western countries, as well as in Asian countries."

## World leaders speak out

**Italian Foreign Minister Lamberto Dini**, in an interview with the daily *La Repubblica* published on April 14, calls for reform of the International Monetary Fund:

"The IMF is an institution born after the war, which so far has undergone few changes in structure and operational methods. We need a deep reform and a rethinking of the whole logic through which it operates," Dini said. "Just think that when it was founded, global markets did not exist. They started in the seventies, with the eurodollar market. Reality has totally changed."

On the IMF intervention in Asia, Dini said: "There is the impression that we are limiting ourselves to general bailout interventions, that we do not succeed in clarifying once and for all that crises must be paid for by creditors, that enterprises can fail. Instead, the awareness was created, that any investment, even if failing, will not cause losses, because someone, such as the IMF, will pay the bill."

On the Asia crisis itself, Dini said that "the development was too much based on credit and too little on the creation of a financial and industrial base. . . . The IMF should have paid attention. . . . I am not surprised that sectors of the U.S. Con-

gress halted the refinancing of the Fund; it is not a political quarrel against Clinton, but a substantial issue."

Dini also criticized the idea of a currency board, such as that proposed for Indonesia: "In such a way, despite appearances, a country loses monetary sovereignty instead of recovering it, loses the possibility of intervening reasonably, case by case."

A journalistic source pointed out to *EIR* the fact that Dini dared to come out against the IMF exactly when the IMF is intervening in Italy, through its semi-annual report, calling for more radical "structural reforms."

Dini had recently called for the reorganization of bankrupt chunks of the world financial system, with "a sort of international bankruptcy court, to establish the principle that creditors pay for failures, and that an investment has a risk factor. As with private firms: When one goes bankrupt, you list the creditors; you may reach an agreement, but no one recovers every last penny."

**Malaysian Prime Minister Dr. Mahathir Mohamed**, speaking at the University of Sarawak in Malaysia on April 14, as reported by *The Star Online*, Kuala Lumpur, April 15:

Dr. Mahathir opened a seminar on "Virtual Reality," using currency trading as an example. "Where before, we had to deal in real money, goods, and services, today none of these is really necessary. As a result, there seems to be no limit to the amount of business that can be done and profits made. Unfortunately, in the process, real money, real jobs, and real business can be very badly damaged. Now, in the rule devised by the currency traders, the currency depreciates in value every time it is sold. In normal commodity trading, the price remains so long as there is a willing buyer and willing seller. But currency traders dealing with virtual money are not constrained by the supply of the currency. . . . The trading is in virtual money, but the effect of devaluation is very real. Today, whole countries and regions are impoverished because of currency trading."

He commented on a report he had received, in which the IMF concedes that there may be a need for some regulation, but Mahathir said that implementation of such measures would depend on whether developed countries, which "could have gained" from speculation, will accept this.

He cited the Internet as an example of how man determines whether his inventions will be used for the benefit of mankind, or against it. The Internet can be used to spread lies and foment "unacceptable activities," or to tell the truth, he said.

## Press commentary

*Neue Zürcher Zeitung*, Switzerland, "Asia Crisis Shifting Into a Second Phase," April 14:

The weekly "Eurobond column" column quotes Steven Roach of Morgan Stanley Dean Witter, describing the "second phase" of the Asia crisis as much more dangerous than

the first, because this time Japan will be in the center of events. The more the yen plunges against the dollar, the higher the risk that the deepening recession in Japan will trigger another round of currency devaluations, not only in Asia, but in Latin America and eastern Europe as well.

The article features a new study by Credit Suisse First Boston, stating that a second round of the Asian crisis is soon to erupt. The bank warns that Asian currencies and stock market prices could even fall below the levels reached at the climax of the first phase of the crisis. This would massively hit Europe and the United States. "Once the prices of Japanese stocks, government bonds, and the yen start to plunge simultaneously, there would be an immediate danger of an overall capital flight out of Japan, and thereby a collapse of Japanese financial markets," writes the paper, summarizing the CS First Boston argument.

The United States and Europe are threatened by an "over-confidence syndrome," due to booming stock markets and low interest rates. A similar "over-confidence syndrome" had been visible in Japan during the 1980s and during the "financial euphoria" leading into the Asian crisis of the 1990s, states CS First Boston.

*Folha de São Paulo*, Brazil, by Clovis Rossi, "Time to Show Your Face," April 14:

Brazilian central bank chief Gustavo Franco gave *Folha*

*de São Paulo* reporter Rossi two reasons for his belief that the results of the April 16 G-22 meeting are unpredictable: first, because the Asian countries will be present, and their "wounds are still open" from the financial crisis; second, because it is "certain" that countries such as India will present unorthodox proposals for controlling global capital flows.

Rossi comments that, in any case, "Thursday's meeting will be more than a round-table on the international financial system," because three ongoing working groups will be set up out of the meeting, each including at least one representative from a G-7 country, and a representative from one or more other countries.

Rossi complains that Brazil will not bring to Washington any concrete proposal for controls on international capital flows, even though, he writes, Itamaraty (the Foreign Ministry), and President Fernando Henrique Cardoso had argued that Brazil should do just that. The central bank and the Treasury Ministry (who are attending the meeting) argued that were Brazil to present any such proposal, it "would be equivalent to confessing that the country does not have the means to face a crisis." The most that Brazil will do, is oppose any proposal for the total deregulation of capital flows.

President Cardoso told *Folha* that he is enthusiastic about the April 16 meeting, claiming that the mere fact of its occurrence represents an acceptance, in some form, of his proposals on the international financial system, and because it is a first step toward a future expansion of the Group of 7, in which Brazil, no doubt, will be included.

### The IMF's own commentary

*World Economic Outlook*, IMF report issued on April 15:

Globalization poses an increasing level of risk in the world financial system, and some sort of "modification" of floating rates may be necessary, the IMF admits. This statement reflects extreme pressure by Malaysia, Indonesia, Japan, Korea, and other nations represented on the IMF Executive Directors' board.

"With the increasing globalization of financial markets and the apparent tendency for investors to react exuberantly to success, belatedly to emerging concerns, and eventually to overreact as sentiment changes, it may well be that the risk of crises is rising, including the scope for international contagion. Countering the potential for new crises is a considerable challenge that needs to be met through increased vigilance of national policymakers and private investors. . . .

"A key task for policymakers is to identify weaknesses early enough to address them before crises erupt. . . .

"In some cases, modifying the exchange rate regime may need to be considered. Currency pegs, currency unions, and currency boards have served many countries well . . . and the successful defense of a relatively fixed exchange rate arrangement can bring benefits that outweigh the shorter-run costs. But adjustable pegs have become increasingly difficult to maintain in the face of large-scale financial flows. . . ."

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# Korean crisis set for new blowup

by Kathy Wolfe

Despite the glowing reports of economic “recovery,” South Korea is fast becoming an example of how the International Monetary Fund (IMF) wrecks nations by destroying their physical means of existence, while failing to stop the financial crisis, set to blow sky high again in Seoul by summer. North Korea, meanwhile, has run out of food entirely, but now the South is no position to help.

A social explosion hit South Korea on April 9, when Hyundai Motors, South Korea’s largest automaker, announced the firing of 6,000 workers, 20% of its workforce. Hyundai has slashed its production by 60% this year because auto sales are down by 60%. “There’s been a real improvement in Seoul’s formerly terrible traffic” congestion, one official said wryly. “It’s down by half, because no one can afford to buy gasoline, which we import.”

The South Korean Labor Ministry announced on March 26 that 500,000 workers were laid off during January and February, bringing the number of officially unemployed to 1.24 million, or 6% of the labor force. The IMF has called for 1 million workers to be fired in 1998; economists project unemployment will rise to 2 million, or 10%, this year.

Smaller companies have been closing their doors and firing workers at a national rate of 10,000 a day, but the Hyundai layoffs are the first time a large company has acted under the new Korean labor law mandated by the IMF, which permits large conglomerate “bulk” layoffs.

On April 15, some 14,000 workers at Kia Motors went out on a week-long strike, protesting government plans to sell off the company, which is under bankruptcy protection. A sell-off would mean cutting the workforce in half.

South Korea is also set to make world financial headlines again in the April-June quarter, when another \$20 billion in short-term corporate debt to foreign banks comes due, and will be impossible to pay. “There is a huge risk of corporate default on foreign and domestic debt,” with risk of a “systemic collapse of the undercapitalized banking sector” in South Korea, said Swiss Bank Corp./Warburg Dillon Read, the European oligarchical investment bank, in a private report issued on March 30. More than \$58 billion additional repayment of South Korean foreign debt is due during 1998.

## This year’s money

Citibank chairman William Rhodes was in Seoul on April 2 to finally sign papers for the \$24 billion in Korean debt

which was rolled over last year, a Korean official told *EIR*. But, he said, “we are worried about *this year’s money*. The situation here in Seoul is very bad. Our exports are poor, and by the end of April we will be out of cash for imports of raw materials—and all our industries operate on imported raw materials.”

Seoul was able to borrow another \$4 billion from the London and New York banks on April 6, by agreeing to their demands for 12% interest rates, 4% over what most governments pay. “The rates are extremely high,” said Lee Phil-sang at Korea University, who pointed out that now, all Korean companies will be forced to pay competing rates to get cash to operate.

On April 8, South Korea was forced to beg the United States and other nations for its “second line of defense”: \$24 billion in emergency country-to-country bilateral loans—above and beyond IMF loans—worked out last year. The U.S. Congress, however, is hostile to the request.

South Korea’s President Kim Dae-jung went begging to the IMF on March 30, requesting permission to lower Korea’s IMF-mandated 18% interest rates, “to prevent a major meltdown in the corporate sector,” as one Seoul newspaper put it. He was publicly rebuffed.

## North Korean famine

In North Korea, last October’s harvest has run out, “forcing people to rely on foreign donations and to scavenge for roots and edible plants,” Catherine Bertini, executive director of the UN World Food Program, said on April 13 after a tour of North Korea.

“Food aid must continue until they have a considerably better harvest and agricultural production,” Bertini said. “It could be years before North Korea can reform its agriculture and feed its 24 million people.”

The World Food Program appealed on April 1 for a new emergency allocation of 725,000 tons of food donations to feed 7.4 million people, one-third of the population.

After North Korea urgently requested help from the South, direct talks between Seoul and Pyongyang began for the first time in five years, in Beijing on April 11. North Korea requested emergency aid of 500,000 tons of fertilizer for crops now being planted, and there was great hope of success, because South Korea’s new Kim Dae-jung government favors reunification.

But the talks broke down on April 14, when the South Korean Unification Ministry linked a series of political requests to the fertilizer delivery, saying that “the South Korean public will not support unilateral concessions.” While that particular Seoul ministry has a history of egging on confrontation with the North, the underlying problem is that South Koreans are in a blind fury at being forced into Third World living standards at the hands of the IMF. While the IMF gutting of South Korea continues, there’s no prospect of real reconstruction of the peninsula.

# Argentine government refuses IMF 'medicine'

by Gonzalo Huertas

On April 1, a mission from the International Monetary Fund (IMF), made up of five officials headed by Italy's Teresa Ter Minassian, arrived in Buenos Aires. Within the week, a national scandal had broken out over the mission's arrogant demands for more austerity and "quick corrective action" to keep up "investor confidence" in the country. By the end of the week, the Carlos Menem government had rejected the IMF's demands, and at least one ruling party politician was describing the members of the mission as "five imbeciles disguised as experts."

The Fund had demanded of the Menem government—in the form of a confidential document which the government chose to make public—approval of a "mini-package" which included the following elements, among others:

1. That the so-called "Laura Plan," for construction of 10,000 kilometers of highways, intended to unite all the provincial capitals of the country, be eliminated;
2. That the "labor flexibility" bill, which the government, the opposition, and the trade unions have agreed to, but which the Fund considers "too soft," be dropped;
3. That budgetary allocations for public works be frozen;
4. That the taxable base of the value-added tax be broadened;
5. That fuel prices, in the event that the public accounts deficit is not brought under control, be increased.

These measures, according to the IMF, are necessary to avoid a 1998 trade deficit, currently expected to hit \$8 billion, and a current accounts deficit that "would reach levels higher than those of Asia and close to those of Mexico just before the crisis," according to one local newspaper.

Despite the intense pressures and arrogance of the Fund, and notwithstanding Argentina's past seven years of toeing the IMF line, starting with implementation of the economy-wrecking Convertibility Plan, the Fund's prescriptions this time were resisted. The differences from earlier years were several:

1. It is already common knowledge that the international financial system is collapsing, and Menem has a keen enough nose to be able to smell which way the wind is blowing.
2. The IMF has already failed, publicly and visibly, in several Asian countries.
3. Argentina is one year away from Presidential elections, and Menem knows that this time he cannot embrace

the IMF's proposals and still hope to win reelection. The ruling Justicialist Party's loss in last October's mid-term Congressional elections, was an unmistakable warning sign.

## 'Let them worry about Asia!'

On April 3, less than 12 hours after arriving in Buenos Aires from an official tour of Australia and New Zealand, President Menem called a meeting of his cabinet to "dot the i's." According to newspaper reports, Menem entered the meeting in a rage, and called his Economics Minister Roque Fernández on the carpet for having publicly discussed his differences with the government's economic proposals, and his agreement with those of the IMF.

In that meeting, Menem stated that "the IMF cannot meddle in Argentina's internal affairs. It is warning that the economy is going to overheat, but that's a lie. Why doesn't the IMF worry about the crisis of the Asian economies, for which it is responsible?"

On the same day, the secretary general of the Presidency, Alberto Kohan, commented ironically on "the professional abilities of the IMF's experts": "Now they are trying to rebuild their credibility, because things didn't go so well for them in Asia, where the crisis certainly caught them by surprise," he said.

In his turn, Humberto Roggero, the Peronist whip in the Argentine House of Deputies, when asked to comment on the IMF's "suggestions," stated to Radio America on April 5: "It's as if they were pulling our leg. It almost seems disrespectful. Look, why, if we are fighting against unemployment, social problems, and the problem of marginalized people, would we tell people that we're going to cool off the economy just because five imbeciles disguised as technical experts say these things?"

## The IMF has lost its authority

Roggero added that the IMF delegates "are more concerned with saving their scalps, after the huge mistakes they've committed in Southeast Asia. They've lost the moral and technical authority to talk. What they are trying to do seems almost tragicomical to me."

These statements of the Argentine government and others fell like a bath of cold water on Argentina's bankers, who have been demanding that the IMF's recommendations continue to be applied to the letter. At the same time, the so-called opposition, headed by the political coalition "Alliance" (UCR-Frepaso), has maintained a suspicious silence on the whole issue. Earlier, one of the leading Presidential candidates of the Alliance, Graciela Fernández Mejjide—who has the support of the City of London financiers—agreed with the IMF that the government's plan to build highways around the country, the so-called Laura Plan, is "pharaonic and unnecessary."



# There is no possible bail-out of the world financial system

From an “EIR Talks” radio interview on April 14. The interviewer is Tony Papert.

**EIR:** Where’s the Japan crisis going? . . .

**LaRouche:** Again, what is on the above board. The current U.S. policy recommendations for Japan appear to be, if one believes what one is seeing, insane. Now, of course, the complication is that the Clinton administration, with Clinton headed for China this June (practically taking the population of Washington, D.C. to China in 747s, or something), that it appears to be trying to maintain a *modus vivendi* with the Hashimoto government. The Hashimoto government has policies which are absolutely unworkable, and which are, in fact, a repetition, in Japan terms, of precisely the folly which Rudolf Hilferding and others carried out under Versailles conditionalities between 1921 and 1923, which is what’s known as the famous Weimar Germany hyperinflation, in which money ceased to exist. The printing presses broke down, because they couldn’t keep up with the rate of inflation.

Japan is going into a similar kind of situation. The situation, under present policy, is hopeless. As we’ve observed in recent weeks, there has been a shakeup. More and more forces in Japan, except one very powerful faction in particular, have all recognized that this policy is folly, and it must be changed. There is yet no change, but it appears, at present, that the United States government . . . is on the wrong line.

So, it’s a very deadly situation. Japan can blow out in this period, if it continues to follow the advice which apparently is coming from the United States government. . . .

**EIR:** Lyn, you’re in Europe right now. How is Europe responding to the world financial crisis?

**LaRouche:** . . . As I look at the background, there are many people who recognize that the present policies, both the IMF policies and the Maastricht policies, so-called, the so-called “Euro” agreements, are not workable. Maastricht, the attempt to enforce the Maastricht conditionalities, has effects upon the German economy which resemble the effects of the World War I-ending Versailles conditionalities on Weimar

Germany, back in the 1920s, things that led to the rise of Hitler. So, this—And they recognize also, that the banking system in its present form can not function.

I’ll give you an example of this. As I’ve said many times, including the recent address on the 18th of March in Washington and elsewhere, we now have between \$130 and \$140 trillion U.S. equivalent of short-term obligations, which are denominated as derivatives, or in similar denominations. This is several times larger than the total accounted GDP of all the world’s nations combined.

Now, much of this is extremely short-term: days, weeks, that sort of thing; which means that, therefore, every central banking system of the world, with the possible exception of that of China, is, at the present moment, hopelessly bankrupt. In other words, if, as some European bankers put it, including some leading central bankers, if this collapses, if a chain-reaction collapse, what’s called a reverse financial leverage collapse, hits this \$130-140 trillion bubble, which can result in an implosive chain reaction; that is, potentially, under certain conditions, you could blow out the entire world’s financial system within a matter of about three trading days. In other words, one day you think you’ve got a financial system, three days later, you’re looking at empty buildings which are staring at you with death in their eyes: nobody at home. Now, that’s how bad it is.

Therefore, we’re up to a situation where there’s no possible bail-out. And this merger mania is more a reflection of this process than it is a remedy for it. Some people are saying the big mergers of banks are an alternative to the collapse. That’s not true. The big mergers are a reflection of the conditions which are leading to this collapse, and people involved in these banking institutions are going into mergers, simply under these kinds of pressures.

Now, in any sort of levelling off of the rate of financial growth, you get into a situation where you continue to pump money into the system to try to keep the markets up—what’s being done, for example, with Japan, what’s being done, on a less intense level, in Wall Street, that is, the Wall Street stock exchange boom is a complete bubble. It’s lunacy. Anybody who thinks that’s prosperity, is the kind of guy who’d



jump out of a balloon at 11,000 feet without a parachute. It's lunacy. There's no sense to it.

But at the point that someone realizes the threat to the financial system of continuing to pump liquidity into propping up the bubble, or to just decide it's not there anymore, or the hyperinflationary pressure gets too great, then they set into motion, immediately, automatically, a highly leveraged reverse financial leverage implosion.

Now, under these conditions, which we're verging very close to right now, *the only solution* is for governments to declare payments on the \$130-odd trillion equivalent to be suspended, under bankruptcy reorganization arrangements. That is, the government puts the banking system, the financial system into bankruptcy reorganization, and freezes all transfers of payments, on account of this \$130 to 140 trillion. *Only if that is done, can you prevent a general blow-out of the banking system, including the entirety of the U.S. banking system.* That means everybody's bank. It means their savings, it means their checking account, it means everything.

To prevent that from happening, the government must step in, put the entire Federal Reserve System and its ancillaries, direct or indirect, into financial bankruptcy reorganization: no transfers of funds based on these categories of obligations. Freeze it! Essentially, we're never going to pay the money anyway. These things are just going to be written off the books, they'll vanish. We're going to try to defend things that must be defended instead.

But, that's the situation.

**EIR:** President Clinton is going to China in June. What's the significance?

**LaRouche:** Well, first of all, this meeting was — the Chinese had wished the meeting to occur earlier, in the spring. Then, the President, at that point, had indicated that he thought perhaps the autumn of 1998. Then, in a move which was not anticipated, in China or the United States, the President decided to go in June. The Chinese were pleased, of course, and apparently he's going to go. As a matter of fact, as I indicated earlier, I don't know how large a fleet of 747s is carrying the population of Washington, or part of it, to China for this trip.

The China situation is extremely interesting. First of all, China is the most important diplomatic partner of the United States. As I've indicated earlier, during the recent 30 years, there has been a progressive shift, such that the strategic balance, economic-strategic balance and political strategic balance of power, has shifted away from the Atlantic Ocean as the transmission belt of power, to the Pacific Ocean. And the relationship between the United States and China, with a secondary significance for Japan, Korea, and Southeast Asia, and also a potential, very important significance for India, the United States relation to Asia, across the Pacific,

is the center of the world's strategic balance.

So, Europe no longer has the kind of importance — that is, not the importance, but the *kind* of importance it had during the so-called NATO years and earlier. This is largely a result of the collapse, the willful, self-imposed collapse of the economy of the United States and Europe, the so-called scientific, industrial, technological progress economy of Europe and the United States. We took our economy down, and the balance of power, the economic center of gravity, shifted from Europe to the United States, and shifted across the Pacific, to the relationship between the United States, across the Pacific to China, etc., now on the one side, and of Central Europe, the machine-tool part of Europe, to China and other parts of East and South Asia, across the Eurasian Land-Bridge route, that is, across Eurasia.

Under these conditions, the possibility of the United States making a strategic policy that means anything for the coming period, into the next century, depends upon the relationship between the President of the United States and the President of China. In that sense, what President Clinton is doing, is extremely important, must be defended and encouraged. That is, the relationship between the institutions of the U.S. Presidency and the institutions of the Presidency and government of China — this is crucial for future world history. Anybody who tries to ignore that, is an idiot, and should be sent home to study.

Now, this has also complications. China, at present, is probably the only nation on this planet with a sane economic policy. That is, virtually every other nation on this planet, including the United States, is clinically insane in its current financial, monetary, and economic policy. The only good thing you can say about any of the countries, particularly those of western Europe and the United States, is the possibility that some of them have the sense to change before the absolute end is reached. And, one would hope that our President is capable of making that kind of change.

Now, how does it work? In August and September, I had warned that, and my wife, Helga, had echoed this in a number of locations, that by the time that the President of China, Jiang Zemin, met with the President of the United States, Clinton, in Washington, the world would be gripped by the outbreak of a major financial and monetary crisis. Well, that happened two days before the meeting. The Chinese, who heard this message, among others, are not stupid. Some others are stupid, or they're weak or cowardly.

So therefore, since that time, China has taken cognizance of the fact that it's been warned that the kind of economic policy, that is, the long-term and medium-term economic perspective that China had in September and early October, had to be abandoned, with the confirmation of my long-range forecast, realized at the end of October. And since that time, China has been operating on a recognition of a situation on the planet which is what I've been describing.

Their own view of the matter is not necessarily mine. But, I must say that everything I've seen is quite sensible, and is a proper response, whereas every other government of the world's response has been wrong, in some cases at the point of a gun.

For example, Malaysia has submitted to an insane policy at the point of a gun. Indonesia has accepted an insane policy, supported, in part, by the United States government, at the point of a gun. Japan: somewhat the same thing. There's a little bit of a gun pointed at Japan, but also from internal forces, and the United States.

But, China is the only nation which actually has a policy, which is a sovereign policy it has adopted, which is sane. So, the possibility of getting a sane new world economic and financial and monetary system, pivots on the possibility of two things. First of all, that the relationship between the United States and China becomes an axis around which this new policy is built. Secondly, that other nations in Asia participate.

And thirdly, as part of the same thing, that the machine-tool, or historically machine-tool nations of western Europe in particular, with the cooperation of similar potentialities which can be activated in Russia, most notably Germany, and, to a lesser degree, France and Italy; that these nations orient

to cooperate with the United States and China, and other Asian nations, in developing the delivery, a perspective of these countries, the United States, Germany, France, Italy, so forth; that these countries concentrate on developing our export of machine-tool-design capabilities to the nations of this planet which are machine-tool short, such as China, India, Southeast Asia, where they have virtually none, and so forth. And that on the basis of this new relationship, we build a system which is solid, to replace the presently bankrupt one, and also which gives us some kind of a hope for the future. So, one would hope.

Now, I don't think Clinton is prepared to do that yet. I think he's going to experience, during the coming weeks, he's going to experience some very frightening things, perhaps before he gets to China, actually, which may change his mind to make him realize that this *is* that serious, that he has to change the policy.

But, nonetheless, *the very fact that he's maintaining this relationship to China, and fostering it, is a good thing.* Even if his economic policy presently is bad, the fact that he's maintaining the right discussion partners, the right treaty partners, the right discussion partners itself, is a plus, and helps to create and preserve the context in which changes which may be made somewhat later can come. . . .

**“Long before Paula Jones,  
long before Monica Lewinsky,  
there was a conscious decision, made in  
London, that there would be a full-scale  
campaign to destroy Bill Clinton,  
and to destroy, once and for all,  
the credibility of the office of the  
Presidency of the United States.”**

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# What balanced budget? Exposing the hoax

*The claims from Washington policymakers that the FY 1999 U.S. federal budget will show a surplus, are absurd. Richard Freeman reports.*

Since the beginning of this year, there has been much self-congratulation by both Democrats and Republicans in Washington, for what they claim will be a \$9 billion budget surplus for fiscal year 1999 (which begins on Oct. 1, 1998). But, in fact, the so-called balanced budget is a hoax; what's worse, everybody involved knows it's a hoax.

The actual—as opposed to the official, and quite doctored—U.S. budget, will register a deficit for fiscal year 1999 of \$150-200 billion. The data to prove this exist in the public domain, published by the Office of Management and Budget in its official “U.S. Government Budget for Fiscal Year 1999,” and its “Historical Tables” compendium volume.

The so-called “balancing of the budget” employs sleights of hand and outright fraud that would make a common mountebank proud. The two principal gimmicks are: The Social Security Trust Fund surplus is used to mask the deficit. And, a portion of U.S. government expenditures, namely, those that are made to U.S. military and civil service retirement funds, as well as Medicare Part A and other programs, is simply not counted.

At the same time, there has been a reduction of the budget deficit through meat-cleaver methods: The Newt Gingrich-led fascist “Contract on America” gang has cut \$175-200 billion from the past four budgets, mostly in infrastructure and essential services. While this reduces the budget deficit *in the short run*, it unleashes long-term effects that destroy the physical economy and unbalance the budget, as we prove below.

While there is much “fiscal conservative” talk of how important it is to balance the budget, it was the high-interest-rate policy of Federal Reserve Board Chairman Paul Volcker in 1979, and the adoption of supply-side economics by the Reagan-Bush administrations starting in 1981, which sent the budget deficit, and the interest on the public debt, skyrocketing.

We start by looking at the real deficit, giving a first approximation of the actual size of the U.S. budget deficit using the OMB’s “Historical Table 1.1,” and then a second, more complete assessment of the deficit. Next, we examine the effect of budget-cutting on “reducing” the deficit; and finally, we examine the gross interest on the debt, the largest item in

the budget, which in fiscal year 1999 will account for *one-quarter* of all expenditures.

## A first approach

**Table 1** presents what the Office of Management and Budget calls the “on-budget,” “off-budget,” and “unified” U.S. budget surplus or deficit. The “on-budget” column we shall tentatively label the “actual” U.S. budget surplus or deficit. This is the difference between *the general revenue supplied to the U.S. government*, mostly through taxation (individual and corporate income taxes, capital gains taxes, excise taxes, and so on), and *the general expenditures of the U.S. government* (for education, defense, infrastructure, debt service, and so forth).

The “off-budget” part of the U.S. budget consists of two items: the yearly surplus or deficit of the funds spent by the U.S. government to subsidize the U.S. Postal Service, and the yearly surplus or deficit of the trust fund of the Social Security System. The amounts spent for the Postal Service are relatively small, and thus, the “off-budget” part of the U.S. budget refers overwhelmingly to what is happening to the Social Security Trust Fund.

The Social Security Trust Fund (or Old Age Survivors and Disability Insurance trust fund, OASDI) has its own “dedicated” revenue tax, which is collected separately from the general revenue payroll withholding tax, because the OASDI is a separate fund and is not part of the budget. In the “reform” of Social Security in 1983-85, the Social Security tax rate was increased, in order to build up a surplus in the trust fund, so that by about the years 2010-12, when it is expected that the trust fund will have greater Social Security pay-outs to retirees than Social Security tax pay-ins—largely because of demographics and lack of productive jobs—there will then be a surplus. This cushion is supposed to prevent the trust fund from going broke until the year 2030. By design, the Social Security Trust Fund is building up a surplus, *which eventually will have to be paid out*.

Thus, the Social Security Trust Fund is a “dedicated,” committed fund. But, the government and Congress have been using it to mask the deficit of the actual budget. Illegally, they mix the deficit of the actual budget, which the OMB

projects will be \$95.7 billion in fiscal year 1999, with the “off-budget,” segregated surplus of (mainly) the Social Security Trust Fund, of \$105.3 billion, and *voilà*, they produce a strange animal called the “unified budget.” In fiscal year 1999, the “unified budget” is supposed to run a surplus of \$9.5 billion. The entire accounting operation is a fraud.

It can be seen in Table 1 that until the 1983-85 “reform” of Social Security, the “off-balance” surplus was tiny. But it has grown steadily since then, and now is a major factor in the alleged balancing of the budget.

Every Congressional office uses this OMB Historical Table 1.1. In the past, some Congressmen, when the purpose has suited them, have pointed to the fact that the Social Security and other trust fund surpluses have been used to mask the true U.S. budget deficit. Now, they have collective amnesia.

### A complete statement

But, the annual U.S. budget deficit is bigger still. The FY 1999 budget deficit will total in the range of \$194.5 billion, as opposed to \$95.7 billion (“on-budget” column of Table 1). Smoking this discrepancy out requires a little work, but all the information is available in the OMB’s Historical Tables, principally Table 7.1.

In addition to the Social Security Trust Fund—which is the only major off-budget trust fund that OMB’s Historical Table 1.1 reports—there are other major off-budget trust funds, including the Medicare, Part A Trust Fund, which pays for the hospitalization portion for Medicare recipients; the retirement trust fund for the U.S. military; the retirement trust fund for the U.S. civil service; and the Highway Trust Fund.

The U.S. government also uses these other trust funds to mask the deficit. Of the above-cited trust funds, some derive their funding from their own separate, dedicated tax streams; others are paid for by the U.S. government out of its general revenue budget.

Let us take the case of a trust fund which is paid for directly out of the U.S. government general budget revenues (a parallel, but slightly different process occurs when the revenue is supplied by a dedicated, separate tax stream), for example, the U.S. military retirement trust fund. The U.S. government sets aside and accounts an amount, each year, for the retirement of military personnel. The amount is an incurred expense of the U.S. government, but, in effect, the U.S. government denies it has made this expense, or a portion of this expense, for purposes of reporting the U.S. budget deficit or surplus.

“Impossible,” you say? Here’s how an expense is hidden. The U.S. government accounts for a payment of money to the military retirement trust fund. If that trust fund accrues a surplus, by virtue of paying out less in retirement benefits than it took in from the government, it invests that surplus. By law, such trust funds can only buy U.S. Treasury securities. The U.S. government counts the trust funds’ purchase

TABLE 1

### The U.S. budget, surplus or deficit

(billions \$)

	On-budget, or actual budget	Off-budget	So-called “unified” budget
1975	-55.260	2.018	-53.242
1980	-72.715	-1.120	-73.835
1983	-208.030	0.212	-207.818
1984	-185.650	0.262	-185.650
1985	-221.698	9.363	-212.334
1986	-237.976	16.731	-221.245
1987	-169.399	19.570	-149.769
1988	-193.986	38.800	-155.187
1989	-205.235	52.754	-152.481
1990	-277.784	56.590	-221.194
1991	-321.557	52.198	-269.359
1992	-340.489	50.087	-290.402
1993	-300.360	45.347	-255.013
1994	-258.758	55.654	-203.104
1995	-226.314	62.415	-163.899
1996	-174.038	66.588	-107.450
1997	-103.307	81.364	-21.943
1998*	-106.273	96.316	-9.957
1999*	-95.747	105.266	9.519
2000*	-104.947	113.477	8.530

\* estimated by the OMB

Source: Budget of the U.S. government, fiscal year 1999, Historical Tables, Table 1.1, published by the Office of Management and Budget.

of Treasury securities as money coming back into the U.S. government (even though that money is coming back on only a temporary basis, because it must eventually be paid out for the retirement of military men and women). The government “nets out” the expense, on the grounds that the money it pays out of the general revenue budget to the military retirement trust fund comes back into the government, in the form of a purchased U.S. Treasury security. It is as if the expense had not occurred.

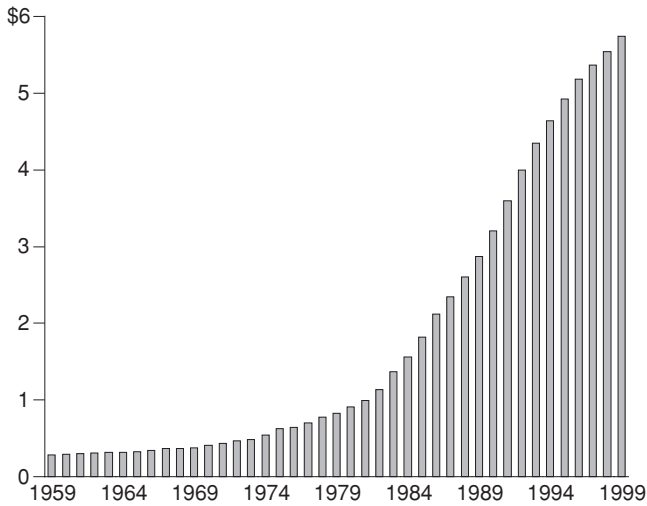
This is duplicitous. The U.S. government is accounting an obligation, whether for an immediate pay-out, or for a future pay-out. The fact that the trust fund invests the money in a U.S. Treasury security is irrelevant. At some point, when the trust fund must pay out to a retiree, if it is short of cash, it would have to sell the Treasury back to the government, and the government will then have to make good on the obligation. This is an obligation/liability of the U.S. government; it should be counted either as part of the government’s “on-budget” expense, or at least, its “off-budget” expense. Currently, it is counted on neither.

How, then, do we determine this amount? According to an analyst at the Congressional Budget Office, the OMB’s

FIGURE 1

**Gross Federal debt outstanding, 1960-99**

(trillions \$)

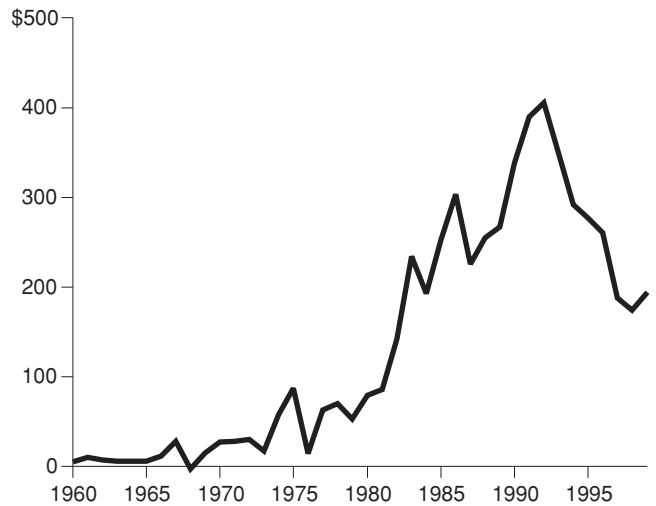


Source: "Budget of the U.S., Historical Tables," Table 7.1, pp. 110-111.

FIGURE 2

**Actual U.S. budget deficit, fiscal years 1960-98**

(billions \$)



Source: "Budget of the U.S., Historical Tables," Table 7.1, pp. 110-111.

Historical Table 7.1 solves this detective work. Table 7.1 reports the amount of gross U.S. Treasury debt outstanding (**Figure 1**). For any given year, the annual increment in U.S. Treasury debt outstanding represents the amount of new Treasury debt issued that year to, in effect, cover the U.S. government's deficit. This deficit represents both the U.S. government's on-budget expenditures over revenues, plus the U.S. government's off-budget expenses, which the government has fancifully decided not to account for.

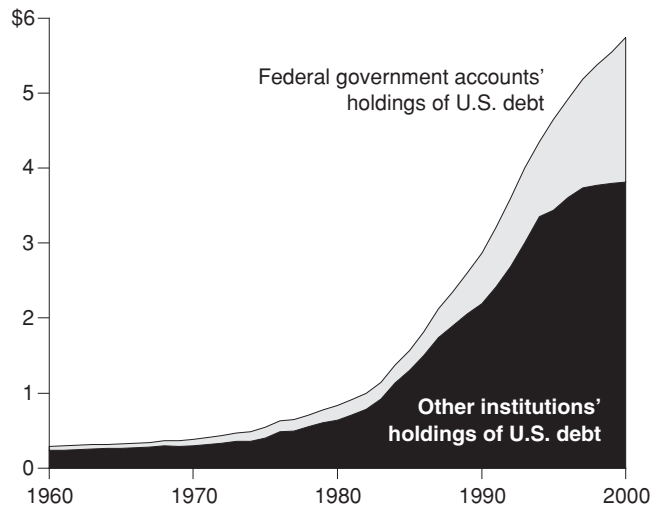
**Figure 2** shows the yearly increment in U.S. Treasury debt which is issued to cover the U.S. budget deficit for that year. This is the real budget deficit. Using the OMB's own projected numbers, FY 1998 will have a deficit of \$173.9 billion, and FY 1999 will have a deficit of \$194.5 billion. Quite a difference from the publicly announced surplus of \$9.5 billion.

**Figure 3** adds a new element to the total U.S. Treasury debt outstanding in Figure 1: the amount of debt held by U.S. Government Accounts. It can be seen that the United States is covering up its deficit by issuing debt and having the U.S. government entities (mostly the trust funds) buy the lion's share of the debt. Some of the money that the U.S. government has given out of the general budget to the trust funds, and all of the interest that the U.S. government has accounted as paid to the trust funds, is not counted as a U.S. government expense. But, if the Treasuries were held by the private sector, at least the interest payments by the U.S. government would have to be so accounted. This procedure, which went into high gear 15 years ago, helps cover up the real U.S. budget deficit.

FIGURE 3

**'Federal government held accounts' are one-third of all holdings of U.S. debt**

(trillions \$)



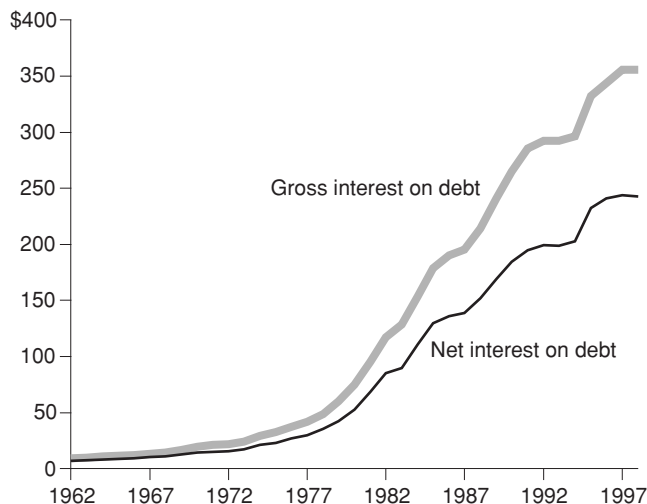
Source: "Budget of the U.S., Historical Tables," Table 7.1, pp. 110-111.

**Why this fraud needs to be exposed**

It is important to expose this fraud, for at least two reasons. First, monetarist budget-cutting is praised as a suc-

FIGURE 4

### Bankers' welfare: gross interest on the debt (billions \$)



Source: Historical Tables of the U.S., Fiscal Year 1999, pp. 60-64.

successful way to balance the budget. But, monetarist budget-cutting cuts part of the physical economy to the bone, which reduces the current and future productivity of the economy taken as a whole. This leads to a reduction of the tax revenue base, worsening the deficit over the longer term. It will also increase future costs for projects that should have been repaired or replaced, but were not because of the budget cuts.

Second, the so-called balanced budget is also attributed to the economy “doing so well” that it created new tax revenues. Some tax revenues have gone up, but, as we will show in a future article, some of the increase in tax payments came from increased capital gains paid on the appreciation of stocks in the stock market bubble. The shifting of the U.S. income profile to dependence on a stock bubble is not a smart step to take.

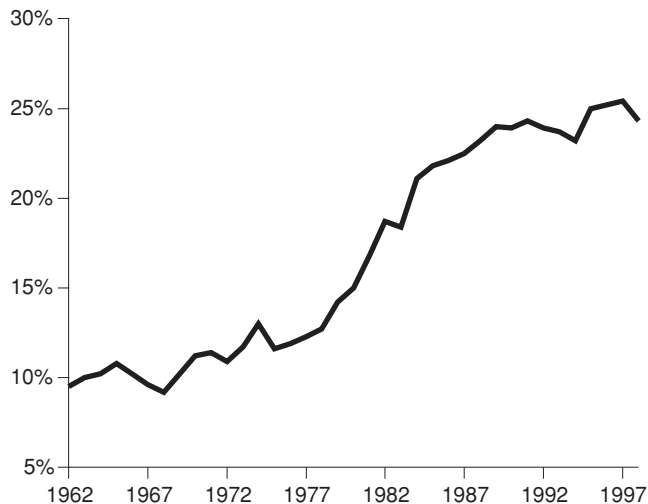
### Galloping interest on the public debt

While Gingrich and his wrecking crew have reduced useful and essential spending in the budget, he and his allies have made the budget increasingly a vehicle to pay interest on the Federal debt. The gross interest on the U.S. public debt took off during two periods (Figure 4). In 1979, the gross interest on the public debt stood at \$50 billion. During October of that year, Federal Reserve Board Chairman Volcker sent interest rates into the stratosphere; by February 1980, they were 21.5%. By 1981, just two years later, interest on the public debt had doubled to \$100 billion.

In 1981, with the Volcker high interest rates still in effect,

FIGURE 5

### Interest payments as percent of U.S. budget expenditures



Source: Historical Tables of the U.S., Fiscal Year 1999, p. 20.

the Reagan-Bush administration came into office. It followed the insane Mont Pelerin Society “supply-side economics” policy of economists Art Laffer and Robert Mundell, and of *Wall Street Journal* editor Robert L. Bartley. By the time Bush left office, in January 1993, the gross interest on the debt had risen to nearly \$300 billion—thanks to “fiscal conservatism.”

However, the U.S. government similarly tries to cover up the extent of its actual debt payments, by counting only what it considers to be “net interest on the debt.” It does not count the interest that the U.S. government is obligated to pay on U.S. Treasury securities held by Federal Government Accounts, such as the Social Security Trust Fund.

However, if the U.S. government owes interest to the Social Security Trust Fund, when the trust fund has to pay out payments to a retiree, that money had better be there. (In Figure 4 we have depicted both gross and net interest on the debt.) By 1998, gross interest on the debt, at \$362.1 billion, exceeded net interest, at \$242.7 billion, by \$119.4 billion. By such accounting tricks, the U.S. government says it is paying out less.

Figure 5 shows gross interest on the debt as a percentage of the U.S. “on-budget” expenditures. (We have added in the amount by which the gross interest exceeds the net interest on the debt to the denominator of U.S. government expenditures; this lowers the percentage of gross interest to expenditures, but it is more consistent.) Thus, by 1998, one-quarter of all U.S. “on-budget” expenditures goes simply to pay interest on the debt.

# The astrophysics of Earth climate: Why are the modellers so wrong?

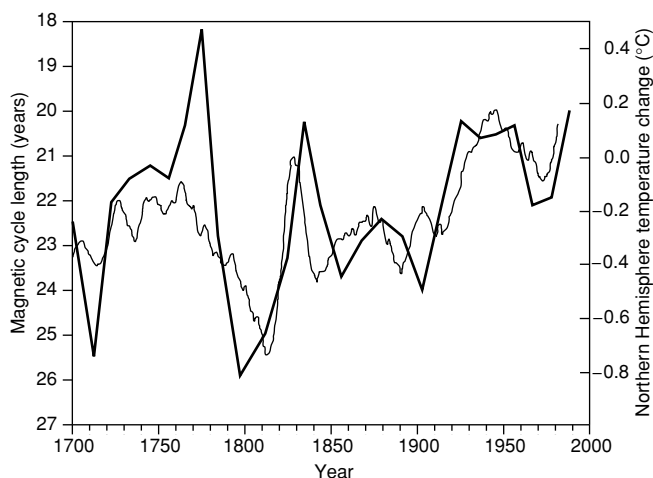
by Elijah C. Boyd

If most of the warming this century occurred before the smokestacks of widespread industrialization appeared, how is it that the computer modellers of climate continue to claim that the same industrialization produced the observed warming? Dr. Sallie Baliunas, Senior Staff Physicist at the Harvard Smithsonian Center for Astrophysics, posed this, and similar embarrassing questions, during her presentation at the Economic Strategy Institute's weekly seminar in Washington, D.C., on April 8.

Industrialization cannot have caused the warming, said Dr. Baliunas. "But, then, what caused the warming of the Earth's temperature up until the 1940s, if not industrialization?"

In answer to this second question, Dr. Baliunas proceeded to examine the variations in the power output of the Sun. More precisely, she scrutinized the long record of variations in the Sun's magnetic turbulence, commonly known as sunspots, and treated these observed variations as a proxy for temperature measurements.

FIGURE 1  
**Terrestrial climate change and solar activity variation**



Courtesy of Dr. Sallie Baliunas

*Sunspot cycles are a proxy for temperature, and the variations in the sunspot cycles (solid dark line) cohere almost perfectly with global temperature variations (solid line).*

In the last 100 years, she said, the global average surface temperature of the Earth has risen about 0.5°C. While the magnitude of the rise, as predicted after the fact, by the computer simulations, seems to agree with the observed temperature rise of 0.5°C, the timing of the rise is off, and therefore, most of the 0.5°C rise must be attributed to natural causes. Only a small part of the 0.5°C rise—no more than a few tenths of a degree—could have been caused by man-made "greenhouse gases."

Since the warming occurred before there was an increase in man-made carbon dioxide, in the form of industrial emissions, such as fossil fuel burning, what did cause a rise in the Earth's temperature? And, where does the heat originate which is causing this alleged global temperature increase? Is the source (the Sun) getting hotter, or is there some magic catalytic power, previously unknown to chemistry, causing carbon dioxide gas, to act like some hyper-catalytic gaseous superman?

Furthermore, the question arises, is there a cooling cycle to match the alleged global warming? As Baliunas noted, in response to a question from this reporter, we are due for a new ice age, and yes, parts of the northeast United States are once again due to be covered by a sheet of ice a mile thick. Before the onset of the well-paid computer modellers, she said, climate scientists were preoccupied with the task of discerning the perfection of the Milankovitch Cycles, the long-term solar-astronomical cycles of solar insolation, worked out by the Yugoslav climatologist Milutin Milankovitch, which determined the ice ages.

Baliunas reminded the audience that the Milankovitch Cycles of solar insolation have tracked the Earth's glacier formation and melting for millions of years. "We astronomers are used to thinking in terms of millions and hundreds of millions of years, if not billions of years—these tens of decades of data [of the computer modellers] are but as an instant in the astronomers' view of the universe," she said.

## The role of sunspots

An astrophysicist by training, Baliunas discussed why she originally became interested in understanding the "why" behind the 11-year sunspot cycles. Our star also has an enormous magnetic envelope, the magnetosphere, which partially shields the Earth from barrages of cosmic rays (but that very





*Dr. Sallie Baliunas:  
“These tens of decades  
of data [of the computer  
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an instant in the  
astronomers’ view of  
the universe.”*

interesting part of the story, how cosmic rays contribute to the formation of the Earth’s clouds, and how this relates to real climate change, will have to wait for a future issue).

Baliunas said that if the Sun has changed brightness in the way the magnetic records have indicated, then changes in the Sun explain more than half of the variance of the temperature record from 1880 to 1993. A brighter Sun, she said, may be the explanation for a substantial part of, and possibly most of, the 0.5°C global warming observed in the last 100 years.

Baliunas’s presentation also reviewed the close fit of the variations in the sunspot cycle to the global temperature variations from the 1700s to the 1980s (**Figure 1**). The length of the sunspot cycle is an interesting proxy for changes in the Sun’s brightness, she said. Figure 2 compares the sunspot cycle length with surface temperatures going back to the 1700s, and the correlation is nearly perfect.

Baliunas’s attack on the insufficient scientific support for the proclamations of the latter-day, computer-model-equipped doomsayers of the United Nations Intergovernmental Panel on Climate Change, the IPCC, was refreshing. Given the propaganda barrage of the climate modellers and their media and greenie support groups, it is good to have some science presented in Washington to counter the catastrophist Malthusians. It would be even better to have qualified scientists, such as Baliunas, force a return to the real climate science, which considers the long-range solar-astronomical cycles that show that the Earth is headed into a period of global cooling.

U.S. environmental groups were given millions of dollars in the past five years to spread scare stories about a man-made ozone hole that would cause cancer on Earth.

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## **THE HOLES IN THE OZONE SCARE**

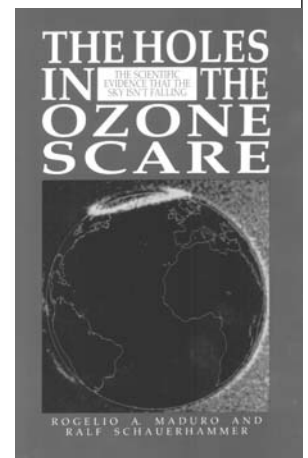
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## Fewer and larger is not better

*The current wave of bank mergers shows only one thing: The bigger they get, the harder they'll fail.*

One week after Travelers Group and Citicorp announced their merger to form the \$698 billion Citigroup, two new, big bank mergers were announced: NationsBank and BankAmerica are merging to form a \$570 billion giant, and Banc One is buying First Chicago NBD, doubling its size to \$240 billion.

The combination of NationsBank and BankAmerica—NationsBank is the buyer and will dominate the new bank, although the combined bank will use the BankAmerica name—joins two regional giants, and creates the closest thing yet to a nationwide bank, with operations spanning the Southeast, the Midwest, Southwest and West Coast. The new BankAmerica will have more deposits—\$343 billion—than any other bank in the nation, and will lead in that category in seven states, including California, Texas, and Florida. It will not have much of a presence in the Northeast and upper Midwest, holes which it no doubt plans to fill as soon as it can.

Both NationsBank and BankAmerica have grown sharply during the 1990s, gobbling up other banks right and left. Among its larger acquisitions, BankAmerica took over Security Pacific, Continental Illinois, and Sea-First, along with a bevy of savings and loans. NationsBank, formerly NCNB, took over First Republic Bank of Texas in a sweetheart deal, transformed itself into NationsBank with the acquisition of C&S/Sovran, then added Boatmen's and Barnett Banks, along with many smaller banks. With the acquisition of BankAmerica, it is now one of the biggest banks in the world.

Banc One's acquisition of First

Chicago NBD will, at least temporarily, move the bank from tenth spot to fifth, among U.S. banks. Banc One will move its headquarters to Chicago, from Columbus, Ohio. This is the second takeover in recent years for First Chicago, which was taken over by Detroit's NBD in 1995.

These mergers have transformed the face of American banking, for the worse. For some 60 years, from the passage of the McFadden Act of 1927 until the late 1980s, U.S. banks were basically prohibited from branching across state lines. The result was a wide distribution of banking assets, with local banks serving, to a greater or lesser degree, the needs of local communities. The traditional money centers existed—New York, Chicago, and San Francisco—but their financial reach was limited. With the Bank Holding Company Act of 1956, the major banks in each state began to form holding companies, which rose to regional dominance in the 1970s and 1980s.

In the mid- to late-1980s, with the precipitous drop in real estate values and the collapse of the S&Ls and the Texas banking system, banks began moving across state lines, via separately chartered banks in their new states. These steps toward interstate banking, while part of a larger plan to concentrate the U.S. banking system into the hands of the financial oligarchy, was driven by bankruptcy: Someone had to be found to bail out the S&Ls and the Texas banks, or the whole system would collapse (which would have been preferable, given the damage done by the "rescue" efforts).

It wasn't until 1994 that Congress passed legislation allowing unrestricted interstate banking, provisions which did not fully go into effect until mid-1997.

The result has been a rapid concentration of the banking system, into increasingly fewer and larger banks. With this concentration came another transformation, the shift from banks whose growth depended upon the increasing prosperity of their home areas, to banks whose prosperity depended upon their success in gambling in the global casino. The bigger the bank, the more its focus shifted from promoting the economic growth of its service area, to pulling money out of that economy to play the casino.

Since the mid-1980s, the number of U.S. banks has dropped steeply; at the end of 1984, there were 14,496 U.S. banks, but by the end of 1997, the number had dropped to 9,143, a decline of 5,353, or 37%. During that period, 1,371 banks failed, and another 6,288 banks were merged.

Along with the shrinkage, has come the rise of a new class of banking giants. At the end of 1985, just two U.S. banks, Citicorp and BankAmerica, had assets exceeding \$100 billion. The top ten banks combined, had assets of \$775 billion, not much more than the new Citigroup has today. By 1991, the Fed had secretly taken over the bankrupt Citicorp, and arranged a wave of big bank mergers, which continues to this day. Charlotte, North Carolina, home of the new BankAmerica and of number-six, First Union (which gobbled up First Fidelity and CoreStates, among others), now ranks second to New York as a banking center.

But bigger is not better, and these giants are no longer banks, but speculators. When the derivatives markets blow, nothing will be left of these new titans, and all their seeming power.

## Showdown on the docks

*The Canberra government is determined to smash the maritime union, but the orders are coming from London.*

At 11 p.m. on April 7, Patrick Stevedores, one of the two major stevedoring companies in Australia, suddenly sacked its entire workforce of 1,400 workers—all members of the Maritime Union of Australia (MUA)—at 17 port facilities. Within hours, Patrick hired non-union workers to replace them, ignoring a Federal court injunction forbidding it.

Notwithstanding the illegal actions, Prime Minister John Howard announced that his government is backing Patrick “to the hilt,” while his Minister for Workplace Relations, Peter Reith, crowed that, “for the first time in 80 years,” non-union labor is unloading ships in Australia. As all sides are aware, unless this assault is turned back, it means the near-term elimination of organized labor. But, this is hardly an Australian affair: Howard’s Liberal/National party government is a subsidiary of the Mont Pelerin Society of London, the chief economic warfare body of the British Crown, and its union-busting has been shaped at every turn by Rio Tinto, the world’s largest mining company, partially owned by the Queen herself.

Lord Harris of High Cross, a former president of the Mont Pelerin Society, told the *New Citizen* in March 1996, shortly after Howard was elected, that the new government was installed for a single purpose: to smash the unions.

Harris would know: Three members of the new government were founding members of Mont Pelerin’s fiercely anti-labor Australian front-group, the H.R. Nicholls Society, and others, including Howard himself, were H.R. Nicholls associates.

The first shot in Mont Pelerin’s war against Australian unions was the “Workplace Relations Act” (WRA), passed in December 1996. This allowed employers to set up “individual workplace contracts” to replace unions, outlawed any “secondary boycotts” (sympathy strikes by other unions), and mandated crushing fines for any violations. Months later, it emerged that the bill was drafted by a three-man committee led by Mike Angwin, an executive of Rio Tinto who became the senior manager of Rio’s Hunter Valley No. 1 coal mine, and, throughout 1997, led a vicious assault against the Construction, Mining, and Forestry Employees Union (CFMEU) there, using the act he had just written. As for the assault on the MUA, Patrick’s Chris Corrigan crowed on TV on April 12, “We could never have done it without the WRA.”

Once the WRA was passed, the government called on the National Farmers Federation (NFF) to set up a non-union stevedoring company, to break the MUA. The NFF was set up by Australia’s rural oligarchy, and is also dominated by H.R. Nicholls personnel, including Defense Minister McLachlan, an early NFF president.

In a secret memorandum to Reith on March 10, 1997, his staff specified that “stevedores would need to activate well-prepared strategies to dismiss their workforce, and replace them with another, quickly.” Later in 1997, the “new workforce”—some of whom were serving Army officers granted leave by McLachlan—was secretly trained by former members of the British Special Air Services on the docks in Dubai, which caused a huge scandal

when it became public in December. Patrick has now hired those SAS trainees to replace MUA members.

Though the NFF is in the headlines, sources in Melbourne report that there is no doubt that the *éminence grise* of the whole affair, like that of the WRA, is Rio Tinto, and point to the following:

- Rio Tinto paved the way for Howard, who was notoriously anti-union, to become Prime Minister, by giving his chief rival, Andrew Peacock, a “golden handshake” to leave politics as a Rio “consultant.”

- Rio Tinto funds Mont Pelerin’s Australian front groups, and, in addition to its long-running campaign to smash the CFMEU, sponsored the first attempt to crack the MUA, at the port of Cairns last year, through a shipping company it controlled. The CFMEU and the MUA are Australia’s two strongest unions.

- The NFF’s \$100 million “Fighting Fund” for the docks war is controlled by two Rio Tinto associates: Nobby Clark, former chairman of the Coles Myer retail giant, and of Ashton Mining, which is a 40-60 partner with Rio Tinto in the world’s largest diamond mine, Argyle, in Western Australia; and Charles Copeman, who, as head of a Rio Tinto subsidiary at Robe River in Western Australia in 1986, sacked his unionized workforce—the precedent for Patrick’s actions.

- Rio Tinto has just announced huge expansion plans for its own shipping company, established two years ago in Melbourne, the port where the NFF first set up shop.

- The lawyers and chief strategists for Patrick Stevedores are Rio Tinto’s own lawyers, Freehill, Hollingdale, and Page.

- Patrick’s public relations consultant, White Group Communications, also handled Rio Tinto’s push to eliminate the CFMEU in the Hunter Valley last year.

# Business Briefs

## New Zealand

### Government set to privatize roads

The New Zealand government, a virtual subsidiary of the British Crown's Mont Pelerin Society since 1984, is considering a plan to put electronic transponders in every motor vehicle and charge public road users by the kilometer, a reform plan it has been working on since 1994. At a noisy public meeting in Christchurch on March 30, Transport Minister Maurice Williamson denied that the report by the Roading Advisory Group was based on privatization of the roads, but said that a method had to be found to charge vehicle owners for the "real costs they incurred," as government rates were "a very blunt instrument" to raise the necessary funds.

Charging individuals for use of general infrastructure, is a policy that builds inefficiency into the economy.

In the debate, Christchurch City Councillor David Close rejected the government's insane approach. "Roads have been in common ownership since medieval times. That means they are not owned in the ordinary sense by the Crown or local authorities, but are held in trust on behalf of everyone," he said.

The use of transponders in cars will soon be in effect in Victoria, Australia. Under Mont Pelerin Society hero Jeff Kennett, motorists will be forced to pay for the use of a privately owned central Melbourne roadway called Citylink, by first paying for the installation of transponders in their vehicles, and then having the bill for their trips debited from their bank accounts.

## Germany

### Unemployment threatens society, industry warns

In a 23-page document addressed to Chancellor Helmut Kohl, Federal Association of the German Construction Industry president Ignaz Walter draws a devastating picture of the German political and economic situation, which is causing "dangerous turbu-

lence for the state and the economy," the *Frankfurter Allgemeine Zeitung* reported on April 6. The document is not yet public.

Walter told the daily that if Germany is not able to overcome its political paralysis, the lack of investment, and mass unemployment, then democracy, the market economy, and wealth are endangered. While the government lacks both the courage and the power to deal with the crisis, a new Social Democratic Party-led government would make things worse. Politicians from all parties are sticking to a purely populist election strategy, which is not dealing with the urgent economic issues, he said.

The biggest of all threats, Walter emphasized, is the "catastrophically high unemployment," which, apart from illness, is the heaviest burden. He said, "It is unsocial, inhuman, it destroys whole families and our society."

Walter also attacked globalization as "a new form of socialism." It has triggered a worldwide mania of international mergers leading to huge conglomerates with "planned-economy structures," thereby causing an overall destruction of the *Mittelstand*, i.e., small and medium-sized firms, he said.

## National Economy

### Brazilian cites Hamilton to counter globalization

Barbosa Lima Sobrinho, the 101-year-old president of the Brazilian Press Association and Brazil's most famous journalist, promoted Alexander Hamilton as the cure for globalization, in a commentary in *Jornal do Brasil* on April 12. Globalization, Barbosa Lima said, is "a new name for an economic policy which has dominated the world since the 18th century, under the auspices of a notable economist, Adam Smith, which made possible the power of England . . . to conquer its tributaries."

Globalization, then known as "economic liberalism," met "resistance from a nation which had just won its independence, precisely against England, the United States of America, which had its helm in the Treasury Department, a vigilant man of intelligence,

Alexander Hamilton. Although born on an island under England's control, he took up, decidedly, the defense of the nation which had just been created on the American continent. . . . And this U.S. Treasury Secretary produced an excellent *Report [on Manufactures]*, which only now, to my knowledge, was translated into Portuguese, thanks to a Mexican journalist who lives in Brazil, Mrs. Silvia Palacios de Carrasco, working for a similarly heretical organization of the United States, of Mr. Lyndon LaRouche," Barbosa Lima wrote.

Hamilton recognized "that the liberalism of Adam Smith had no other objective than to serve the economic interests of England," Barbosa Lima said. And so, Hamilton argued that such countries "should use the public treasury to supplement the deficiencies of private resources. . . . Where could the public treasury be more useful, than in stimulating and perfecting industry's efforts?"

Barbosa Lima correctly emphasizes Hamilton's advocacy of the role of the state, "which had just been created in the battlefields of the war of American independence," but he mistakenly identifies the later adoption of neo-liberal economic policies at various historical points in the United States and Europe as being the result of "the growth of the U.S." and as being "to its own benefit," rather than the result of British factional warfare *against* U.S. national interests.

## France

### Economic deals at heart of Zhu Rongji visit

French authorities were pleased to announce that Chinese Prime Minister Zhu Rongji chose France for his first official overseas trip as Prime Minister, French media reported on April 8. At the heart of discussions are several economic deals. The French, like everybody else, are trying to capture as much as possible of the Chinese market, the only growing one left in the world today. Among the deals discussed, the most advanced are the following:

1. The construction by GEC Alsthom of the Shanghai metro;
2. The construction of six nuclear plants

of 1,000 gigawatts each, for which the French nuclear companies (GEC Alsthom, Framatome, and EDF) have already provided a feasibility study;

3. The joint Airbus-China 100-seat plane, which is provoking tough negotiations. (After Chirac committed Airbus last year to this joint venture, the April 7 *La Tribune* reported that there has been strong resistance from the British and German partners of Airbus. The friction is over the technology transfer. Airbus is at this point proposing a joint venture on the A-320 model, but not the more advanced A-320, and the Chinese are unhappy about this);

4. The French government will be investing 800 million francs (about \$160 million) into a Citroën-Chinese automobile joint venture in Wahun, which is doing badly at present.

In a speech to the French businessmen's association, Zhu encouraged them to invest in China, and emphasized that Franco-Chinese trade increased 37% in 1997, and French exports to China 40%.

## Nuclear Energy

### Ukraine's President rejects tradeoffs

President Leonid Kuchma on April 3 endorsed nuclear power plants to replace any Chernobyl-style reactors, after meeting with Canadian Minister for Natural Resources Ralph Goodale. Kuchma called the Group of Seven plan to compensate Ukraine for closing down its two undamaged reactors at Chernobyl, by replacing with thermal power plants, "unacceptable." Kuchma stated that Ukraine cannot close down those plants if the G-7 member-states withhold their promised funding to complete the construction of two nuclear reactors.

The two nuclear reactors, at the Khmel'nitsky and Rivno complexes, are 90% completed. In 1995, Ukraine had agreed with the G-7 to close down Chernobyl by the year 2000, in exchange for international financial assistance to help build alternate plants, including the two nuclear reactors.

Last year, the London-based European Bank for Reconstruction and Development

had indicated it would be willing to pay for their completion, but delayed a final decision, purporting reasons of "safety" and insane "financial cost-benefit analysis."

## Asia

### Drought, pestilence hit the Philippines, Vietnam

An El Niño-related drought has wreaked havoc across Asia, and the Philippines and Vietnam have been particularly hard hit. About 90% of the Filipino archipelago, where rainfall is less than half of normal, has been affected. According to relief workers, 1 million Filipinos are at risk of severe food shortages, the *South China Morning Post* reported on April 6.

In the southern-most island of Mindanao, 50,000 farmers have lost 250 million pesos (\$6.4 million) due to crop failure. On April 4, President Fidel Ramos ordered emergency distribution of one sack of rice per household in the provinces of Sarangani, South Cotabato, Sultan Kudarat, Maguindanao, and General Santos City, provinces which account for 40% of national rice and corn production. However, the operations chief of the Presidential Action Center said that the 10 million pesos allocated will only provide 28,000 families with one-half sack of rice each.

The provincial disaster committee in Sarangani reported that 95% of households (51,870 families) had no food. A disaster coordinator told the *Morning Post* that the harvest will be delayed until October, if there are rains in May.

In the Autonomous Region of Muslim Mindanao, the region set up as a condition for a peaceful end to the 25-year civil war on the island, thousands of farmers, fishermen, and businessmen demonstrated in Cotabato City, Cagayan de Oro, General Santos, and Zamboanga. Businessmen are demanding a lowering of interest rates, from the current 24-26%, to 12%.

In Vietnam, the highest temperatures since 1912 have devastated export crops of coffee and cashews, and low water levels in the Mekong Delta have led to saltwater contamination of rice paddies. State media estimate potential losses at \$100 million.

**CHINA** will start construction of the Beijing-Shanghai high-speed rail line, the first high-speed rail line in China, in 2000, Xinhua reported on April 1. Investment will total \$12.05 billion. Domestic funds will be the major source of financing. The line will run 1,300 kilometers, with a designed speed of more than 250 kilometers per hour.

**THE ITALIAN** oil firm AGIP is pursuing major deals with Iran, and carrying out appraisal work on offshore and onshore projects. AGIP spokesmen have expressed great excitement over what they have found in Darkhowein, where they estimate reserves to be up to 18 billion barrels.

**MALAYSIA'S** Petronas will proceed with its investment in the \$2 billion deal with Iran, despite possible financing problems arising from the Asian crisis, the oil group's president Mohammed Hassan Marican said on April 8. Petronas had just signed a joint-venture agreement with U.S.-based Union Carbide.

**FRENCH** President Jacques Chirac warned of the "fragility" of the financial system, in a statement to journalists after the Second Asia-Europe Meeting (ASEM) in London, the April 6 *Financial Times* reported. "We see that the more open the international monetary system becomes, the more its fragility becomes a problem," he said.

**DUTCH** employers and politicians are interested in maglev rail technology to connect a new international airport, Schiphol II, with Amsterdam. A government delegation visited the Transrapid test site in Lathen, Germany, on April 9. The Dutch Employers Association has endorsed maglev for the project.

**INDIA** extended a \$10 million loan to Myanmar on March 29, to the Ministry of Rail Transportation and Ministry of Industry, for production of machines and technical services, *New Light of Myanmar* reported.

## Infrastructure, not money, fosters development of nations

by Lyndon H. LaRouche, Jr.

*This speech was delivered to a private seminar on Feb. 23.*

We have, in the United States, two so-called national newspapers. And, it's typical of our present conditions, that these are very bad things, together with our television so-called news. One of these newspapers, which comes out five days a week, is the *Wall Street Journal*, which is a newspaper, although a very bad one. It's bad in the sense that it's evil, especially since about 1970, when a new editor took over the editorial page, who is the present editor of the publication, and who has played a key role in creating the so-called Friedmanite or monetarist faction in the United States. In other words, the *Wall Street Journal* is a voice from the outer space that does not exist, and from a world that will not exist very long, if it continues to listen to the *Wall Street Journal*.

The second one, which is more popular, comes out seven days a week, and it's not a newspaper; it just pretends to be one. It's called *USA Today*. If you look at it, you say, "This is not a newspaper. This is written for people who are too stupid to read the morning comic book."

But what's relevant, and as you know, looking at different cultures, sometimes you find certain clues that tell you what's wrong with that culture. And, you look at national popular television. You look at our national entertainments, what people spend money for. You go into typical bookstores, including university bookstores, and you look at the subject matters which are sold in the bookstores. Then you look at some of the leading newspapers, and you look at other entertainment, which tells you more about a people and its condition, than anything else. Because when they're working, they're doing as they're told; when they're going to entertainment, they're

doing what they're telling themselves, and they reveal their inner self.

Now, look, this is a section of this newspaper, *USA Today*. This section is called "Money." In former times, you would have newspapers that would have a section called "Business," "Economics," or, even in the *Wall Street Journal*, "Finance." This: "Money." "Money." "Money!" It tells you a great deal about what's wrong, why funny things happen in the United States: because people are thinking about *money*.

We weren't like that always. We always had greedy people, but we didn't have people who thought that money itself was a god—not many of them. It used to be the case, even in entertainment, that if you presented a character in entertainment in the United States, who was interested only in money, this would be typically, in a movie, for example, an evil person, the man who is thinking only about money, who has no other morality. Money. And that, unfortunately, has become a very large factor in the population of the United States, especially in the wealthiest, and most influential by virtue of wealth, circles.

In former times, before the middle of the 1960s, for example, there would be different concerns among people, such as infrastructure. For example, take the subject of education. Education, science, and infrastructure are the most important parts of an economy. Good education creates the potential in the young for the creativity, the capabilities of the adult. Health, of course, is indispensable; a family that has a high death rate, early mortality, can not provide the nurture for the children needed. And, if you have a society in which you have a high death rate, you can not develop the children as well economically as you can in one which has longer life.



*A Schiller Institute delegation visits the nuclear energy institute at Qinghua University in China, where a high-temperature reactor is being built (May 1996). Such safe, efficient nuclear reactors are essential for China's future, given the vast energy requirements the nation will have in the next century.*

Without infrastructure, no economy can work. Look at Southeast Asia, for example, and compare China, for example, with the leading machine-tool economies in Europe, say the United States and Germany as examples. What people in Southeast Asia lack, is infrastructure.

You have the fourth most populous nation in the world, Indonesia, which has an inclination to high technology, as typified by a man who is presently a candidate for Vice President, Habibie. Habibie is the person who was educated in aeronautical science at Aachen University—a very good education—who is the leading industrial magnate in Indonesia, who brought in an aircraft industry top-down. But Indonesia does not really function, because it has very poor infrastructure, and because the national leadership has not yet understood how to approach infrastructure.

Indonesia is an island nation, a nation of many islands, which means that there's a lot of water. And, the land area has a large coastline. Therefore, it has a natural, built-in transportation system, a water system. Therefore, the most important thing for Indonesia is to develop, in the region of the entire sea area, high-speed, efficient waterborne transport, to develop all the islands together. So, where China has a northwest territory development, inland and northwest territory, to develop itself fully, the potential for Indonesia is to develop all the islands, as an integrated nation to an integrated economy.

Another example, another problem is that the greatest obstacle to development in Southeast Asia, is very poor ma-

chine-tool capability. They actually are still colonial economies. The so-called Asian Tiger phenomenon—except for Korea, which is special—the Southeast Asia Tiger phenomenon was a farce. It was never true! Because to have a true, viable economy, you have to have a sovereign economy.

Now, you think back to times of warfare. For example, China has developed as a nation under conditions of threat of war. Therefore, China will think, in economy, also in terms of national security, not just needs of the people. "But what if the world turns against us? Can we survive if the world turns against us?" This is not only good military thinking, this is also right thinking under all economic conditions. "Do we have the capability of surviving, if the world blockades us? Could we get by? Could we maintain our people?"

Well, the most important thing is the so-called machine-tool industry. The machine-tool industry has two aspects to it. One aspect is the machine-tool industry which is virtually a scientific laboratory: the people who invent machine-tool designs. Then, you have a secondary machine-tool industry, in which designs which are already developed as designs, are adapted to various uses. These are also the machine-tool industries which do the repairs on high-technology industry.

Just think: In Indonesia, or Thailand, or Malaysia, or the Philippines today, think of the problem if a machine, if a modern machine breaks down. How can they repair that machine? How many miles do they have to send to bring in a technician to repair that machine? They have no local capability for sustaining their own industry. In China, of course, it's



important to increase greatly the size of the machine-tool sector, particularly in the areas where the new development will occur, in order to have the machine-tool repair capability and technical training capability, to support the industries that go into these areas.

So, these are important characteristics.

### **The best example: space exploration**

One of the best ways of thinking about this, is to think about space exploration. Now, space exploration is a perfect example of the Machine-Tool Principle carried to its most advanced level.

For example, during the middle of the 1980s, I developed a design for a 40-year program to begin the colonization of Mars. Why would it take 40 years? I worked it out step by step. Because, in order to do each step, you have to complete a previous step. First of all, you have to change the way you go into space. A rocket into space from Earth is not efficient. It's not efficient! It wastes fuel. First, you take a plane, a high stratosphere plane, a jet which goes to a high altitude, and carries a rocket on its back. You put a low-altitude station in, and then you build another rocket plane at that level, which goes to what is called geostationary orbit. This is the space platform level.

Then, you have to colonize the Moon, not so much with people, but with industries, to build craft to go to Mars. They're big. Do you want to put all that weight from Earth up into space? Very costly. Go to the Moon. There's raw material on the Moon. Use nuclear technology for automated industry on the Moon, to make the parts for the big spaceships.

Then, you send all your space equipment to Mars. You put it in orbit around Mars. You develop high-speed technology, so that you can get to Mars within days, not months: constant acceleration. That is, ballistic trajectory to Mars is very slow, it takes months. Only twice a year can you have a good journey to Mars. If you want to have a journey to Mars constantly, you have to have constant power, a constant-powered flight. Then you park everything around Mars. You drop everything to Mars' surface, and you begin to build a habitat for human beings.

To do each of these steps in sequence, with a good program, would take 40 years. Therefore, we can conquer space with technology, but also with infrastructure. The ability to develop the infrastructure for human existence, is the precondition for human existence and production. And, these technologies which we would use for Mars, are the same technologies we would use to make the desert habitable on Earth. If we can build a city on Mars, we can build a city in any desert. If we can transform Mars to make it more habitable, we can transform any part of Earth to make it more habitable.

All of this requires technology, machine-tool technology. So, if we think about space exploration as the frontier of infrastructure, then we look back at Earth, we have a better understanding of how infrastructure works on Earth. So, think of ourselves as visitors from space colonizing Earth. We need

to make the Earth habitable for human beings, and for the kinds of production human beings require. So, we think of ourself as man in the universe, and Earth is our first colony. And then we have the right thinking.

So, everything you say about infrastructure, should have that mental outlook. We are conquering space, beginning with Earth. And this requires a constant drive of improved technology, which enables us to do the things to create the infrastructure to conquer Earth. This is true of soft infrastructure, such as education, science itself, health care. We have to improve the conditions of life of the human being, the human mind, the human body, protect it. Science to develop the knowledge of society. Infrastructure. Preconditions for development.

### **Man's transformation of nature**

If you want to have an industry, you have to move materials to it and from it. Therefore, you require an efficient transportation system which has a low physical cost of transportation per ton of weight. The most efficient, of course, is rail—rail or magnetic levitation—the lowest in the cost, physical cost per ton mile. Roads are very inefficient, and the only time you use roads, is when it is inefficient to build rail. And you try to use them only for very short distances, because they're very costly, per ton mile, relative to rail. Rail is much cheaper. Water is the cheapest, but that's not land. But, water is slow.

Therefore, if you wish to move freight, and you don't want to have a lot of freight in the system, if you don't want to produce a big inventory, then you will want higher-speed travel, in order to reduce the cost of inventory. If you have, for example, coal, or iron ore, you would prefer to move that by water, because water is so cheap. And, therefore, if it goes more slowly, you don't care, because the cheapness of water transportation is an advantage.

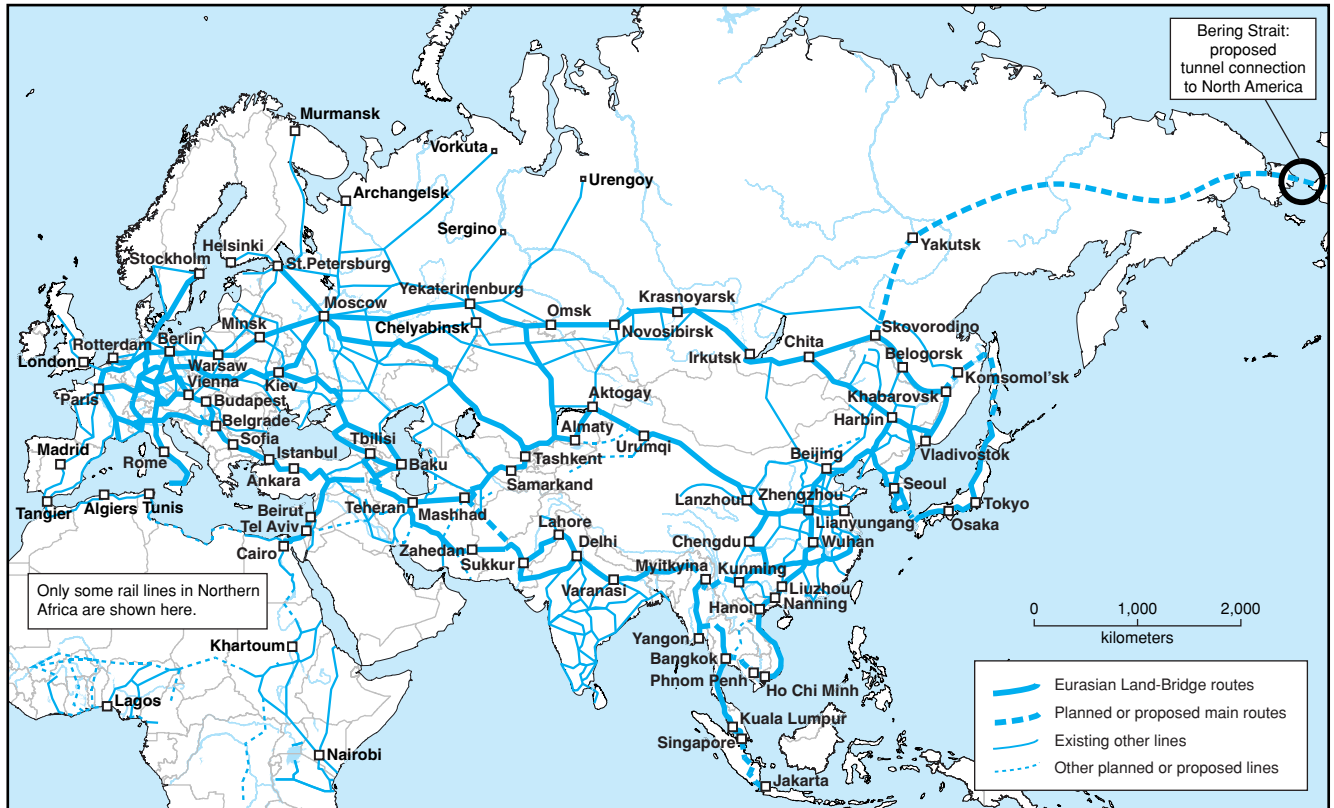
You also require power. Now, power has quality, as well as quantity. The generally easiest measure of power efficiency, is what is called *energy flux density*. In other words, you take a square centimeter of a surface area. You have something flowing, like water, or electricity, or whatever, flowing down a tube. You want to know how much energy is going through a cross-section area, one centimeter, for that flow, energy as represented by motion of water, energy as represented by electrical power, or whatever. So, energy flux density.

Now, certain sources of power have very high energy density. Very low, is muscle power, animal power: very poor. Open, simple burning of wood fuel: very poor. Sunlight: very bad. Sunlight is very poor. You can not get efficient power from sunlight, only in small quantities, and only for special uses. Let the plants have the sunlight, they know how to use it efficiently! . . .

Now we have more efficient chemical power, chemical reactions. They're more efficient than burning, simple burning. For example, one of the most efficient chemical sources of power is the simple combustion of oxygen and hydrogen. It's much better, for example, to use methane for airplanes,

FIGURE 1

**Eurasia: main routes and selected secondary routes of the Eurasian Land-Bridge**



than it is to use gasoline or kerosene. So generally, what we would do—in many cases, for chemical power, if you use a nuclear plant, or a thermonuclear plant, you can convert water into hydrogen and oxygen, by dissociation. You then can use the hydrogen as a fuel for local use, or you can make methane, natural gas, so-called, and you can use that as a fuel, which is much more efficient than gasoline. Also, when you use combustion of oxygen and hydrogen, your waste product is water, which is not a bad thing to have. It's not a pollutant.

So, those are the most advanced. You can look at the Periodic Table, and you can generally tell from the Periodic Table of Chemical Elements, what is the most efficient chemical process for energy. But, that's not too good.

You go further: You go to the atomic nuclear level. Now, the energy flux density will be 100 to 1,000 times as efficient for nuclear energy, as for chemical energy. Thermonuclear energy will be 100 times or greater more efficient than nuclear energy. We have another reaction we know, a physical reaction we know, which is about 1,000 times more efficient than thermonuclear fusion. It's called matter-anti-matter reactions. These occur in the laboratory. We measure them, but we do not yet know how to control them. One of my objectives in my Mars program, was to say, "We have 100 years to develop this technology. We must find out, in 100 years, how

to control it. Because it's a thousand times more efficient than thermonuclear fusion."

So, energy; again, infrastructure. To create a habitat for human beings, and to create a habitat for industry and agriculture, we must transform nature, to bring nature, per square kilometer, up to a quality which is, for human beings, favorable, and also for industries. These qualities include transportation, soil development, water management, power, communications. Then, living places for people, which means education, health care, science services.

When you get industry, the next thing you require with industry, is machine-tool industry. If you want to maintain a factory, you should have a repair shop that can maintain the machines. The machine-tool industry is the first industry, the most important industry, the mother of all other industry. The machine-tool industry.

**The Eurasian Land-Bridge**

Now, how do you do that? Well, let's take the Land-Bridge [see Figure 1]. You are very familiar with China, more than I am, so I don't have to tell you about China. But, in general, look at the condition of China. We have the problem of the inner area, which is poorly developed economically, where people live, but they're poorly developed; where the

people are poor. Number-one problem.

Number-two problem: not enough land area developed, so that you can have population growth. How do you do that? The northwest, areas which are now desert or semi-desert: You must open up the desert. Well, the problem is very much like the problem we studied in the Sahara: How do we deal with northern Africa?

Well, what you do, is you take the desert area, and you design a Silk Road. But not just a Silk Road, not a transportation route. Along the transportation route, you move gas pipelines, water pipelines, power stations, everything. Develop the land area on either side, 50, 100 kilometers either side of the rail line, and you conquer that amount of desert. You want to do more, more desert? Make another development line, another transportation line, the same thing, off the main line.

And, in that process, you can control the desert. It's like conquering the desert. It's like a military flanking operation against the desert. We are now going to defeat the desert! It may take us 50 years, but we will defeat the desert. In our children's, our grandchildren's time, the desert will be conquered.

So, what we do is, we go through these areas. We say, "Are there people here?" Well in inland China, there are people there. Not in the desert area, not so many. "How many people can we employ in these areas? What resources do these areas have, for this infrastructure?" All right. The farmers will produce food. So, we will feed people who work on this project in this area. This will be now new income for the farmers, a new market for the farmers.

You have unemployed people? They don't have to go to the coastal cities for work; the work will come to them. But, they don't have skills. So, we will have to have skilled cadres move in to train them and guide them in the new employment, and to develop their skills. More teachers. You will need more education. More health care, more services, in order to psychologically integrate the local population, with the benefits of the work.

So, the thing starts with the infrastructure project, development project. You now can bring in the machine-tool support, the local branch of the machine-tool industry, which means you can bring in any industry that fits that area.

## **Infrastructure development in Europe**

This is true all over the world, with the building of large-scale transportation projects. In Europe, it used to be canals. From the time of Charlemagne on, canals; over 1,200 years ago. Then it became, later, roads and railroads; in modern times, railroads.

Then, the development of mass power distribution. We had the first burning of fuel. The discovery of coal as a fuel to replace wood was a great advantage in Europe, and the development of that, which occurred in the Sixteenth Century and Seventeenth Century. Because we were destroying forests. A forest is an ecological resource. It should not be used just for fuel. It helps to control the environment. The forest is

the most efficient transformation of sunlight into biomass. It's a very useful resource for wood, for many other things we get from the forest and its surrounding areas. It maintains part of water management. You have forests, you have watershed.

So, these developments occurred in a natural way. We kept adding new technologies. Every step started with two things: infrastructure, and soft infrastructure. That is, education, health care, science, transportation, power, land development, land management. These things became the stimulant and the precondition for creating new kinds of industries.

If you look at the importance of river development in Europe, for example. . . . You take the Rhine River, the Elbe and so forth—these were crucial in the early development of parts of Germany. For example, in medieval times, you had the development of what was called the Hansa. These were the shipping groups that went across the North Sea and the Baltic Sea. You have here the Rhine system, which is down in Bavaria and so forth [see **Figure 2**]. And you have over here the Elbe system, and so forth. So the rivers were natural communication, natural highways. So, you would have the areas of Germany, particularly in mountain areas, say in Bavaria, what is today Bavaria, or what was the Hartz Mountain area, and other areas. You had Saxony. You had areas where there were mountains with large mineral resources. You had primitive types of metal industry. And these would become the resources by the Rhine system, the Elbe system, and so forth, which would now be connected to the sea, which would then be connected to this shipping transport along the coast, among various parts of Europe.

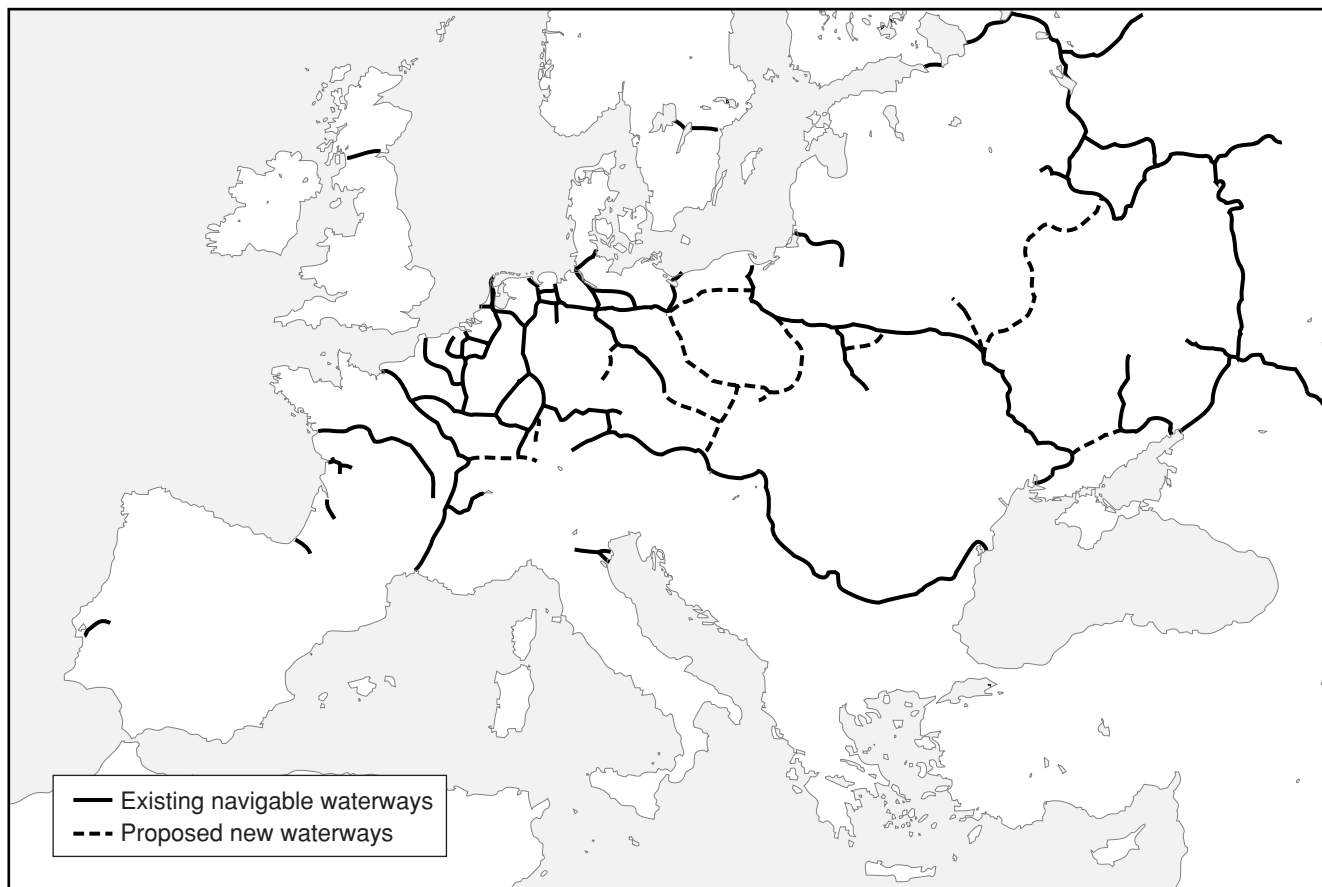
So, early economic development utilized a natural infrastructure, which was the rivers. To improve on the rivers, we added canals to connect rivers to each other. This improved the density in Europe. Look at the canal system, the development of the canal system in Europe, from the time of Charlemagne, and look at the plans which were laid out in the time of Charlemagne, some of which were just recently completed. For example, the canal connecting the Rhine River to the Danube River for transportation, which is the connection of the North Sea to the Black Sea, was only completed recently. And this was a design which was intended over a thousand years ago.

So, the development of Europe before railroads was largely based on cheap water transport using rivers, and increasing the usefulness of rivers by adding canals, as happened in China. The same question, of how to use a canal to develop China. How not to use it, how to use it.

This was a combination of rivers and canals. By linking canals across one river system to the other, you now take the natural highway of water highways, and you add to them the artificial highways, and that gives you the cheapest cost per ton for movement of freight. So, if you have bulk freight, like heavy freight; like fuel, for example, petroleum, oil, you want very low cost. For low cost, you must pay the price of slow freight, slow transportation. So, water transportation is per-

FIGURE 2

## Existing and proposed new waterways in Europe



fect. Grain, coal, ore, many other types of things, which are cheap, low cost per ton, better to move slower.

So, what happens is, naturally, when you create infrastructure development, where you bring generally new land, which may have been inhabited before, but it's not economically useful—it costs too much to produce in that locality—you now make it potentially, economically, more productive, by developing infrastructure.

For example, you actually may develop improved agriculture. Look, for example, in Germany, you will find they had a more intelligent approach to use of land, than they do in the United States. In the United States, we have big, sprawling suburbs outside cities. The farms are pushed away. Farmland is pushed more and more away. In Germany, it's much more intelligent. You will find farmland up next to the big factory, which is a natural, economical thing, as also for China. If the farmland is right next to the city or the town, then the population of the city and the town will get its food more cheaply, more readily, right from the local area. So, the planned development of agricultural land, and new techniques of agriculture, including artificial environments for food growing in inclement areas.

What do you do in a desert area? Not good for farming, perhaps. But, you may have an artificial environment for high-quality food; vegetables, for example, under special conditions, a special environment. For example, plants like carbon dioxide. People do not like carbon dioxide; it's not good for them. But a plant is very happy. Give a plant energy, especially sunlight, lots of carbon dioxide, and adequate water, and minerals, the plant is very happy. It grows very fast. So, you may create special environments, which are good for plants, but not good for people. And, you will grow food under these artificial conditions, which will be much more efficient and much less costly, actually, in terms of the result, than growing it under open field conditions.

So, the development of an area then, by infrastructure, now creates the potential for industry, private industry, which otherwise did not exist, provided you have the machine-tool capability.

Now, look at this from a standpoint of credit, development credit. You take a large-scale project, like the Land-Bridge project. So, the state will create credit, and create a network of companies. You probably will have a state agency, which is responsible for all of the political aspects

of the project, because in any project, you have political aspects. You have to acquire land. The project—a rail system, a transportation system—requires land. This land may already be being used for something else. This is the responsibility of the state, as in the Three Gorges Dam, to take charge of that problem. You had to move people in China from one area to another area, to make the Three Gorges Dam possible. This is the responsibility of the government. No private company could do that.

So, the government creates an agency, like the TVA in the United States . . . a general master agency for that area, responsible for that project in that area. Now, at that point, you can have private contract companies, typical in the United States, come in.

### **The tradition of Lazare Carnot**

In the United States, we also did something else, which also is probably good for China. From 1814 on, the development of the U.S. military, first the Army and then the Navy, was based on the development of the military as an engineering force. The way this happened, is that the foundations of modern industry were established in France, beginning 1792-1794, by Lazare Carnot, who was then the commander of the French forces, who achieved the victory against the invasion of France, under his leadership.

Not only was he a military genius by training, he was also a scientist. Lazare Carnot developed the concept of the modern machine-tool industry. As a commander of military forces, he revolutionized warfare in two years. Modern warfare, as we know it from the Nineteenth Century and the Twentieth Century, was invented by Lazare Carnot, in two years, in taking a French army which was being defeated, and converting it into an undefeatable land force, by changing the structure of the military in a way which was immediately imitated in Germany, by people like Scharnhorst, in the development of the *Landwehr* in Germany, and other things.

But, he also applied the Machine-Tool Principle, and introduced it, with industries centered around Paris, to run a crash program. For example, Lazare Carnot developed the techniques for mass production of mobile field artillery. And one of the features of the French Army under Carnot, was that it developed the use of mass mobile field artillery as a new device in warfare, which changed the character of warfare. And such things.

Lazare Carnot's teacher and friend was Gaspard Monge. Gaspard Monge is a very famous person, who founded the Ecole Polytechnique in France. This Ecole Polytechnique was a continuation of the work of Leibniz. It was a copy of Leibniz's model for the Academy. Monge and Carnot were both, scientifically, followers of Leibniz.

Now, Napoleon ruined much of this. But, in 1814, when the Restoration government destroyed the power of Monge and Carnot, the people from the Ecole Polytechnique went to various places. Gaspard Monge, who was older, retired, and

died in 1818. Lazare Carnot, who had been his student at one time, lived in Germany, in Magdeburg, as a refugee from France. He died in 1823. During this period, he was one of the advisers to the German military. Because what happened, was that the patriotic faction in France, under conditions of the occupation of France by the Restoration, moved into Germany and worked very closely with people such as the brothers von Humboldt, and others, to transform science, move science, which was dying in France, into Germany. And Alexander von Humboldt, the brother of Wilhelm von Humboldt, was the key leader in bringing together places like Göttingen with people from the Ecole Polytechnique, who were refugees, into Germany. And Germany from 1827, 1828, became the world's leader in science—where France had been the leader in science earlier—because of this change.

Among the places these people went, from the Ecole Polytechnique, they went to the United States. And, West Point Military Academy, under Sylvanus Thayer, under the Presidency of President Monroe, was revolutionized to become the center of scientific and engineering training in the United States. Out of this came the Corps of Engineers. So, the military officers graduating from the military academy were chiefly all trained as engineers. The Corps of Engineers, the military corps of engineers, from that time until after World War II, was the leading builder of mass infrastructure in the United States.

It has been shown that the way to develop the best quality of military, is to develop it as a corps of engineers, because it has the highest quality, intellectual quality, because of its scientific work. It has a close relationship to the people, because of the benefit of what it does for the people. It has high morale, and it does not lose, but gains, military capability, because of its technological quality. It can more quickly adapt in any area; it can do what it has to do to survive.

An army depends upon logistics, which is infrastructure, mainly infrastructure. An army must develop its own infrastructure. It can not say, "We don't have the road." It must build the road. The army can not say, "We don't have the bridge." It must build the bridge. And, it must do it quickly, and efficiently. So, all efficient armies, in modern times, have been based on engineering principles, and the training of the officers as engineers. Thus, the engineering corps of the military becomes an integral part of the civilian infrastructure development of the country, and becomes an arm of the government in these large-scale infrastructure projects.

In the United States, it used to work two ways. Some projects would be direct contracts to private businesses, which would make a contract with the government to develop infrastructure: a power station, electrical station, whatever; either a state government or national government.

In many cases, however, the Corps of Engineers would make the contract. That is, the Corps of Engineers would be responsible to build a big dam. But, the Corps of Engineers would make a contract, a government contract, with private

contractors, to work under the direction of the Corps of Engineers, to carry on the project. Then, the Corps of Engineers, and these contractors, would make other contracts with suppliers of materials: for steel, for concrete, whatever.

Then, you would have to have people provide for the housing for the workers for these projects. So, the result of that, is that the government credit, which goes through the government to the private contractors, now begins to stimulate every part of the private economy in the affected areas. It happens that government is very inefficient in running industry—the problem that China is trying to deal with. So, you want ingenious, capable people to run the industries, who will not have to wait for the government to tell them what they have to do; who can solve problems; who can prove that they know how to run the industry. Let them succeed.

### **The vital role of the national government**

But the overall direction, especially in infrastructure, must come from the government. Otherwise, chaos! A military corps of engineers is a good example of the role government *can* play efficiently. And, if you could study the work of military engineering forces in the United States and in Europe during the Nineteenth Century, and the first half of the Twentieth Century, these are good things to study to understand how a military corps of engineers can work in a national economy.

But, through these contracts that go out to private contractors, is how you get the civilian economy engaged. The stimulation of activity in the private industry, private sector, by these contracts, then becomes the catalyst which causes the growth of the private sector.

What is being done in the United States today, is *insane*. What was done in virtually every country in the world in the past 30 years, is insane. The idea that you let the private sector run the economy: insane. Can not be done.

One of the great inventions of all the inventions, which is the greatest, in the success of European civilization in the past 550 years, the greatest of all inventions was the modern nation-state, the sovereign nation-state. And, the one phrase which identifies the principle of the nation-state, is the phrase, in English, “all the people.” Who is responsible for *all* the people? Who is responsible for *all* the land area? Who is responsible for the protection and development of *all* the people? Who is responsible for the protection and development of *all* the land area? That can only be an agency of all the people, which must be sovereign. It must be a sovereign national government of all the people of all the territory.

This government must then protect and provide for the private and personal initiative. Infrastructure is the natural economic expression of the functions and responsibilities of government. Development of the land area, development of the territories, protection of that development, and development and protection of *all* the people. That is the responsibility of government, whether it's government on the national level,

or whether some parts of government are assigned to the local level, regional level.

What's happening today, is the destruction of government. What has been happening in the past 30 years, is that we've been going back to feudalism: Eliminate government, let local power run everything. In China, that would be called the warlord system, the return of the world to a warlord system. And, everyone in China knows, who's had the experience, of the importance of that change. The great achievement, the great struggle of the Chinese people was, after all these times of trouble, to establish a suitable form of national government to unify the people, and to protect them from the evils of these local powers playing against each other, the parasites.

Whatever happened in Chinese policy, the policy of all patriotic China movements, whatever other conflicts they had, was one thing, Kuomintang or Communist Party, the same thing: Eliminate the evil. Unify the country. One country, one government, one people, and one agency responsible for—what? The development of all the people, the development of all the land, which takes account of the world around it, and has a moral attitude toward the world around it, but has its own responsibility to take care of its own people, its own land. And, infrastructure expresses the natural functions of government, which it can assign to private interests to help it, but for which it is responsible. In the final analysis, whatever is done to the land, whatever is done to the people, is the responsibility of the government. And, the government can never eliminate, from its own responsibilities, those charges.

If the government does that well, if the government wishes to improve agriculture, industry, to have technological progress, the government will foster those private interests which do that. The government will build universities as science centers. The government will have the universities and science centers cooperate with the machine-tool industry, with which it has a natural relationship; with the entire medical profession, with which it has a natural relationship; with all science and development.

The government, and the government alone, can sponsor space programs. No private interests can competently sponsor a space program. A space program is a function between the machine-tool sector and the universities and the government. It's the only kind of space program that can work, by the nature of the program.

So, if these principles are understood, there is no problem in making policy. There are problems *within* making policy, but the idea of what the policy should be, is no problem. *Stimulate the growth of infrastructure for the purpose of making it possible to have growth.* And you find that producing the credit, and supplying the credit for these projects, through national institutions which sub-contract with private institutions, and which selects private institutions on the basis of performance—

For example, let's take the case of China, which we've been looking at in a somewhat limited way, which you know better than I do, by far. Let's take the question of big industries, which were state industries, which are very inefficient. The inefficiency comes from the rice bowl principle, that the industries assume the responsibilities for the rice bowl for a lot of people. The responsibility for the people lies with the government. So, people who are not productive, are maintained on the industry payroll, because they are the ones who are responsible for the people. So, the industry does inefficient things, in order to meet the responsibilities to the people. It makes work for people where they are not efficient. It supports them, where they should be supported by some state. But, there is no agency for that.

So, the question is, in Europe, as in Germany, or in the United States in an earlier period, that problem was solved by a Social Security system, in which the whole national economy maintained a Social Security system to care for people who did not have work, or who were old, or whatever; but, to care for them. It's a responsibility. Whereas, industry was free of that responsibility, except for the condition of the people who worked for it. And therefore, the industry could concentrate on doing its job, the private industry.

So therefore, this is the kind of problem we face, how to make efficient industries. And, it's not a question of government industry, or non-government. That's not the problem. The problem is how you design it.

And, it's better to use . . . the German notion of *Auftrags-taktik*.<sup>1</sup> The general function of the private industry, and also of the state sector, but the private industry especially, is *Auftragstaktik*. The government calls people from various industries together—business conferences, conferences on economy, calls together experts. All kinds of conferences, experts from each industry come, they talk. Discussion occurs. The government gets a sense, and others get a sense, of what the situation is.

Then, the government says, "Well, let's go in this direction." Now, all the people who have participated in these conferences, all the industries: now they know what they need. And the government says, "Do that. We'll cooperate. Our policy is this." And, that division of labor between the private sector and the government, is the way these things will work. The key is government's responsibility for infrastructure, which is the way to get credit and collaboration with the private sector.

## Prospects for China's future

And, people who are good, and good managers in assisting the government in infrastructure projects, will be good man-

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1. *Auftragstaktik* is roughly translated as "mission tactics." It refers to the idea that soldiers are assigned a mission, but they are expected to use their own ingenuity to figure out how to achieve the goal. See Andreas Ranke, "Schlieffen, Carnot, and the Theory of the Flank," *EIR*, Feb. 6, 1998.

agers in other aspects of industry. But the key things that have to be understood, are infrastructure and machine-tool sector. And, the great problem of Southeast Asia, and, to a lesser degree, the problem of China, is insufficient development of the machine-tool sector.

For example, let's take a couple of things. China has a limited space sector. Very important. You're not a sovereign state these days, unless you have a space sector. China is also working on developing a high-temperature gas-cooled reactor, or high-temperature reactors, nuclear. Very important. Because what you need in China, is, you need to be able to have, very quickly, energy in areas where new industries are coming up. Without energy, they will not function.

Now, we already see in China the problems of the transportation system, because of moving coal. Railroad use for movement of coal for energy, is one of the great burdens of China. So therefore, if you increase the amount of energy production, which is what this means, where are you going to get the railroads to move the coal?

What's the answer? You need a nuclear reactor, which is more efficient, which puts less strain on the transportation system, much less. And, you want one which can be used by Chinese who are not of the highest training, for safety reasons.

So, you want a highly safe, very efficient reactor, which you can move—which is small enough to be moved to local areas. You put two, three, or four small reactors together in an area, so that if one goes down, the other three function. And the modern gas-cooled reactor, which was developed in Munich, in Germany, which China now has its own version of, is working to develop it, is ideal. This comes from 100-200 megawatts, and it's possible to make larger ones; we recommend generally, from what we had from the man who developed this, who recently died, who was long a friend of ours, that the 100-200 megawatt self-regulating reactor is the best model. And, I would move two or three, or four, small such reactors into an area, for its energy supply, because it makes it simple. If it has a problem, it shuts itself off. And the specialists come in and fix it. But, in the meantime, you have not eliminated the source of power, because you have two or three other reactors which are functioning, which will continue to supply enough power.

And, in any case, when you put power sources into an area, you must anticipate growth. So, you will put more power than you actually require into an area, because you anticipate growth, the need for more power. And, you wish to encourage people to use power, as opposed to inefficient manual labor. So, you create the possibility.

In other ways, in the chemical industry, the high-technology aspect—which is closely related naturally to universities, such as space program, nuclear program, other programs, machine-tool industry generally—is the way to improve, rapidly, local areas. Because then the nation has the ability to supply to a local area a package of services which the local area, the

local administration, can assimilate and utilize to make the project work.

For example, new schools: You have a new industry, you need new schools. The labor in the area does not understand the technology. Maybe many of them are farmers, or worked at low-skill work. How do you take farmers or low-skilled workers who have come off the farm, to engage in modern production? You must have a package, a training package, and cadres to enable them to succeed.

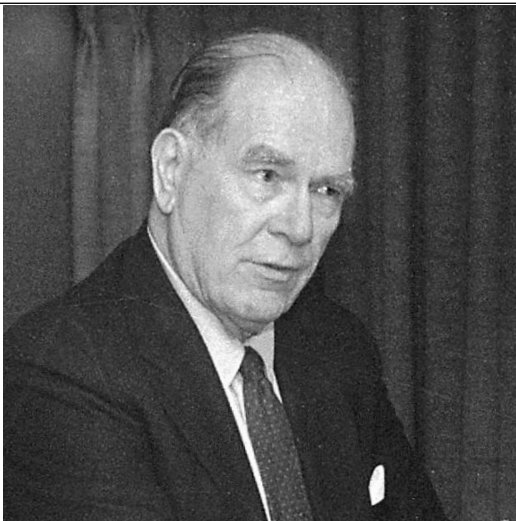
The advantage, of course, is that, instead of moving unemployed peasants from an internal area, or low-skilled people to Shanghai or someplace else, to the coastal areas, to work in low-skilled industries — which is bad for China, in the long run; it may be useful in the short run, to get some foreign currency, but, in the long run, it's bad for China, because the people are not developing. They are away from their families. They have dislocation, psychological dislocation. It's much better to develop the people in an area, than it is to move people out of the area, to new areas. There are exceptions, but generally, that's the rule. Psychological effects, cultural effects, political instabilities; all of these things come from this kind of business.

And, therefore, you have a package of infrastructure. "We want our part of the project," each area says. Fine. China's policy is to do this. As fast as possible, each area

should have its own projects. It will uplift the morale of the people. You will make the local political units much more effective, because they can now do something for the people. Very important. If government is useful to the people, the people like it, or they will come to like it. They may have questions at first.

But, you must have the power, you must have the cadres, you must have the science, and the general infrastructure. And they must be brought into an area as a coherent, organic unit. Forget the money part. If you do the right things physically, the money part will work out. And, the national level simply has to set its priorities properly. But, do the right things physically, and the money part takes care of itself, under a good national money policy.

If the people are producing more, if they're happier and more secure, if they're advancing in their knowledge, it's good. So, what is good physically and psychologically, and socially, is good. If that is done through the infrastructure and industry, you've done the best. If the national system supports that policy, it will work. And the interior of China and the deserts will be cultivated, and everything will be better. It will merely take generations and lots of work, which has been the history of mankind everywhere. Every success we've had, we've always done it that way. If we stop doing it that way, we have trouble.



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## United Nations report blasts the drug lobby

by Muriel Mirak-Weissbach

The annual report of the United Nations International Narcotics Control Board for 1997, which was released in late March, has broken important ground, in identifying the causes behind the growth of drug production and abuse. Although the report maintains the form of objective reporting, the material it has assembled documents quite conclusively, that drugs are not a sociological phenomenon. Given the importance of this report, and the fact that it is not generally circulated to a broad public, the following review will include substantial quotes from the text itself.

The most important points made by the report, whether explicitly or implicitly, are the following: 1) that war conditions are ideal for production, trafficking, transshipment, and abuse of drugs; 2) that countries which have most recently been assaulted by the drug mafia, are those whose economies had been destroyed by the International Monetary Fund (IMF) shock therapy policies; 3) that financial institutions, banks and non-banking alike, are complicit in narcotics trafficking; 4) that effective anti-drug measures by sovereign governments do lead to the desired results; 5) that experiments with legalization, such as free needle distribution, have failed utterly; and, 6) that the main obstacle to effective anti-drug actions, is the growing legalization lobby, especially in Europe and the United States.

### 1. War breeds drugs

This is the message that emerges from Chapter 3, "Analysis of the World Situation," which canvasses each continent with respect to "major developments," "treaty adherence," "regional cooperation," "national legislation, policy and action," and "cultivation, production, manufacture, trafficking and abuse." In Africa, for example, both Sierra Leone and Angola, which have been ravaged by war, have become major centers of production and transshipment of drugs. "Angola is a major center for the transshipment of cocaine. Direct flights connecting Luanda with Rio de Janeiro and Lisbon are frequently used for the transportation of illicit drugs." The report states: "African drug-trafficking organizations took advantage of the



*Opium poppy cultivation in Pakistan. While the drug legalizers claim that the war on drugs cannot be won, in fact there has been significant progress, where serious efforts have been undertaken. The UN reports notable successes in narcotics interdiction as a result of cooperation between India and Pakistan.*

civil war in order to expand their operations in Angola.” As a result, “The Board encourages the Government of Angola to strengthen customs controls at its airports and seaports, as well as the control of its border with the Democratic Republic of the Congo, and to request international assistance to that end.”

Not only has Angola been involved in trafficking, but, “As a consequence of the illicit transit traffic in cocaine, the abuse of that drug is on the rise in Angola. As there are no statistics on drug abuse in Angola, the Board encourages the Government to undertake an assessment of the drug abuse situation and to develop prevention programs.”

Sierra Leone has been found to be involved in the production of psychotropic substances as well. “There are continuing reports on the illicit traffic in and abuse of stimulants (ephedrine, pemoline, amphetamine and amphetamine derivatives) from several countries in the region, mainly in western Africa.” In 1996, the report “drew attention to the fact that the quantities of ephedrine imported by some African States seemed to be excessive. The import of such large amounts of ephedrine has continued; for example, in 1996, over 4 tons of ephedrine were imported into Sierra Leone from one Asian country alone and, in 1997, orders of ephedrine totalling over 5.6 tons were placed from Sierra Leone, with the consent of the national competent authorities.” Such quantities cannot be justified by medicinal requirements. Thus, “The Board urges Governments in Africa to evaluate their real medical needs for ephedrine and invites WHO

## In this section

The U.S. Office of National Drug Control Policy, directed by Gen. Barry McCaffrey (ret.), released its 1998 “National Drug Control Strategy,” an annual report mandated by Congress, in March. For the second year in a row, the document called for a concerted effort to “counter attempts to legalize marijuana.” It also denounced the scheme for introducing marijuana legalization through the back door, by permitting hemp cultivation—an idea associated with George Soros.

McCaffrey’s campaign has received support from an unexpected quarter: the United Nations. In this *Feature* package, Muriel Mirak-Weissbach reports on the UN’s newly released annual survey of the international drug traffic. It provides extensive documentation of some of the trends that *EIR* has previously identified (see “Britain’s Dope, Inc. Grows to a \$521 Billion Business,” July 26, 1996; “George Soros: Drug Pusher for the Queen,” Aug. 29, 1997).

We also publish situation reports on the drug crisis in Russia and Australia, and an interview with the National Secretary of the Australian Federal Police Association, Luke Cornelius.

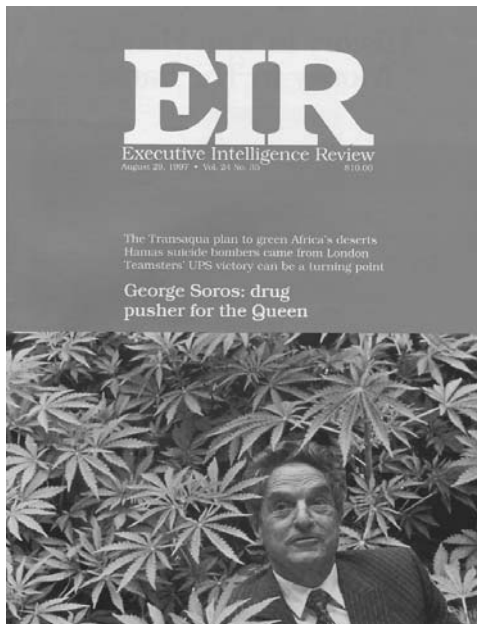
## George Soros and the international dope lobby

In our cover story of Aug. 29, 1997, *EIR* documented the role of international speculator George Soros, banker to Queen Elizabeth II, in promoting drugs and drug legalization around the world. Here are some highlights:

- Soros, in recent years, has funneled at least \$15 million to the Drug Policy Foundation, a group devoted to the legalization of drugs. He created his own drug legalization lobby, the Lindesmith Center, in the headquarters of his Open Society Institute in New York City, at an initial cost of \$5 million. He has poured undisclosed millions from his personal fortune into a number of state ballot initiatives, in an effort to legalize “medical” use of narcotics.

The Soros-funded Americans for Medical Rights group is now preparing new ballot initiatives to legalize “medical marijuana” in Colorado, Maine, Alaska, and Washington, D.C.

- In Ibero-America, Soros is a leading financier of the drive to legalize cocaine. For example, he bankrolled



a meeting on Oct. 8-9, 1997, in the Colombian city of Medellín, for the purpose of pushing drug legalization. Participants included representatives of the Drug Policy Foundation. Soros is also a principal funder of Human Rights Watch/Americas, which specializes in attacking those national forces deployed against the drug cartels—especially the armed forces.

- The “Burma Project,” in which Soros’s Open Society Institute is a partner, with the British Crown, is attempting to topple the current military government in Myanmar. As the U.S. National Narcotics Intelligence Consumer’s Committee (NNICC) pointed out in a report released in September

1997, the Myanmar government is having significant success in closing down the production of opium and heroin in the Golden Triangle, bordering Thailand, Laos, and China. The campaign by Soros and the British is aimed precisely at preventing that. (See *EIR*, Sept. 26, 1997.)

[World Health Organization] to assist them in the fulfillment of that task.”

In Asia, the UN report points to Myanmar and Cambodia, which have emerged from a long period of strife; both countries have reportedly been used for cultivation. Opium poppy is grown in Myanmar, where heroin is also produced. In Cambodia, the UN mission visiting in 1997 found increased drug trafficking, transit activities, and also money-laundering. The reasons were war-related: “Strong measures against drug abuse and trafficking in neighboring countries have led traffickers to move their operations to Cambodia, taking advantage of its weak legislative, enforcement, and administrative structures and scarce resources resulting mainly from decades of war and political instability. International seizure reports indicate increasing illicit cultivation of cannabis and transit trafficking in heroin in Cambodia. The clandestine manufacture of methamphetamine is likely to take place. Attempts to import large quantities of ephedrine into the country for such illicit purposes must therefore be investigated by national authorities.”

But the most alarming situation reported in the study, is certainly that in Afghanistan, which is the theater of a massive insurgency carried out by the Taliban forces. The UN report notes with satisfaction, that several of the newly independent republics in central Asia have become parties to the three main international anti-drug treaties. But this “promising development,” which includes cooperation among these states for cross-border anti-drug operations, has no echo in Afghanistan. On the contrary, during 1997, Afghanistan became a leading opium producer.

“In Afghanistan, due to civil war, political turmoil and lack of administrative structures, large-scale illicit opium poppy cultivation, opium production and heroin manufacture continue. Largely as a result of the increase of 25% in the opium yield in 1997 in Afghanistan, opium production in southwest Asia now exceeds that in southeast Asia. A ban has recently been issued on poppy cultivation, opium production, and heroin manufacture. For the time being, the extent to which the illicit traffic can be reduced depends mainly on the law enforcement services of neighboring countries of Af-

ghanistan and the extent to which they are able to stop, or at least hinder, the flow of illicit opium and morphine from Afghanistan into or through their territories. There are also some clandestine heroin laboratories operating in Afghanistan, but most are in other countries in the region. In Pakistan, the easy availability and low prices of heroin have resulted in its abuse becoming even more widespread than before.”

In addition, the illicit heroin manufacturing, which continues in West Asia, depends in large part on opium supplied to laboratories from Afghanistan. Afghanistan itself has such laboratories, as do Pakistan and Turkey. The acetic anhydride required to convert opium into heroin, comes from Europe, and also from Asia, smuggled through Myanmar.

The report continues, to document that Afghanistan is also the area of widespread cultivation and abuse of cannabis: “Afghanistan is one of the largest producers of cannabis resin in the world. There is a high risk that in Central Asia the current levels of illicit drug production, trafficking and abuse will significantly increase as a consequence of the increasing local production of illicit cannabis and opium and the influx of large amounts of cannabis resin, opium, and morphine originating in Afghanistan.” (See “Why the Afghan War Does Not End,” *EIR*, April 12, 1996.)

## 2. Drugs and the IMF

*Drugs flood the areas devastated by IMF policies.* The case for most of Ibero-America has been documented by *EIR* over the last 20 years. Now, since the collapse of communism and the dissolution of the Soviet Union in 1991, the countries subjected to the IMF’s shock therapy have joined the ranks as leading clients of Dope, Inc. Although the UN report does not make any reference to the IMF or the effects of its policies, there is a direct correlation between IMF victims and countries with new drug problems. This is the case of countries in the Caucasus. Here, the report states, “The Board urges the Governments of Armenia, Azerbaijan, and Georgia to proceed with the adoption of new drug legislation (drafted with the assistance of [UN International Drug Control Program] UNDCP),” because of increasing narcotics flows. “There is an urgent need to implement regulatory and control measures to combat the increasing flow of illicit drugs through Armenia, Azerbaijan, and Georgia on their way from Asia to Europe and the growing drug abuse problems in those three countries.” Georgia is singled out as a special problem, in that it has not yet acceded to any of the major international treaties on narcotics controls. The Board, therefore, urges Georgia to do so.

In the whole Commonwealth of Independent States (CIS), illicit opium poppy cultivation was reported. Figures on eradication show that Russia and Ukraine were major producers: “In 1996, 3,500 hectares of opium poppy were eradicated in the Russian Federation and 4,500 hectares were eradicated in Ukraine; and in the Republic of Moldova, about 4 tons of poppy straw were seized.” The report notes that “authorities

of the Russian Federation are having difficulties controlling the many (more than 100) licit manufacturers of precursors and other chemicals in Tables I and II of the 1988 Convention.” Although in 1996, new laws were passed to regulate the manufacture, export, and import of these substances, still “large amounts of acetic anhydride originating in the Russian Federation have been seized in Turkmenistan and in other Asian countries.”

Special attention is devoted to the production and abuse of poppy straw extracts in the former communist world: “The abuse of poppy straw extracts continues in Belarus, Estonia, Latvia, Lithuania, Poland, Russian Federation, and Ukraine; in those countries, 70-90% of the registered drug addicts abuse such extracts. In the Russian Federation, more than 500 clandestine laboratories engaged in the extraction of poppy straw were dismantled in 1996.” Since these extracts are usually consumed through injections, the spread of this form of abuse has contributed to the spread of AIDS, by massive proportions: “In the Russian Federation, the share of new HIV cases attributed to intravenous drug abuse increased from 0.3% in 1987 to 61.2% in 1996. In Poland, the rate was 67%. In Belarus and Ukraine, most of the cases involving HIV infection are attributed to intravenous drug abuse. In Ukraine, in 1996, there were about 1,000 registered overdose-related deaths as a consequence of the spread of intravenous drug abuse.”

In Russia, whose standard of living has been ravaged by the IMF policies, abuse of hard drugs, especially opiates, has skyrocketed: “In the Russian Federation, the proportion of abusers of opiates among all drug abusers increased from 1994 to 1997 from 37% to 87%. . . . According to some surveys, the number of persons abusing drugs regularly in the Russian Federation is estimated at about 2 million. In Ukraine, the number of registered drug addicts increased between 1992 and 1996 from 8,000 to 65,000. In 1996, the emergence of heroin abuse was noted in some central and eastern European countries.” In addition, there was a rise in the number of abusers of synthetic opioids in Russia, produced in clandestine laboratories, many of which were dismantled 1996, in Moscow and St. Petersburg.

As a result, the report states, the “activities of drug-trafficking and other criminal organizations are considered to be among the biggest threats to the security of the Russian Federation and they have become a major challenge to the international community.”

To appreciate the correlation between IMF economic devastation, which in turn produces the economic and social conditions for drug trafficking and abuse, and the rising statistics for these countries of the former communist bloc, it is instructive to compare this picture with the one given of other formerly communist states, which have been fighting against IMF policies. These are mainly the Central Asian Republics.

The UN report applauds Kazakhstan and Tajikistan for having joined the 1961 Convention, and notes approvingly

## Glossary

**Cannabis:** *Cannabis sativa* is the Latin name for the marijuana plant, from which can also be produced the more powerful concentrate, known as hashish.

**Diazepam:** The generic name for the prescription tranquilizer, known by a common brand name, Valium.

**Chlordiazepoxide:** The generic name for the prescription tranquilizer, known by a common brand name, Librium.

**Pemoline:** The generic name for the prescription stimulant, Cylert, used to treat so-called Attention Deficit Disorder. Like the better-known Ritalin, its action is similar to the amphetamines, although both are chemically different.

**Ephedrine:** The active ingredient in the plant *ma-huang*, it was developed to treat sinus congestion and asthma. Amphetamines were developed as synthetic substitutes for ephedrine.

**MDMA:** Methylendioxy-methylamphetamine, or "Ecstasy," an extremely powerful, dangerous, and addictive synthetic hallucinogen.

that Kyrgyzstan, Tajikistan, and Uzbekistan have made arrangements for cooperation in law enforcement along border areas. Kazakstan and Tajikistan have also adopted national programs against drugs, Turkmenistan has set up a national coordinating committee, and Kyrgyzstan and Uzbekistan have created national centers, to analyze information on drug control. UN missions were conducted to Kyrgyzstan and Turkmenistan in April 1997, and progress made in the anti-drug effort was duly acknowledged. The UN report singles out the case of Turkmenistan, which, because of its geographical location, has become a major transit route for illegal cannabis resin, opium, and heroin from Afghanistan into Russia. Although it is by no means the case, that drug cultivation and trafficking have been eliminated in these countries, it is a fact that the governments in most of the Central Asian Republics have taken measures to contain the drug threat, and have, at the same time, mounted a significant resistance to the IMF's demands for liberalization, nationalization, and currency convertibility.

### 3. Role of financial institutions

*Banks and other financial institutions play a central role in drug trafficking.* The UN report lays great emphasis on the need for participant governments to introduce effective legislation to stop drug-money laundering, and applauds those efforts where they have been successful. At the same

time, it points out, that once banks are put under control, other institutions take over the criminal function of money-laundering: "The Board notes with concern that money-launderers continue to operate in the [Central American] region, mainly in the Caribbean, where non-bank financial institutions are increasingly being used for money-laundering purposes as the banking system is being more closely scrutinized by the authorities. There is a need to extend the monitoring system to include institutions and companies beyond the banking system."

In its treatment of the situation in Ibero-America, the UN report specifically identifies casinos, as such alternative financial institutions, or "money-laundering *front* companies."

### 4. The war on drugs can be won

This is the message that emerges from the UN document, which singles out a number of success stories, which have been completely blacked out by the international press. The most striking are Nigeria, Mexico, India, and Iran.

Nigeria has been targetted by British-controlled agencies worldwide, on charges of human rights violations, and operations are continuing, to destabilize this, Africa's most populous nation. One of the pressure points against the military government of Gen. Sani Abacha, has been the flow of drugs through the country. Lagos international airport has been on the black list for American travellers for years, designated as one of the most dangerous. Thus, it is doubly significant, that Nigeria has been found by the UN, to be one of the countries most successful in stopping trafficking. In its overview of Africa, the report notes, "A mission of the Board visited Nigeria in September 1997. The Board appreciates the strengthening of the import authorization system for psychotropic substances in Nigeria and the increased cooperation of the competent authorities of that country with those of exporting countries and with the Board. Those developments have contributed to the prevention of the diversion of significant amounts of psychotropic substances into illicit channels." The UN reports that "because of the tightening of controls over psychotropic substances in Nigeria, traffickers are using neighboring countries as transit points for smuggling such substances into Nigeria. During the first eight months of 1997, 715 kg of diazepam, 170 kg of chlordiazepoxide, and 260 kg of pemoline were seized by the Nigerian authorities; those were among the most significant seizures of diverted psychotropic substances worldwide." As a result, the Board "recommends the Government to further strengthen the capacity and capabilities of its law enforcement services and to continue its cooperation with the Governments of neighboring countries."

Specifically regarding airport security, the UN remarks, "In order to prevent cannabis from being illicitly cultivated and smuggled into Europe, a cannabis eradication campaign was launched by the Government of Nigeria. From January 1994 to August 1997, over 60 tons of cannabis were destroyed. The Board notes with satisfaction the continuation

of the eradication campaign.”

Another important success story is Mexico, which had become an important production and transit area for narcotics into the United States. The report states, “The Board appreciates the introduction in Mexico of a comprehensive strategy to combat illicit drug trafficking and related criminal activities, such as money-laundering and arms trafficking, and the adoption of a number of laws and regulations, as well as the action-oriented implementation of those regulatory measures.” Furthermore, it “welcomes the strengthening of the Mexican authorities responsible for the investigation of cases involving drug trafficking and related matters and for the prosecution of drug traffickers. Those measures taken by the Government of Mexico have led to the arrest of over 11,000 persons from September 1996 to August 1997 for drug trafficking and related criminal activities. Those arrested included high-ranking government and military officials.” Regarding measures against production, “Mexico continued its campaign to eradicate a significant portion of the illicit opium poppy cultivation sites on its territory, destroying about 14,600 hectares of opium poppy in 1996. In the same year, Mexican law enforcement services seized 363 kg of heroin, an increase of almost 90% over 1995; Mexican heroin (known as ‘black tar’) is smuggled into the western states in the United States.”

In India, too, positive developments have unfolded, which have even included cooperation with Pakistan. “Strict control measures and law enforcement action in India have curtailed the large-scale smuggling of methaqualone out of that country into African countries. Cooperation between national law enforcement authorities aimed at preventing the cross-border smuggling of drugs, including cooperation between India and Pakistan, has significantly increased in the region.” India is singled out for a number of anti-drug measures: “International trade in psychotropic substances is under strict control in India; however, in the other countries in South Asia, either domestic trade, distribution and dispensing of those substances are not regulated or the regulations are not adequately implemented. India is also the only country in South Asia where the manufacture, export and import of precursors are regulated; their relatively free availability in other countries in the region might result in illicit manufacturers exploiting that situation.”

India has achieved notable successes in narcotics interdiction, through increasing cooperation with Pakistan, which is both a producer and transit land. “The Board notes with satisfaction the further development of the cooperation between the authorities of India and Pakistan in the field of drug control. New zonal offices have been opened and inter-agency task forces have been created to facilitate operations involving the border between India and Pakistan in response to a recent sharp increase in the illicit traffic in heroin and cannabis resin. The two States have agreed to cooperate with each other in carrying out financial investigations related to drug-trafficking cases, in exchanging information on money-laundering activities, in establishing a mechanism for the quick exchange of information and in conducting controlled delivery operations and joint investigations.”

In addition to its cooperation with Pakistan, India’s joint work with China is also lauded.

Finally, on the legislative plane, India has earned the praise of the UN, and is presented as a model in some respects for other countries of the region. “The Board encourages the Government of India to speed up the updating of the Narcotic Drugs and Psychotropic Substances (amendment) Act, which is needed to implement the provisions of the 1988 Convention, to which India is a party. The Board hopes that the draft bill on money-laundering and seizure of assets will be adopted soon in India. . . . India is the only country in South Asia where manufacture, export, and import of precursors are regulated; the Board urges the other countries in the region to adopt adequate legislation on precursor control.” The UN report mentions as well certain drug-abuse prevention programs “introduced in some states in India, particularly in the north-eastern part of the country, where the incidence of heroin abuse cases is high. In the opinion of the Board, a central coordinating and monitoring body would enhance the development and implementation of a policy for drug demand reduction at the national level.”

The Islamic Republic of Iran is noted, for having adopted a new law that “will enable that State to accede to the 1971 Convention.” Furthermore, the law enforcement measures undertaken by Iran, have been effective in blocking narcotics flows from the east: “The efforts by the Islamic Republic of Iran to stop the flow of illicit drugs across its border with Afghanistan have prevented the smuggling of large amounts of drugs into Europe.” The determination on the part of the current Iranian government, to fight the drug plague, has been manifest in its efforts to organize international cooperation. “The Board notes with satisfaction the organization in 1996 of the first national symposium on the prevention of drug abuse in the Islamic Republic of Iran and the enhancement of the treatment policy of the Government.”

Following the issuance of the UN’s report, Pino Arlacchi, the executive director of the UN International Drug Control Program, visited Teheran for three days in early April, to coordinate the fight against drugs. Arlacchi characterized Iran as an exemplary country, and told Foreign Minister Kamal Kharrazi that the UN was determined to continue cooperation with Iran, stressing the importance of such cooperation, as the UN cannot solve the problem without active support of regional forces. He highlighted the fact that Iran had unilaterally decided to end poppy seed cultivation. The talks on enhancing cooperation focussed on the need to reinforce surveillance and interdiction along the borders of Iran and Pakistan, particularly to deal with the major problem constituted by Afghanistan, which produces 80% of the drugs used in Europe. Arlacchi spoke of a ten-year plan, which had been formulated to stop production of poppy seeds and trafficking in

Afghanistan, but added that a security belt around the country had to be put in place, in the interim.

## 5. Free needle distribution

*Experiments with free needle distribution have failed completely.* The report takes into consideration in particular the programs launched with great media fanfare in Switzerland. “The Board recalls that a policy of toleration of drug abuse in public places that was pursued in major Swiss cities until the early 1990s led to increased drug trafficking and growth in the drug-abusing population. The Board expressed its concern at the time and welcomed the abandonment of that practice.” It goes on: “The Board expressed its doubts about one element of the new policy in Switzerland, namely, a project for distributing heroin to addicts, and recommended that the scientific merit of the research protocol and the results of that experiment should be evaluated by WHO. That proposal was accepted by the Government of Switzerland and by WHO.” The story of the Swiss program continues: “In July 1997, the Swiss Government made known its own evaluation of the project, under which heroin had been administered to about 1,000 heroin addicts. It claimed that, for a limited number of addicts who could not be reached by other means, the medical distribution of heroin, accompanied by health and social support services, led to some positive results. The Board is concerned that the announcement of those results and a subsequent national referendum on the Swiss drug policy have led to misinterpretations and hasty conclusions by some politicians and the media in several European countries. The Board regrets that, before the evaluation by WHO of the outcome of the Swiss experiment, pressure groups and some politicians are already promoting the expansion of such programs in Switzerland and their proliferation in other countries. The Government of the Netherlands has already submitted to the Board estimates for heroin to be used in conducting a similar project. The Board expressed the same reservations about that project as it had expressed about the Swiss project and firmly believes that no further experiments should be undertaken until the Swiss project has undergone full and independent evaluation.”

## 6. The drug legalization lobby

*The greatest obstacle in the path of a drug-free society, is the legalization lobby.* This is surely the most startling point made by the UN report. To document it, the UN has dedicated an entire chapter to the subject. In its situation report on Europe, the report notes that, “Among member States of the European Union, differences between national drug control policies as well as the ongoing promotion of the liberalization or legalization of the non-medical use of drugs, are increasingly threatening the consensus needed for meaningful measures against drug abuse and trafficking, especially in the area of demand reduction.” It “welcomes the holding of drug demand reduction campaigns in the region, but regrets that some of those campaigns have focused only on ‘harm reduc-

tion.’ The Board reiterates its opinion that ‘harm reduction’ is an important part of demand reduction but not a substitute for it; the Board greatly appreciates the main message of a mass media campaign in Spain that the idea of ‘controlled’ or ‘safe’ taking of illicit drugs is not appropriate.”

The main perpetrator of de facto drug promotion identified in the report is the Netherlands. Here is a country where companies are using the Internet to promote sales of cannabis products and seeds, a country where cannabis products are openly sold in coffee shops. The report notes that the government has begun to stiffen fines for certain amounts of such open sales, and, under international pressure, has decided to forbid cultivation of cannabis in greenhouses, etc. In the Netherlands, it reports, “180 indoor cultivation sites were detected and 500,000 cannabis plants were seized in 1996.” It is also the “main point of entry for cannabis smuggled into Europe” and “the main source of the MDMA supply in the region.”

Chapter 1 of the report is entitled, “Preventing Drug Abuse in an Environment of Illicit Drug Promotion.” It begins by stating that any attempt to reduce consumer demand must “attempt to change attitudes and behavior by tackling all environmental variables in a comprehensive manner.” It adds, immediately, that this is no mean task: “Preventing the abuse of drugs is becoming an increasingly difficult endeavor, at least partly because of the rapid and growing spread of messages in the environment that promote drug abuse. *Many of them can be regarded as public incitement and inducement to use and abuse drugs.* Therefore, present efforts at prevention need to be strengthened and innovative prevention initiatives need to be developed and implemented.”

The UN argues the obvious point, that “public health measures, to ensure a healthy society, include the prevention of drug abuse,” and emphasizes that “no form of non-medical drug use is healthy; therefore, drug abuse prevention should be seen as part of the general effort to raise the level of health in society.” It writes, “While the elimination of all forms of drug experimentation, use, and abuse will never be achieved . . . [this] should not be a reason to give up the ultimate aim of all prevention efforts, namely a drug-free society.”

Drug consumption, it explains, depends on elements related to “the biological and psychosocial factors, including personality traits, behavioral factors, and family and educational background of the individual, to the wider environment, which includes school and peer groups, and to the contextual situation, such as illicit drug promotion, drug availability, cultural norms, such as the frequency with which medicines are resorted to, economic circumstances, community disorganization, and social marginalization.” The problem arises when these factors become active promoters of consumption. “Increasing influence is being exerted by some media in terms of encouraging the initiation into drug abuse of children and adolescents, and in some instances there appears to be, if not public incitement, public inducement to use and abuse drugs.”

As the report spells out, such incitement is illegal, as it violates “Article 3 of the United Nations Convention against

Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988,” which “refers to ‘publicly inciting or inducing others, by any means, to commit any of the offences established in accordance with this article or to use narcotic drugs or psychotropic substances illicitly’ (subparagraph 1 [c] [iii]) and requires each party to establish such conduct as a criminal offense under its domestic law. The provision was included in the 1988 Convention because of concern about magazines and motion-picture films glorifying drug abuse and promoting a drug culture.”

The UN report emphasizes that “public incitement” means any action taken in public and that the provision should be very broadly interpreted, to cover not only rallies, etc., but “also incitement using any type of media, including printed, audio-visual, and electronic media. ‘By any means’ should also be understood as covering any method of incitement and inducement, such as deceit, influence, monetary inducement, or force.”

In dealing with the challenge, how to change the environment which promotes drugs, the UN addresses the problem of “popular culture” in no uncertain terms: “By far the greatest influence on many young people in developed countries, as well as in some developing countries, is the promotion or at least the tolerance of recreational drug use and abuse in popular culture, particularly in popular music. Some lyrics of songs advocate, directly or indirectly, smoking marijuana or taking other drugs and certain pop stars make statements as if the use of drugs for non-medical purposes were a normal and acceptable part of a person’s lifestyle. Popular music has quickly developed into a global industry. In most countries, the names of certain pop stars have become familiar to the members of almost every household. With such globalization of popular music, messages tolerating or even promoting drug abuse are reaching beyond their countries of origin. Therefore, the Board believes that there may be some merit in enlisting the support of pop stars, sports stars, and other popular personalities as non-drug-using role models in order to counter the multitude of messages in favor of the recreational use of illicit drugs. The Board invites Governments to contact representatives of the music and sports industries in that regard and to explore with them ways of contributing to the development of a popular culture that is against drug abuse.”

As for the media, which induce drug consumption, the report denounces those newspapers which pursue “sensationalism . . . at the expense of truth.” “Sensationalism, the desire to be provocative and the need for higher ratings, may also be behind the fact that several television companies in some countries in western Europe appear to be broadcasting many more programs in support of a change in the drug law, if not the outright legalization of drugs, particularly cannabis, than programs examining the consequences of following such a policy and the harm arising from it.”

The UN also attacks the promotion of drugs by medical magazines, which argue for the “use of cannabis” or the

“outright legalization of drugs,” thus tending to “generate an overall climate of acceptance.” The same is true of propaganda campaigns for the promotion of products made of hemp, as environmentally friendly: “The promotion of many products made from hemp (cannabis plant) is designed to further enhance the image of cannabis being a useful product, and the goods that are produced from hemp are often described as being environmentally friendly because they are made from natural substances. The products made from hemp that are currently being marketed include jackets, handbags, caps, hats, wallets, and shoes, as well as food and beverages. The use of hemp in foodstuffs and beverages further presents the image of cannabis as an innocuous, edible, or even nutritious substance. *In many instances, the use of hemp in such products is not intended to demonstrate its superiority to other natural materials that already exist; it is done for tactical reasons, to legitimize the commercial use of hemp as part of a campaign to legalize cannabis.* In their catalogues or advertising campaigns, many marketers of hemp openly admit that their objective is the legalization of cannabis, thus contributing to the overall promotion of illicit drugs.”

Finally, the UN report reminds governments, that, in having signed international treaties on drug prevention, they are bound to act accordingly. “Governments should play a positive, leading part in the debate and should not leave the advocacy role only to those who wish to bring about change. Drug issues which are of concern to and which will affect the majority of people should be the subject of a balanced debate, one that will allow those who are not persuaded by the calls for drug legalization to put forward their views. Scattered evidence from public opinion polls suggests that the majority of people are not in favor of any form of such legalization. The debate, unfortunately, has been taken over by a small number of activists who support some form of drug legalization.”

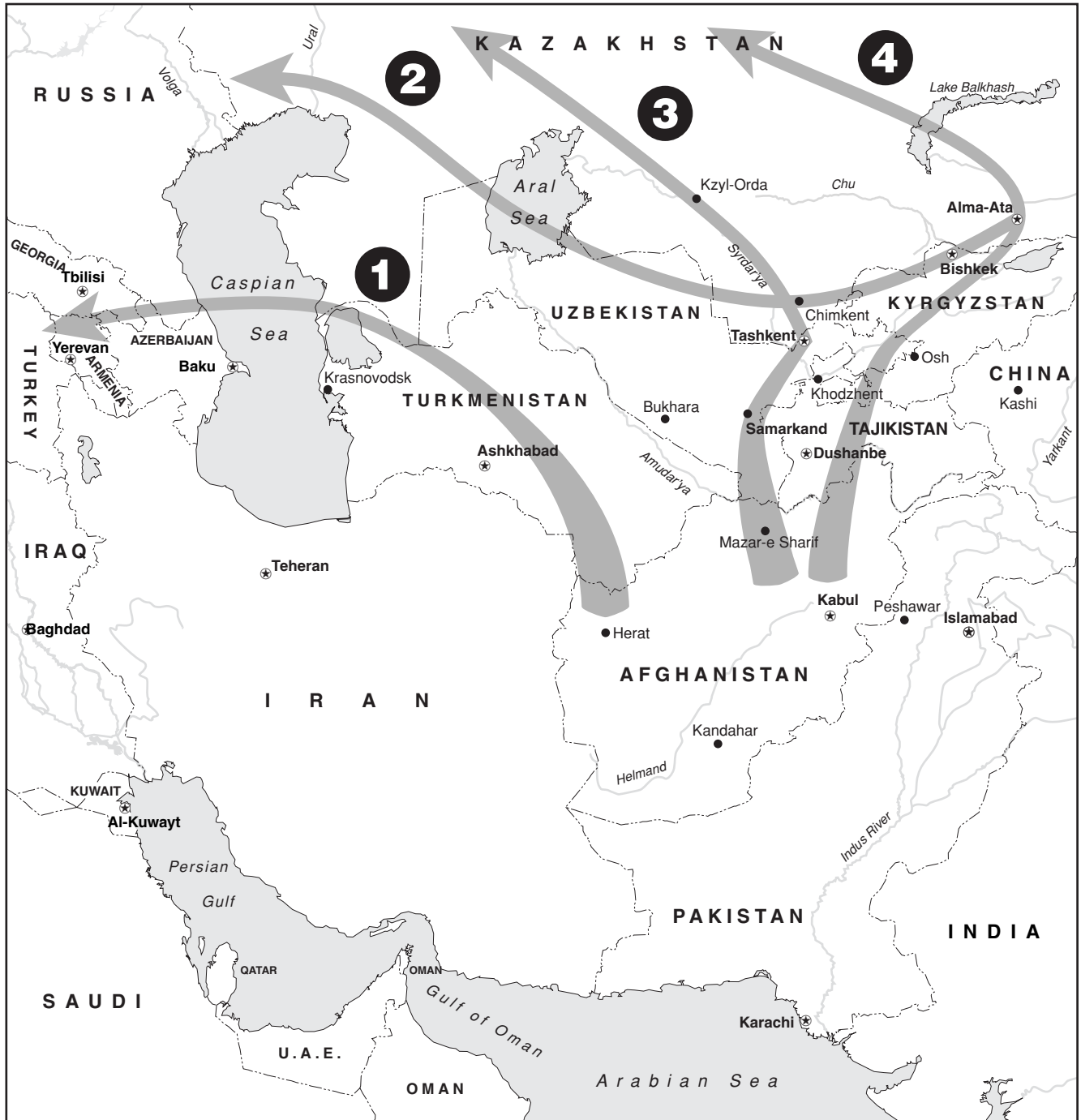
The report is explicit in stating that adherence to the 1988 Convention, means taking action “to make the incitement or inducement to take drugs a criminal offense.” Pointing to the fact that “Prominent people have issued some very public calls to take drugs and have not been prosecuted,” the report comments that “*This flagrant refusal by Governments to implement an international convention to which they are signatories is almost hypocritical.*”

By the same token, the Board urges governments to take measures leading to reducing demand for narcotics.

Clearly, the responsibility for drug prevention, and interdiction lies with sovereign governments, and no supranational entity, like the UN, can, or should, usurp that responsibility. That said, it must be emphasized, that the report issued for 1997 by the UN International Narcotics Control Board, has provided a useful service, in laying bare the inconsistencies between commitments made by governments to cooperate against narcotics internationally, and capitulation to or complicity with the drug legalization lobby.



## Heroin and opium trail through Central Asia



This map is reproduced from EIR's April 12, 1996 article on "Dope, Inc.'s Afghan Harvest." As the UN's recent report documents, opium production increased fully 25% in Afghanistan in 1997.

**Route 1:** Opium from Afghanistan to Turkey, for processing into heroin. **Route 2:** Heroin from Afghanistan and Tajikistan to western Europe, through Estonia and Latvia. **Route 3:** Heroin from Afghanistan through Uzbekistan to western Europe, via Moscow and Tallinn, Estonia. This route feeds Chechnya as well. **Route 4:** Heroin from Afghanistan, Tajikistan, and Kazakhstan to Europe, via St. Petersburg.

# Drugs threaten Russia's national security

by Denise Henderson

On March 3, Russia's State Duma (parliament) received a report from the government on the growing problems related to drug use in the country. Nikolai Gerasimenko, the chairman of the Duma's Health Committee, said there are now more than 2 million regular users of illegal drugs in Russia; 4 million people have experimented with narcotics, while some 400,000 are addicts. Gerasimenko said he expects those figures to double by the year 2000.

Deputy Interior Minister Vladimir Kolesnikov, the deputy chairman of the government commission on drug abuse and sales, said there were 185,000 drug-related crimes in Russia in 1997, a 91% increase over the previous year. The largest increases were among young adults, minors, and women. Gennadii Onishchenko, the chief state sanitary physician, said the growth in the use of drugs is contributing to an increase in HIV cases. He noted that of the 4,300 people registered as HIV positive, over 90% are drug addicts.

Today in Russia, there is a direct correlation between International Monetary Fund-imposed poverty and drug use, as more and more Russian workers find themselves unemployed. In 1997, for example, the Department of the Illegal Use of Drugs reported that the number of illegal drug users in the region of Russia's third largest city, Nizhny Novgorod, had reached 180,000, or 5% of the population. The number of drug-related crimes increased by 20%, reaching 800 per year. Two-thirds of the criminals are younger than 30 years old.

The most affected districts of Nizhny Novgorod are Avtozavodsky, Sormovsky, and Prioksky—the city's industrial districts. But among drug addicts, only 9.6% are currently employed, while the majority (52.9%) are unemployed—as are the majority of people in these districts.

Most of the drugs are grown in Central Asia, especially Kazakhstan, and in Ukraine and Moldova, and transit through Moscow, St. Petersburg, and Krasnodar and Stavropol territories in Russia.

## Addicting children

Most vulnerable to drug addiction, as well as to the organized-crime mafias which run drugs, prostitution, and almost all of Russia's "shadow economy," are the young people. It is estimated that many users are between the ages of 13 and 25, and many young girls become prostitutes in exchange for their "fix." According to Interfax news agency, "In Moscow

and St. Petersburg alone, the monthly turnover of narcotics comes to about \$90 million. Total turnover for the country in 1997 amounted to more than \$2.5 billion," but "the true amount could be double or even triple this figure." "In Moscow schools," says Interfax, "we see instances of the massive sale of narcotics at super-reduced prices — so as to initially get teenagers into the habit, and only later demand more money. Drugs are even distributed free of charge at many educational institutions. As a result, drug addiction among primary school children and older students has increased 600-800% over the past four years."

And as in western Europe and the United States, the widespread use of Ecstasy is now of concern in Russia. Ecstasy, or methylene dioxy-methyl amphetamine (MDMA), is most often used in "virtual reality" discotheques, where parties go on all weekend, and where participants lose all sense of identity. Besides being addictive, the drug creates a state of mental disorder.

The Ministry of Internal Affairs is expecting that Russia will have 3 million drug addicts in 1998. But this takes into account only those using "the classic variety of drugs," says Interfax. "If we add in those who have no aversion to any kind of 'dope,' those who sniff glue and the like, the figure is expected to come to at least 10 million Russians."

Other republics in the Commonwealth of Independent States have expressed similar concerns. In a Jan. 1 interview, for example, Maj. Gen. Slem Absametov, First Deputy Chairman of Kazakhstan's National Security Council, reported: "We have observed a steady trend in recent times, whereby the republic is turning into a transit territory for the international drug trade. Significant in this regard is the energetic activity of criminal groups—both home-grown and foreign-inspired." Absametov reported that in the summer of 1997, Kazakhstan had successfully concluded an operation to shut down a channel "for shipping heroin and cocaine from Brazil and Pakistan to Almaty and farther on to the Russian Federation. This channel was set up by members of a Nigerian drug group." Twelve kilograms of heroin and 2 kilograms of cocaine were confiscated in that operation, which was followed in October by the seizure of 3 kilograms of heroin and the arrest of five individuals. Overall, said Absametov, "some 41 criminal cases have been instituted with respect to 48 major drug dealers. More than 2 tons of marijuana, raw opium, hashish, heroin, cocaine, and other drugs have been confiscated."

But in Central Asia, the Chu Valley, which covers several Central Asian republics, remains a source of the plants used to produce drugs, including marijuana, wild hemp, and ephedra. Kazakhstan is also a transit point for drugs on their way to Russia from Turkmenistan, Kyrgyzstan, and Afghanistan, where up to 60% of all the opium delivered to the international black market is produced. Uzbekistan has a similar fight against drugs ongoing. In 1997, fifteen tons of acetic anhydride, a crucial chemical for producing narcotics, was seized in one raid.

# Push for marijuana 'decrim' in Australia

by Our Melbourne Bureau

A fight is raging in Australia, over the decriminalization and/or legalization of marijuana and other dangerous drugs. As *EIR* documented in an Aug. 29, 1997 feature story, the pro-drug campaign is being led by such associates of the British Rothschild family as speculator George Soros and Australian media magnate Kerry Packer. On the other side, the Citizens Electoral Council (CEC), the Australian branch of the LaRouche movement, is mobilizing under the slogan, "Australia needs a *real* war on drugs."

A test case for the decriminalization effort is the state of Victoria, where Police Commissioner Neil Comrie said, in an interview published in *The Age* on March 9, that it was "highly likely" that he would soon order that people caught with small amounts of marijuana would be given only a "caution." Such a policy is in violation of state law.

A CEC-led mobilization defeated a 1996 attempt by Victorian Premier Jeff Kennett to decriminalize marijuana, so now Kennett and his collaborators, such as Comrie, are sneaking it through the back door.

In January, the Australian Bureau of Criminal Intelligence, which Comrie heads, issued a report calling for the decriminalization of cannabis. The ABCI is the nation's crime intelligence clearinghouse for the state police forces. Its report said that over 81% of drug arrests are cannabis-related, and that if possession and cultivation of cannabis were decriminalized, it "could result in a big reduction in the resources committed to controlling the drug."

The report rejected evidence that cannabis is a "gateway" drug which leads to using harder drugs. Instead, the report claimed that relaxing cannabis laws could discourage users from progressing to harder drugs, such as heroin. Other key points of the report include the claim that opium production is unlikely to decrease; that cocaine has become more readily available and prices have dropped; and that police crackdowns on amphetamine production have turned people toward heroin, so police resources would be better utilized pursuing harder drugs.

Comrie said in a television interview on Jan. 15: "It's obvious current policies are not working. . . . We need a much more flexible approach. . . . The Victorian government has adopted the 'harm minimization' approach—that's where we minimize the harm that drugs can do."

Comrie has already introduced de facto decriminalization into Victoria, in the high-unemployment areas of northwest

Melbourne, with what he calls the "cautionary system." He claims that the system appears to have been successful, and now sees "no reason why we would not be introducing that cautionary system right across the state." When asked by the interviewer whether he supported free heroin being made available to addicts, Comrie replied, "I have an open mind on heroin trials."

At a forum held in Melbourne on March 30, Comrie protested, in the face of growing criticism, that his philosophy of "harm minimization" did not mean "going soft on drugs." Melbourne's Lord Mayor Ivan Deveson, an advocate of decriminalization, announced at the same meeting that the Melbourne Council would spend \$75,000 to conduct a study of intravenous drug-use in the city. "No family is immune. . . . There is no magic solution that will solve the drug issue for us," he said. "As a community, we need to set aside our individual differences and recommit ourselves to a fresh approach to tackling the problem of illicit drugs."

For its part, the Federal government of Prime Minister John Howard is not going along with the decriminalization push, and recently announced a \$100 million drug strategy, which would set up new links with overseas law enforcement agencies. However, as Luke Cornelius, the National Secretary of the Federal Police Association has charged (see *Interview*), Howard's extra \$100 million does not compensate for the earlier huge budget cuts in law enforcement made by his own government, which crippled drug enforcement strategies.

## Effects of marijuana use

Further fueling the national debate, a study by the National Drug and Alcohol Research Center at the University of New South Wales, has revealed that four out of ten long-term cannabis users are "severely dependent" on the drug, and nine out of ten are "dependent" on it, *The Age* reported on Feb. 1. Comparing cannabis abusers to alcoholics, Wendy Swift, who led the study, explained that people trying to give up cannabis could experience similar withdrawal symptoms to what alcoholics experienced. "The sorts of things people report are insomnia, depression, anxiety, appetite fluctuation—usually loss of appetite, and some people get night sweats and wake up soaking in sweat. They [withdrawal symptoms] go, but it can cause people to relapse and use it again. They can't sleep—that seems to be the biggest problem," she said.

The rather frank reporting of the effects of cannabis addiction from the study is surprising, given the pro-decriminalization stance of the National Drug and Alcohol Research Center, which is one of the main exponents of Soros's "harm minimization" philosophy.

The study was based upon interviews with 200 cannabis users, aged 18-57, in Sydney, and it was found that a high proportion of them were dependent on the drug, while one in three said that they had a problem with cannabis use. It was also found that they had a higher rate of long-term respiratory conditions than other people their age.

# The Australian government has never carried out a war on drugs

*Mr. Cornelius is the National Secretary of the Australian Federal Police Association. He was interviewed by Michael J. Sharp of The New Citizen on Oct. 17, 1997. The following are excerpts from the interview, which was published in the January-February 1998 issue of The New Citizen.*

**Q:** I understand your organization recently passed a resolution calling on the Federal government to increase its funding to enable you to fight the war on drugs. I also understand that resolution is backed up by solid evidence, vis-à-vis, the collapse of the number of AFP [Australian Federal Police] agents. Could you tell us what your report found?

**Cornelius:** If I might just correct you there: The resolution was actually passed by the Police Federation of Australia and New Zealand, which is a peak body where representatives from all police forces in Australia and also New Zealand, come together and discuss matters of common interest. Following a briefing that was provided to that body by representatives of the Australian Federal Police Association, recently in Darwin, on the drug problem and the resourcing of it at [the Australian] Commonwealth level, that resolution was passed. . . .

Since the Australian Federal Police was established in 1979, there has been a steady decline in the number of Federal agents available to engage in a Federal policing role at a national and international level. In particular, over the past five to six years, we have seen a plummet in the number of Federal police available to undertake investigation into international organized crime, including drug trafficking, to a point where we have seen staffing levels of those officers, collapse to pre-1983/84 levels. That amounts to a decrease of some 700 Federal police officers available to undertake national investigations. . . .

This current year we are seeing record seizures, of in particular, heroin and other imported drugs. This is not so much a reflection of greater efficiencies on the part of the AFP; it is more a reflection of the massive increase in the quantity and volume of drugs coming into this country. And because the increased volume and the greater risks which criminals are taking with impunity, sure in the knowledge that resources to Federal law enforcement agencies have been cut, meant that we have massive amounts of drugs coming into this country. Parallel to this increase in the

number of seizures for this year, we also see a massive increase in the number of heroin overdose deaths, and in fact we have already got a record number of heroin overdose deaths for this year—solely from heroin. . . .

**Q:** Your predecessor, the outgoing national secretary, stated that Australia has never had a war on drugs.

**Cornelius:** That's quite right. When you bear in mind the Access Economics report released recently, states that there is \$7 billion in economic activity derived by illicit drug trafficking. Australia has never had a war on drugs—we've had a token effort where you've had high-profile seizures based on tip-offs. But let's compare the economic activity which is generated from drug trafficking with the actual investment of government into dealing with this problem. We know, if we are to accept the findings of the Access Economics report, which was released a week and a half ago, that the economic activity generated by illicit drug trafficking amounts to some \$7 billion. The Australian Federal Police would be lucky to be able to commit \$15 million of its budget specifically to drug law enforcement. Now \$15 million worth of investigation, into an enterprise which generates \$7 billion worth of economic activity, is nothing more than a token effort. . . .

As I see it, we must improve the effectiveness of Commonwealth law-enforcement agencies to deal with the importation of drugs at its source. This entails a combined approach by government at various levels. If you actually look at the drug-trafficking industry, you can see that it is broken into a range of different sectors. We have on the streets of Australia the so-called market. . . . Then we have the growers, harvesters and refiners. These people are based overseas, and these are the people who cultivate the root narcotic material. For example, the opium poppy, in the case of heroin and the cannabis plant in the case of the various cannabis products, such as cannabis resin and also New Guinea Gold from Papua New Guinea. Then also we have the importers and the wholesalers. These are the people who basically get the commodity from the source country into the marketplace. Finally, we have the market managers. These are the people who arrange the financing and the resourcing of the illicit narcotics trade, and these are the people who profit from it with impunity and who themselves

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*The Australian Commonwealth government has never really taken this drug problem seriously, because it has failed over the years of the existence of the Australian Federal Police since 1979, to effectively resource efforts aimed at turning off the tap of drug supply into this country.*

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aren't involved in the user end of the market, but see it purely as a profit-making exercise.

Now in terms of government response: In terms of dealing with the market or the potential users, that's clearly the responsibility of educative programs, and also health-based programs. . . .

In terms of dealing with the traffickers and drug distributors within Australia, that is clearly the responsibility of state law-enforcement agencies. . . . The Australian Federal Police and other Commonwealth law-enforcement agencies have a primary objective in dealing with those who import the drug or indeed, taking up the investigation of drug-related activity overseas. It's here where the injection of resources would derive the most value in terms of fighting a war against drugs. . . . In effect, the Australian Commonwealth government has never really taken this drug problem seriously, because it has failed over the years of the existence of the Australian Federal Police since 1979, to effectively resource efforts aimed at turning off the tap of drug supply into this country. . . .

**Q:** Let me ask you a question regarding money laundering. Casinos have been referred to as honey pots for organized crime to launder their dirty money. Now the New South Wales government recently banned 30 reputed organized-crime figures from the Sydney Harbor Casino—including two of its best customers who had spent, incredibly, up to \$35 million there. Then there are numerous reports that casino chips are being intercepted in Asia, heading back into Australia—the casino gambling chips being increasingly used as a form of underground currency. . . .

**Cornelius:** Money laundering relies on a number of techniques used to turn illicitly derived money or property into so-called clean money. The commodities which are used are diverse; you've mentioned casino gambling chips. Other favored commodities in the money-laundering business include traffic in gold bullion; in South Australia, the traffic in jade; and in other locations around Australia, the traffic in other high-valued commodities. For example, expensive shellfish—of all things, abalone—are used by many money launderers as a means of, I guess, washing their ill-gotten gains, because these items attract a very high premium in the Asian market.

In terms of the kinds of business activities, which are used as vehicles by money-launderers for the laundering process, gambling is a well-known and recognized money-laundering vehicle. It is for this reason government seeks to regulate gambling activities, with a view to ensuring, to the extent they can, that that money which comes through those businesses, is in fact, legal. Now the way in which the government seeks to do that, is through arranging for the licensing of those people who provide these gambling venues, i.e., the casinos, and also through the casinos themselves, ensuring that their client base is not engaging in illegal activities. So for example, the New South Wales government banning certain individuals from casinos because they have supposed underworld links, is an example of this kind of regulation which is occurring.

Now money laundering is effective in the gambling industry because, in order to be a successful gambler, you need a significant amount of money to invest in the first instance. The only people who make a living out of gambling are those who are prepared to invest—and I use that term lightly—large amounts of money into the gambling enterprise. And obviously, having a capacity, because of the scale of that investment, to lay their bets off, and so, balance their returns. Now that is all well and good for a gambler who has legally derived gains which he wants to invest. For those who have illegally derived money, going to a gambling institution, gives them an opportunity, basically, at a cost, in terms of losing some of the money they invest, of actually gaining a receipt from a casino, for their winnings and thereby legitimizing the money they are in possession of. What organized crime figures are beginning to understand, however, is that because of the high degree of government scrutiny and regulation of casino activities, in particular, questions are very easily asked of these people, because the casinos are able to track exactly how much an individual has invested in their business and how much they have won. So at the end of the day, if a person seeks to explain away large amounts of money, which aren't explainable by lawful means, they might attempt to point to successful gambling winnings. Law enforcement agencies, where these claims are made, have the capacity to obtain under warrant, from casinos, information about the gambling habits of these individuals. Which basically means that

we are able to track the money right back to the point of their initial investment, which leaves these people with the problem of having to explain where they got the money for their initial investment in the gambling enterprise from. So in many respects, casinos can be a useful tool, which are used by law enforcement agencies for the tracking of money-laundering activities.

The money-laundering activities which are more difficult to track are those which involve the conversion of one form of finance into another. That is, for example, best illustrated by the bullion trade. That is, one can go to a bullion dealer and purchase a quantity of bullion, obtain a receipt for that bullion and then effectively take that bullion overseas, use it as a basis for overseas investments, and then basically be able to cream off any income generated from those investments as clean income. That activity, of course, is now subject to regulation under what is called the Cash Transactions Agency and the Financial Transactions Reporting Act, which requires bullion dealers and other cash dealers to report transactions over a certain value.

So there are ways in Australia of actually regulating, or trying to track, the flow of cash through the Australian economy. However, given that the Australian economy, on a daily basis, traffics in very large amounts of cash, this of itself is a difficult system to manage because of the sheer volume of transactions which take place on a daily basis. So in many respects the use of that kind of intelligence is generally used by law-enforcement agencies after their suspicions have already been pricked, in relation to the activity of individuals that they are investigating.

**Q:** Would you say, since the Cash Transactions Reporting Act has come into force, that organized-crime figures are getting around the act? And if so, in what way?

**Cornelius:** Yes, that's why I highlighted the example of traffic in non-cash commodities. For example, bullion. Although there have been changes to the act that would bring bullion into the definition of a cash transaction. Then there are other commodities such as, for example, shellfish, which is an odd one. Abalone, for example, and also other mineral commodities, such as jade, which is highly prized over in the Asian market, and, of course, in Australia, and in particular, in South Australia there are some of the best deposits in the world of black jade. These commodities, because they are basically commodities derived naturally, from the sea or from the ground, are commodities which lend themselves to money laundering, because you don't have to explain away your initial investment—you can easily say, "Well, I went fishing one weekend," to explain a haul of abalone; or, "I dug a hole," to explain a large amount of jade. . . .

**Q:** You mentioned before our interview that your experience is in drug enforcement. The International Police Organi-

zation have said for years [that] drug barons have set up banks specifically to launder money, and use existing banks as well. . . . How would you want to see that problem tackled. . . ?

**Cornelius:** There is a preliminary question which must first be addressed, and that is, it must be recognized that any business which generates \$7 billion worth of economic activity on an annual basis, is having a significant impact on the Australian economy. Somehow that black money is becoming incorporated into the legitimate financial institutions in Australia. Financial institutions in Australia today cannot guarantee or be sure that their money is untainted. It is a sure bet that every financial institution in Australia, either unbeknownst to it, or with its turn-a-blind-eye approach, is happily dealing in, and engaging in transactions which involve tainted money. Financial institutions of course, will hide behind client and customer confidentiality, they will hide behind the traditional protections which financial institutions have hidden behind ever since Adam Smith came up with his fundamental principle of the guiding hand of the market, that is allow market forces to determine social policy and everything else will fall into place. Financial institutions, in turning a blind eye to this real problem of dealing with tainted money, are conspiring with organized crime in Australia to the extent that the very integrity of economic fabric of this country is under threat, simply because, with money you buy power. And if financial institutions aren't prepared to take social responsibility for the transactions, which they are prepared to engage in, then they bear a responsibility for the capacity for organized crime to take over and direct social policy in this country.

**Q:** Our research, which we published some time ago, demonstrated that the Australian Drug Foundation, which began as a benevolent society to help alcoholics after the war, has become the primary vehicle for promoting the legalization of drugs, and our research shows that major contributors to the Australian Drug Foundation are the banks, and family charitable funds, wealthy foundations and so forth. Are you aware of that at all?

**Cornelius:** I am not personally aware of that. . . . I guess in terms of seeking to counter that degree of support that is coming from business, one needs to say to the business world . . . that the results of a consistent policy, at the Commonwealth level of preferring an educative approach, i.e. the "say no to drugs" campaign, over the past ten years, has been an abject failure, because, parallel to the pursuit of that policy, we have seen a massive explosion in the amount of drugs coming into this country, a massive explosion in the demand or the consumption of those drugs, and an explosion in the number of people who are dying as the result of the availability of high-purity, high-quality drugs which have a very real capacity to ruin lives and kill people. . . .

## LaRouche's 15-point plan for a war on drugs

*Advocates of drug legalization claim that the war on drugs has failed; in fact, a serious war has yet to be waged. On March 13, 1985, Lyndon LaRouche sent a message to a Mexico City conference on the drug traffic, laying out a 15-point "war plan." Here are excerpts.*

**1.** What we are fighting, is not only the effects of the use of these drugs on their victims. The international drug traffic has become an evil and powerful government in its own right. It represents today a financial, political, and military power greater than that of entire nations within the Americas. It is a government which is making war against civilized nations, a government upon which we must declare war, a war which we must fight with the weapons of war, and a war which we must win in the same spirit the United States fought for the unconditional defeat of Nazism between 1941 and 1945.

**2.** Law-enforcement methods must support the military side of the War on Drugs. The mandate given to law-enforcement forces deployed in support of this war, must be the principle that collaboration with the drug traffic or with the financier or political forces of the international drug traffickers, is treason in time of war.

**a)** Any person caught in trafficking of drugs, is to be classed as either a traitor in time of war, or as the foreign spy of an enemy power.

**b)** Any person purchasing unlawful substances, or advocating the legalization of traffic in such substances, or advocating leniency in anti-drug military or law-enforcement policy toward the production or trafficking in drugs, is guilty of the crime of giving aid and comfort to the enemy in time of war.

**3.** A treaty of alliance for conduct of war, should be established between the United States and the governments of Ibero-American states which join the War on Drugs alliance to which the President of Mexico has subscribed. Other states should be encouraged to join that military alliance.

**4.** Under the auspices of this treaty, provisions for actions of a joint military command should be elaborated. These provisions should define principles of common action, to the effect that necessary forms of joint military and law-enforcement action do not subvert the national sovereignty of any of the allied nations on whose territory military operations are conducted. These provisions should include the following:

**a)** The establishment of bilateral military task-forces, pairwise, among the allied nations;

**b)** The establishment of a Common Command, assigned to provide specified classes of assistance, as such may be requested by designated agencies of either of any of the member states, or of the bilateral command of any two states;

**c)** Under the Common Command, there should be established a central anti-drug intelligence agency, operating in the mode of the intelligence and planning function of a military general staff, and providing the functions of a combat war-room;

**d)** Rules governing the activities of foreign nationals assigned to provide technical advice and services on the sovereign territory of members of the alliance.

**5.** In general, insofar as each member nation has the means to do so, military and related actions of warfare against targets of the War on Drugs, should be conducted by assigned forces of the nation on whose territory the action occurs. It were preferred, where practicable, to provide the member nation essential supplementary equipment and support personnel, rather than have foreign technical-assistance personnel engaged in combat-functions. Insofar as possible:

**a)** Combat military-type functions of foreign personnel supplied should be restricted to operation of detection systems, and to operation of certain types of aircraft and anti-aircraft systems provided to supplement the capabilities of national forces; and

**b)** Reasonable extension of intelligence technical advice and services supplied as allied personnel to appropriate elements of field operations.

**6.** Technologies appropriate to detection and confirmation of growing, processing, and transport of drugs, including satellite-based and aircraft-based systems of detection, should be supplied with assistance of the United States. As soon as the growing of a relevant crop is confirmed for any area, military airborne assault should be deployed immediately for the destruction of that crop, and military ground-forces with close air-support deployed to inspect the same area and to conduct such supplementary operations as may be required. The object is to eliminate every field of marijuana, opium, and cocaine, in the Americas, excepting those fields properly licensed by governments.

**7.** With aid of the same technologies, processing-centers must be detected and confirmed, and each destroyed promptly in the same manner as fields growing relevant crops.

**8.** Borders among the allied nations, and borders with other nations, must be virtually hermetically sealed against

drug traffic across borders. All unlogged aircraft flying across borders or across the Caribbean waters, which fail to land according to instructions, are to be shot down by military action. A thorough search of all sea, truck, rail, and other transport, including inbound container traffic, is to be effected at all borders and other points of customs-inspection. Massive concentration with aid of military forces must be made in border-crossing areas, and along relevant arteries of internal highway and water-borne transport.

**9.** A system of total regulation of financial institutions, to the effect of detecting deposits, outbound transfers, and inbound transfer of funds, which might be reasonably suspected of being funds secured from drug trafficking, must be established and maintained.

**10.** All real estate, business enterprises, financial institutions, and personal funds, shown to be employed in the growing, processing, transport, or sale of unlawful drugs, should be taken into military custody immediately, and confiscated in the manner of military actions in time of war. All business and ownership records of entities used by the drug traffickers, and all persons associated with operations and ownership of such entities, should be classed either as suspects or material witnesses.

**11.** The primary objective of the War on Drugs, is military in nature: to destroy the enemy quasi-state, the international drug trafficking interest, by destroying or confiscating that quasi-state's economic and financial resources, by disbanding business and political associations associated with the drug trafficking interest, by confiscating the wealth accumulated through complicity with the drug traffickers' operations, and by detaining, as "prisoners of war" or as traitors or spies, all persons aiding the drug trafficking interest.

**12.** Special attention should be concentrated on those banks, insurance enterprises, and other business institutions which are in fact elements of an international financial cartel coordinating the flow of hundreds of billions annually of revenues from the international drug traffic. Such entities should be classed as outlaws according to the "crimes against humanity" doctrine elaborated at the postwar Nuremberg Tribunal, and all business relations with such entities should be prohibited according to the terms of prohibition against trading with the enemy in time of war.

**13.** The conduct of the War on Drugs within the Americas has two general phases. The first object is to eradicate all unlicensed growing of marijuana, opium, and cocaine within the Americas, and to destroy at the same time all principal conduits within the Hemisphere for import and distribution of drugs from major drug-producing regions

of other parts of the world. These other areas are, in present order of rank:

**a)** The Southeast Asia Golden Triangle, still the major and growing source of opium and its derivatives;

**b)** The Golden Crescent, which is a much smaller producer than the Golden Triangle, but which has growing importance as a channel for conduiting Golden Triangle opium into the Mediterranean drug-conduits;

**c)** The recently rapid revival of opium production in India and Sri Lanka, a revival of the old British East India Company opium production;

**d)** The increase of production of drugs in parts of Africa.

Once all significant production of drugs in the Americas is exterminated, the War on Drugs enters a second phase, in which the war concentrates on combatting the conduiting of drugs from sources outside the Hemisphere.

**14.** One of the worst problems we continue to face in combatting drug trafficking, especially since political developments of the 1977-81 period, is the increasing corruption of governmental agencies and personnel, as well as influential political factions, by politically powerful financial interests associated with either the drug trafficking as such, or powerful financial and business interests associated with conduiting the revenues of the drug trafficking. For this and related reasons, ordinary law-enforcement methods of combatting the drug traffic fail. In addition to corruption of governmental agencies, the drug traffickers are protected by the growth of powerful groups which advocate either legalization of the drug traffic, or which campaign more or less efficiently to prevent effective forms of enforcement of laws against the usage and trafficking in drugs. Investigation has shown that the associations engaged in such advocacy are political arms of the financial interests associated with the conduiting of revenues from the drug traffic, and that they are therefore to be treated in the manner Nazi-sympathizer operations were treated in the United States during World War II.

**15.** The War on Drugs should include agreed provisions for allotment of confiscated billions of dollars of assets of the drug trafficking interests to beneficial purposes of economic development, in basic economic infrastructure, agriculture, and goods-producing industry. These measures should apply the right of sovereign states to taking title of the foreign as well as domestic holdings of their nationals, respecting the lawful obligations of those nationals to the state. The fact that ill-gotten gains are transferred to accounts in foreign banks, or real estate holdings in foreign nations, does not place those holdings beyond reach of recovery by the state of that national.



## Iran's Khatami government meets political challenge

by Muriel Mirak-Weissbach

The arrest on April 4 of Tehran Mayor Gholamhussein Karbaschi marked a dramatic turning point in the political process in the Islamic Republic of Iran. For the first time, the confrontation between the conservative wing of the clerical establishment, and the moderate forces, emerged as an open political conflict, involving a clash of institutional authority, and threatening to expand into social conflict as well. The judiciary, which had carried out the arrest, was pitted against the executive; the legislative body was factionally split; and, opposing forces among students and others, took the fight into the streets. Iran was faced with the most challenging institutional strife of its recent history. Although Karbaschi's release on April 15 temporarily calmed down the situation, the political contest is not yet resolved.

Mayor Karbaschi, who has administered the capital since 1989, is a representative of the reform or moderate faction, associated with former President Hashemi Rafsanjani and his political movement, the Servants of Reconstruction. During the Presidential elections of May 1997, Karbaschi was the leading power campaigning for Mohammad Khatami, who won an overwhelming mandate, against the conservative Speaker of the Parliament, Nateq Nouri. As mayor, Karbaschi has radically changed the face of Tehran, transforming it from an unwieldy, chaotic city, into a modern metropolis, with 18,000 hectares of land dedicated to public gardens and parks, and numerous recreation centers for the city's enormous youth population. Karbaschi has worked to clean up slum areas and transform them into modern residential areas. He also has set up department stores, which offer products at lower prices than at the bazaar.

Since the landslide victory of Khatami last May, the conservative establishment, which includes the merchants of the bazaar, has been mobilizing political opposition to the new

government. The most heated issue in the debate, has been over relations with the United States. Already during hearings last summer in the Majlis (parliament), the conservatives mounted a propaganda attack against the personalities nominated by the new President, for his cabinet. Those who were most harshly attacked, were persons who had had contact with the United States, for example, the Foreign Minister-designee Kamal Kharrazi, who had served eight years in New York as Iran's permanent representative to the UN, and the designated Minister of Culture, Atoallah Mohajerani, who had advocated a dialogue with the United States. Although the opposition mounted by the conservative parliamentarians was significant, the Speaker of the Parliament, Nouri, himself an arch-conservative, intervened in the interests of national unity, and helped bring the body to ratify the new President's cabinet members.

Later, when President Khatami made an unprecedented appearance on American television, in a CNN interview, the conservatives upped the ante, and went after the new President directly, accusing him of having sold out the revolution. The highest authority in the country, Supreme Leader of the Revolution Ayatollah Ali Khamenei, denounced the content of the TV interview, in a sermon on Jan. 16, and was seconded by Nouri and other conservatives. Khamenei had stressed that contacts with the United States would be harmful, as America still constituted the number-one enemy of Iran. He pointed to the D'Amato sanctions against economic partners of Iran, as proof of American hostility. Following his pronouncement, any move on the part of U.S. authorities which might indicate continuing opposition to Iran's economic deals with Russia, Malaysia, and France, or its pipeline agreements in Central Asia, was seized upon by the hard-liners in Iran, to argue that such overtures to

Washington were not only wrong, but fruitless.

At the same time, the conservatives argued that Iran should privilege relations with Europe, as opposed to the United States. The return to normal diplomatic relations after the Mykonos affair, and the dramatic improvement in relations with Italy, tended to bolster this view.

### **Response to the oil price collapse**

It was around the turn of the Iranian New Year in March, that the conservative faction prepared its direct assault on the Khatami forces. Two developments combined to create circumstances propitious for such an attack: First, the rapid plunge in world oil prices, accelerated by the financial crisis in Asia, had been taking a massive toll on Iran's foreign exchange revenues since November. Despite the decision by the Organization of Petroleum Exporting Countries to cut production, prices did not rally. Second, as a result, the government was forced to revise its 1998 budget's expected oil revenues downward, and slash projected expenditures on major projects. The government also saw it necessary to raise the prices of fuel for domestic consumption, as well as other basic commodities internally. Gasoline prices were to go from 160 rials per liter, to 200; the super grade rose from 180 rials to 280; kerosene and gas oil went up to 60 rials. At the same time, the national currency, the rial, was de facto devalued. These measures, which were approved at the beginning of the new Iranian year, constituted a set-back for the government, which had been brought to power, largely on the basis of Khatami's commitment to immediate, visible improvements in the standard of living of the population. The price hikes were announced officially on April 4.

It was in this context, that the mayor of Tehran was arrested on corruption charges. In a statement on the arrest, the Attorney General's office said, "The district court of Tehran branches 26 and 33, which had taken up the case to investigate the embezzlement and misappropriation of public funds by some city council officials, concluded that the instruction for displacement of the funds was issued by the mayor of Tehran personally." It added that further evidence from interrogations had led to his detention, according to a 1987 embezzlement law, which stipulates that "if sufficient evidence exists to support that a person to have embezzled rials 100,000 [\$20], the court has the right to temporarily detain an embezzler for a period of one month without having the right to deposit a surety for the bail for his release."

What added to the shock of the arrest, was the news that the Interior Ministry had not even been informed of it. The head of the ministry's public relations office, Jahanbakhsh Khanjani, stated that the ministry had been informed by letter, only after the fact. Interior Minister Hojatoleslam Abdallah Nouri, who was at the time of the arrest on an official visit to Saudi Arabia, expressed his regret at the news, and "warned of consequences," according to an Iranian News Agency release. "Assassinating Karbaschi's personality has conse-

quences that culprits will have to take responsibility for, like it or not," he said. He added, that neither his ministry, which is responsible for appointing mayors, nor the President, nor the government, had been informed.

### **Political scene polarized**

The news of the arrest polarized the Iranian political scene. Pro-government political figures immediately denounced it as a politically motivated move, designed to undermine the Khatami government, in an extremely delicate moment for the nation. The vice president of the Hezbollah Association of the Majlis, Hussein Marashi, spoke out that evening, dismissing the charges against Karbaschi as outrageous. He lauded Karbaschi's achievements as mayor and as a member of the Servants of Reconstruction, who, he said, "paved the way for the astonishing political developments in the country." Karbaschi, he said, "is one of the most outstanding and competent managers of the country and a source of pride for the Islamic Republic of Iran. No move can obfuscate this reality." Marashi also remarked that the arrest came at a time that the government was confronting economic difficulties caused by the plunge in oil prices. He characterized it as "a move against the general interests of the country," and intimated that it was a threat to the democratic process: "People must be vigilant and support their elected President and his colleagues," he said. "Now, like the May 23 Presidential elections, . . . the support of the people will be the force to end the injustice against the statesmen who have concentrated all their efforts on serving the nation, Islam, and Iran."

Among other authoritative politicians who rallied to Karbaschi's defense, was Majlis member Faezeh Hashemi, the daughter of former President Rafsanjani. Mrs. Hashemi told parliament that Karbaschi was being denied visitors, and charged the justice system with being suspect and arbitrary. She said the affair had "a political color to it."

In response to these accusations of manipulation of the justice system, the conservatives lashed out, charging that the Interior Minister was acting unconstitutionally, by supporting the mayor, and that it should be up to the courts to decide on guilt or innocence.

By the time Karbaschi had been in prison one week, the political climate had become so hot, that mass actions in the streets were threatened. Students in Tehran had announced a demonstration in support of the Khatami government. The government, seeking to maintain calm and avoid violence, requested that no rallies or demonstrations take place, for one or the other side. Although the students organizing the rally acquiesced, an unidentified other group demonstrated in front of the university, and, after clashes broke out, the police intervened with arrests. At an exhibition held at the Interior Ministry, at which Mrs. Hashemi spoke, a disrupter shouted slogans, like "death to embezzlers," which provoked the angry response of Karbaschi supporters. Again, the police intervened.

While tempers were rising in the streets, an institutional deadlock threatened. Supreme Leader Khamenei had to intervene personally, to convoke a gathering of the heads of the three branches of government, the judiciary, the executive, and the legislative. The meeting, which took place on April 11, and included Rafsanjani in his capacity as head of the Expediency Council, as well as Mohammadi Golpayegani, the head of the office of Khamenei, failed to come up with a solution, evidently as a result of insurmountable factional differences with the head of the judiciary, Ayatollah Yazdi. Iranian press reports said that the meeting had decided that Yazdi would work to find a legal way of revoking the arrest warrant. The following day, April 12, the government met to review the case. In reporting on the deliberations, the government regretted that "the approach adopted by the Supreme Leader to solve the problem of the Tehran Municipality case, had not been handled appropriately." The government statement expressed hope that a solution could be found, and again urged groups not to demonstrate; but there was no way out indicated.

### The deadlock is broken

Again, it was through the intervention of Khamenei, that the deadlock was broken. According to Iranian press accounts, former President Rafsanjani engaged in lengthy discussions with Khamenei, urging an authoritative act, to secure

Karbaschi's release. President Khatami then officially requested that Khamenei issue orders for his release. On April 15, Khamenei "issued a decree to the judiciary head, instructing that branch of government to release the mayor on basis of surety for the bail," according to IRNA. The communiqué announcing his release said, "The Leader of the Islamic Revolution has instructed that the case be pursued in an atmosphere free from any tension and according to the laws governing the nation." Karbaschi was freed the same day.

The release, on orders of the highest authority, constitutes an important victory for the moderate faction of Rafsanjani, Khatami, and Karbaschi, and was celebrated as such by crowds of cheering citizens greeting the mayor. It is clear, that despite his well-known factional differences with the Khatami government, Ayatollah Khamenei would not be willing to risk the outbreak of social conflict, given the relationship of mass forces, which are overwhelmingly in favor of Khatami.

This does not mean that Ayatollah Khamenei has been divested of his position of authority; in fact, it was his intervention which untied the knot. But it does mean that he has acknowledged the intricate nature of the constellation of political factions, and has chosen to act in such a way as to calm tensions, rather than exacerbate them.

### The importance of maintaining unity

In a speech delivered on April 16 before the heads of the three branches of government and high-ranking military and civilian officials, Khamenei hammered away at the importance of maintaining unity in the country. Khamenei hinted at hostile forces from outside the country, which were attempting to create tensions, and called for vigilance. Regarding the immediate crisis situation, he reasserted the validity of the Iranian system of "*velayat-e motlaqeh faqih*" (the absolute rule of the theologian), in which he is "*vali-e faqih*," the theological protector. Khamenei said that "*velayat*" in essence meant "unity and solidarity," and focussed on the need for unity. He said, "All are duty-bound to support the administration which is shouldering the heavy task of running the affairs of the country." And he added, "They all are also obliged to back the judiciary so that it can fulfill the heavy task it shoulders. If there is no judiciary branch, justice will have no foundation." Khamenei also remarked, that small problems should not be magnified, nor flaws blown out of proportion.

The immediate crisis has, for the time being, been overcome, and the danger of factional conflict spilling into the streets, averted. The question which remains is, how the political confrontation which still does exist between a reform-minded government backed by 70% of the population, and an entrenched minority conservative establishment, can be resolved, in such a way, not only to preserve a facade of unity and public order, but to consolidate a programmatic unity around the new course Iran has been following for the last decade.

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# Netanyahu pushes for Palestinian civil war

by Joseph Brewda

The murder of a Hamas terrorist on Israel's most wanted list on March 29, has set the stage for Israeli Prime Minister Benjamin Netanyahu to carry out a British scenario of provoking an inter-Palestinian bloodbath, and a new Mideast war. Hamas bombmaker Mohieddin Sharif was found dead in a car which exploded in Ramallah, on the West Bank, in what was first attributed to a premature explosion of a suicide bomb. But investigations by Yasser Arafat's Palestinian Authority police later found that Sharif had died of bullet wounds three hours before the blast. The bomb in the car in which Sharif's body was placed, was detonated by remote-control, in an apparent attempt to hide the cause of death.

## Strategic considerations

Netanyahu's motive, and those of his British backers, is not simply to provoke a new Mideast crisis, but to use that crisis to overwhelm the White House with another emergency. As such, it is part of the sequence which includes the November 1997 and January 1998 "Iraq crises," and related efforts to drum up an "Iranian nuclear weapons" scare. The timing is dictated by the fact that President Bill Clinton must now act decisively to create a new international monetary system, as *EIR* has emphasized. The British fear that without such crises, Clinton might do just that, thereby destroying the financial basis of their power.

Sharif rose to the top of Israel's most wanted list for running a series of suicide bus bombings in spring 1996, in the aftermath of the Israeli murder of Hamas bombmaker Yahya Ayyash. Sharif's massacres, which killed over 60 people, paved the way for "strongman" Netanyahu's electoral victory that May, over Prime Minister Shimon Peres, the architect of the Oslo peace accords. Now, Sharif's murder will further aid Netanyahu.

Hamas Gaza leader Abdul Aziz Rantisi threatened more bombings in response to Sharif's murder. "They have to understand that Hamas is in the habit of taking revenge," he told Associated Press. "We remind the world of how we reacted to the martyrdom of Yahya Ayyash." Netanyahu routinely denied Israeli responsibility for the Sharif murder, and on April 3 threatened that "if there is a terrorist attack, we will hold the Palestinian Authority responsible," and, of course, "cancel" the Oslo Accords.

But Netanyahu and his backers are not simply trying to

destroy Oslo; they are also trying to provoke a Palestinian civil war. This has become more likely since Rantisi began raving, beginning on April 4 in statements to the *Jerusalem Post*, that the Palestinian Authority killed Sharif. He also said that the PA has threatened Hamas leaders that they would be killed, if Hamas carried out revenge attacks. Rantisi's charges were echoed in the April 9 issue of the London-based *Foreign Report*, which flatly asserted that Sharif was killed by the PA in a "cold-blooded and clumsy fashion," a line also being spread by former Shin Bet intelligence chief Yaakov Peri.

On April 6, PA Cabinet Secretary Tayeb Abdul Rahim released a statement on the PA investigation into the murder, charging that another Hamas faction had killed Sharif. On April 14, he told Palestinian TV that certain factions in the Hamas leadership have tried to cover up for the killing, to hide Israeli infiltration of their ranks.

As a result of such developments, Israel is now situated to provoke a Palestinian civil war, the Israeli daily *Haaretz* said on April 13. The deep, and rapidly growing lack of trust between Hamas and the PA, the paper predicts, could lead to the "inception of terrorism against the PA," somewhat like what Islamic terrorists carry out against the Egyptian government. "For the time being, Islamic terror may be a threat to Israel," *Haaretz* concluded, but "the possibility of its being directed at the PA" is now on the horizon.

## Preventing peace

The assassination was also timed to destroy ongoing efforts by Saudi Arabia, the Palestine Liberation Organization, and other parties to organize Hamas to abandon terrorism and accept some form of truce with Israel. According to an April 13 *Jerusalem Post* report, Hamas leaders from throughout the world had gathered in Jeddah, Saudi Arabia, on March 23, to debate the future of their movement. Leaders from Hamas's external branches in Syria and Jordan demanded that it launch a new offensive against Israel. Hamas leaders from Gaza disagreed, and argued that terrorist attacks would only strengthen Netanyahu and provoke a crackdown. The murder of Sharif, six days after the meeting, strengthened those in Hamas demanding renewed terrorist attacks, and undermined those who know that terrorism plays into Netanyahu's hands.

This is not the first time that Netanyahu and British intelligence have intervened to tip the factional balance within Hamas, in favor of those demanding more bombings. For example, the Mossad hit attempt on Hamas Political Department chief Khalid Mishaal, in Amman, Jordan, last September, took place two days after Netanyahu received a communiqué from Jordan's King Hussein, reporting that Hamas had agreed to accept the King's offices to mediate a truce between Hamas and Israel. Netanyahu's murder attempt against Mishaal scuttled that effort, just as the murder of Sharif has undermined the more recent effort to bring Hamas into the peace process.



# Our first goal, is to end Ukraine's pact with the IMF

*Natalya Vitrenko, doctor of economics, led the Progressive Socialist Party of Ukraine slate to a victory in the March 29 parliamentary elections, as the PSPU entered the Supreme Rada with 17 deputies. She and Volodymyr Marchenko founded the PSPU, after splitting with the Socialist Party leadership less than three years ago. Dr. Vitrenko has announced her candidacy for President of Ukraine. In February 1997, she and Schiller Institute founder Helga Zepp-LaRouche initiated the "Appeal to President Clinton to Convoke a New Bretton Woods Conference," which they renewed and updated in March 1998.*

*Dr. Vitrenko gave this interview to Karl-Michael Vitt and Anatoli Voznytsa, for EIR, on April 13.*

*For recent related EIR coverage, see: interview with Dr. Vitrenko, "The World Needs a New Bretton Woods," Feb. 6, 1998; "Renew Call to Clinton for Bretton Woods Conference," text of the new statement by Vitrenko and Zepp-LaRouche, March 27; Konstantin George, "Ukrainians Vote Against IMF Policies," April 10.*

**EIR:** Were you surprised, that such a "young" party as yours made it into the Parliament right away?

**Vitrenko:** When we planned our electoral campaign, we set goals that were based on our potential. We could see what kind of organization we had in what places, and knew that we had an organization in 19 out of the 27 regions. In 12 of those regions, our organization already enjoyed some authority, while it was weaker in another seven, where it was formed more recently. Based on the amount of work we were doing, we determined that we ought to get 8% of the vote for our slate, electing around 40 deputies to the Supreme Rada.

In the event, our party did pass the 4% barrier in 10 regions of Ukraine. It is indicative, that the Hromada party [of former Premier Pavlo Lazarenko] only passed that barrier in three regions. The [Social-Democratic] party (SDPU) of [former President Leonid] Kravchuk and [former Premier Yevhen] Marchuk did it in four regions. But these parties had huge amounts of money and a whole army of people working for their victory. Nonetheless, their depth of support is rather less than ours. Therefore, our passing the 4% barrier was absolutely lawful; we knew that, but we also saw that votes were stolen from us, simply stolen, under pressure from the Central Electoral Commission. When the district commis-

sions returned the certification of the vote totals to the precinct commissions, the latter would change them after the poll-watchers had already signed off on them and left. This is why there was such a delay in announcing the results. Our party had 5.13% on March 31. Subsequently, after these delays and some monkeying around with our votes — evidently they were diverted primarily to the NDP [People's Democratic Party of Ukraine, under Premier Valeri Pustovoitenko], the party of power, and to Hromada — we had a final result of 4.05%. We elected 17 people to the Parliament, of whom 14 are from our slate, and three won in their districts. [The Supreme Rada is elected half by district, and half from slates, divided proportionally among parties receiving more than 4% — ed.]

**EIR:** What will the new government look like?

**Vitrenko:** Based on the present situation, the new government will not differ radically from the last one. We took stock of the situation, and proposed to the President that he entrust the formation of a new government to me; to formulate a fundamentally different economic reform policy.

Of course, our first demand to the President is to abrogate the agreement with the International Monetary Fund, because a change in the reform policy will not be allowed in the framework of working with the IMF. The President acted as if he didn't even hear us, and now he is trying slightly to stabilize the situation, by supposedly preparing to replace his Minister of Finance and to reassign his chief of staff to diplomatic work, in order for people to think that something is going to change.

We know that, with an approach like that, there will be no radical change. Insofar as there will be no change, then the crisis will continue to deepen, and the looting of the state will go on. Thus, everything depends solely on how long the social fabric will hold, how long this can continue.

**EIR:** What do the election results mean for the Ukrainian people, and for President Kuchma?

**Vitrenko:** For Kuchma, the results signify the failure of his policy. However he might interpret the results of the election, it is clear that the ruling regime was not supported. Of the three Presidential parties — the NDP, the Agrarian Party, and Working Ukraine — only the NDP got in. It is not known, who is behind the Green Party, which is covertly a Presidential

party. In effect, the votes received by the NDP and the Greens are what can be counted as support for the existing reform policy. All the others are against it. The President may be supported by the NDP (17 from its slate and 13 who won in their districts=30) and the Greens (19 from their slate), which is only about 50 votes, or one-ninth of the Parliament. This means the collapse of his policy.

How the President will come out of this situation, is another question. He will come out of it with convulsions, of course, putting together a bloc of support. He will be supported by Rukh [the People's Movement of Ukraine, under Vyacheslav Chornovil] and the SDPU, because they don't see any other path of development for Ukraine. They simply don't like what the Communists have proposed, not to mention what we propose. Therefore, they will reach an agreement with the President, to support his policy.

For the Ukrainian people, we believe that these elections once again revealed the flaws of the bourgeois Constitution and election laws. It was impossible for there to be a real expression of the will of the people. There was non-stop bribery, blackmail, slander, deception, faking of results, and falsification. This was the case everywhere, at all stages of the process, in all regions.

People could see, and a month from now they will see very clearly, that among those who have been elected to Parliament are representatives of criminal capital, as well as nationalist parties, which, we are convinced, do not reflect the

proportions in which the Ukrainian population's views really break down. The correlation of forces in society is not like that any more. But, some of these people were able to slip through the sieve and into the Parliament.

**EIR:** More and more leaders are speaking out in favor of a New Bretton Woods system — Prime Minister Romano Prodi of Italy, recently, for example — and they are attacking the IMF, for having been completely unable to deal with the Asia crisis. Do you see the end coming, for the IMF?

**Vitrenko:** Indeed, voices are now more often to be heard speaking about a New Bretton Woods system as an alternative to the IMF, although in Ukraine this is blacked out of the information media. The same idea is repeated again and again, that there is no alternative to the IMF.

[Speaker of the Parliament, leader of the Socialist Party] O. Moroz has, in effect, supported the IMF and done everything in his power, for decisions favorable to the IMF to be passed by the Supreme Rada. It was only during the electoral campaign, that he suddenly started talking about how ruinous the IMF's policy has been for Ukraine, i.e., he simply played the cheap card of populism, in hopes of remaining in the Speaker's chair (and dreaming about the Presidential chair, down the road), only to conduct the same old policy. In other words, to serve the IMF faithfully. Such constant lies, such a constant double and triple standard in discussions! This is typical of the well-schooled party nomenclatura [that is, peo-

## LaRouche: Support for IMF policy in Ukraine is 'nuts'

U.S. Deputy Secretary of State Strobe Talbott, writing in the *Washington Post* of April 13, under the headline "Countering a Communist Comeback," expressed "concern" over the Ukrainian Communist Party's gains in the March 29 parliamentary elections. Talbott warned that Ukraine needs "international investment capital and development assistance," but that, "the International Monetary Fund and the World Bank have made clear that they will withhold further support until Ukraine makes progress on some long-postponed reforms. Most important are the restructuring of the energy and agricultural sectors, the imposition of greater discipline in government spending, and measures to control widespread corruption. On her visit to Kiev last month, Secretary of State Madeleine Albright urged Ukraine's leaders to take those hard but necessary steps."

In an interview with "EIR Talks" on April 14, Lyndon LaRouche turned to the U.S. posture on IMF policies in

Russia and Ukraine, including Talbott's column, which was reprinted in the *International Herald Tribune*. "Strobe Talbott, as people should know, is the Deputy Secretary of State. He's an old Clinton friend, and he proposes a policy for Ukraine, which, from my standpoint, is just absolutely nuts. It won't work. And, what appears to be the case is that the United States proposals for the economic policies of Russia tend to go, at least at the moment, in the same direction as Strobe Talbott's commentary on Ukraine.

"That's the situation, that Russia is now being forced, under international pressure, to adhere to a policy which can not work, a policy which, if pressed, would cause precisely the blow-out of Russia, which, in the context of a Japan blow-out, which is very likely, would create a situation viewed by some top European bankers as the combination which can blow out the system.

"So therefore, the only acceptable alternative, if the United States government is sane, would be to give Yeltsin and so forth some slack on this thing, and let the Russian government come to its own discussion on policy, stop having these policies shoved down on it, the kind of thing that Strobe Talbott has proposed for Ukraine."

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*Helga Zepp-LaRouche and I appealed to Clinton . . . for the forthcoming meeting of finance ministers of leading countries to raise the question of a radical change in financial policy, not continuing the sinister activity of the IMF, but rather shifting toward a New Bretton Woods system.*

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ple trained in Soviet-era Communist Party practices—ed.]. If O. Moroz becomes Speaker again, there will be no fight against the IMF in the Parliament.

But in society, the battle is already joined. At meetings in various regions of Ukraine, we told people the truth about the IMF, citing conference presentations, interviews from people in various countries of the world, and we told our listeners, that the IMF has no future.

**EIR:** You and Mrs. Zepp-LaRouche, in February of last year, issued a call for a New Bretton Woods, which was signed by many leaders. What should be the goal of a new financial system?

**Vitrenko:** The world financial crisis is deepening. As a result of the crash of stock markets and banks, Southeast Asia has already lost 40% of its gross product. This means the shut-down of plants, the bankruptcy of millions of people, and social unrest, and this is what awaits other countries in the world in the immediate future.

Therefore, Helga and I again raised our voices in protest, and appealed to Clinton as the President of the U.S.A., which is today the only superpower and the country that has the greatest influence on the IMF, for the forthcoming meeting of finance ministers of leading countries to raise the question of a radical change in financial policy, not continuing the sinister activity of the IMF, but rather shifting toward a New Bretton Woods system. This was the purpose of our appeal. I do not think that Clinton will change his policy in a flash, the minute he receives that appeal, but at least he ought to listen to yet another sober voice, warning him about his personal responsibility before the world public.

**EIR:** Do you see ways for the newly elected Parliament to accomplish constructive work? What would they be?

**Vitrenko:** Immediately after the elections, we held a press conference and announced openly, that we are coming in with the intention of working constructively, to realize the economic program that has been elaborated, and more than 30 draft laws. We are convinced, that the implementation of this program and these laws would make it possible for Ukraine to escape from the crisis. Therefore, we are coming into the Supreme Rada without conflicts, and are not even putting forward our top demand—the impeachment of the President. No, we say to the President, “We are giving you a chance.”

We are prepared to work constructively.

But the first goal, is abrogation of the agreement with the IMF. The second is to hold a national referendum, because all questions now are decided behind the scenes. We demand a national referendum, so that the people may decide for themselves, what socio-economic system they would like to have in the country, and what outward orientation.

For Ukraine, this is essential. While Hromada states in its program, that its strategic partner is the U.S. and it is oriented to the West, we state that Russia is our strategic partner and we orient to the East. We want equal partnership, first and foremost, with Russia and Belarus, which are our markets for manufactures, raw materials, and technology. This should be determined by referendum.

The third proposal to the President, is to replace the government and change the reform policy. Here, too, we are prepared for constructive work. Only in the name of building things. Not destruction, but creation.

**EIR:** In brief outline, how do you see an economic policy for Ukraine that would lead out of the state of crisis?

**Vitrenko:** We begin our anti-crisis program with abrogation of the agreement with the IMF, precisely because the IMF has given credits on condition of carrying out reforms that are organically unacceptable.

Ukraine is a communal country. Communal! Property ownership here has been communal. But the IMF demands private property in industry, in all sectors of the economy, and in land-tenure. The introduction of private land ownership would be the beginning of civil war in Ukraine. Therefore we say: Ukraine must have both state, private, cooperative, and collective property, but this can only work, if there is a radical change in tax policy. The pressure on producers must be lowered, while taxation of wealthy persons (who today pay virtually no taxes to Ukraine) is increased.

We say, that if there is true price regulation, then all forms of property will function. Prices should be frozen, until Ukraine gets out of the crisis. Banks are now charging 50-60% annual interest. Credit is inaccessible for the producer.

The same thing applies to foreign economic activity. Our program calls for a protectionist policy, with only the most critical imports allowed to be imported duty-free or with a minimal tariff.

In order to implement these approaches, it is necessary to

reestablish monitoring and accounting standards. The entire monitoring and accounting system was destroyed in Ukraine. Everything is stolen: domestic investments, foreign investments, local budgets, the state budget, the resources of firms and collective farms. Everything has been stolen! If this avalanche is not stopped, if supervision, and punishment for infringement of the law, are not reinstated, it will be impossible to get out of the crisis.

In parallel with these questions, there are social problems that must be solved. The minimum wage, although it has supposedly been raised to \$20 [per month], bears absolutely no correspondence to the cost of living. Wage arrears continue to mount. They have reached a level of 5.2 billion hryvnias (about \$2.7 billion). There is about a 1 billion hryvnia pension payments debt. This means that pensioners are just left to die. They can't work to earn anything on the side, and their savings from a lifetime of work are not paid out to them, despite what the law says. In other words, social policy in Ukraine is a policy of genocide.

People die in poverty, from straightforward illnesses, from a toothache, because they have nothing to ease the pain and shock; they die of appendicitis, because a rural hospital has been shut down, and the person has no money to travel to the regional hospital. This is simply a crime!

The latest tragedy at the Skachinsky Mine in the Donbass, where more than 60 people died, was entirely a crime of the regime. Right in my electoral district, in Konotop, there is a factory, unique in Ukraine, which produces equipment for capturing methane gas. This factory is jam-packed with produced inventory, but has no market for it, because the mines don't have the funds to purchase it. And people are dying, from these explosions.

It is a vicious circle, for the destruction of the people, the destruction of the economy. Therefore, we think that the faster our program can be implemented, the more Ukraine's people can be saved, and Ukraine may be brought through the crisis with fewer casualties.

**EIR:** Vice Premier S. Tyhypko just returned from the U.S. Do you have any comments on the aim and the results of his trip?

**Vitrenko:** Our vice premier went off again to report to his masters on the work accomplished, and to ask for money. The point is, that complaints from American investors about the situation in Ukraine, have led to the IMF's withholding its standby credit. The IMF did not release the expected credit, so Tyhypko went to beg for it.

Right now, there is an IMF mission in Ukraine, and the government is pretending that order has been restored, that there will be no more embezzlement, and is asking to be saved and defended. The IMF is very unhappy, that budget spending is increasing, and the ceiling on the budget deficit has been exceeded. The size of the budget deficit, in percentage points, doubled during the first quarter, and the IMF

does not want to release money, if the conditionalities are not being fulfilled. Tyhypko went there to put a nice face on a bad situation. I don't think he succeeded. The credits were still not released, after his trip. The people over there understand who Tyhypko is, what he represents, and what the situation is in the country.

Two days ago, I had a live radio interview with BBC in London. They asked me my evaluation of the President's speech at the conference of the Union of Industrialists and Entrepreneurs of Ukraine (USPP), regarding changes in Ukraine's economic policy. I said on the air, that it was all a bluff.

The political games are continuing in Ukraine, and meanwhile everything is looted. In order to stop the stealing, order and accounting would have to be restored, which nobody is doing. The USPP will not change anything. I spoke very bluntly on this broadcast, to which the BBC commentator replied, "Very good, thank you very much." And I understood, that I had said the worst thing possible for them, that they were afraid I was going to start discussing the looting.

I said that quite precisely, and I think that the IMF, seeing our estimates and those of others, is drawing the conclusion that the regime will have to be toughened up here. It is no accident that such a fervent anti-communist as Z. Brzezinski, has commented that, after these elections, the President will

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have to choose: democracy, or the Parliament. I see this as America preparing President Kuchma to dissolve Parliament, understanding that this Parliament is not going to make life easier for Kuchma, or the implementation of his economic policy more painless.

The Parliament, however it might be composed, will demand budget spending for the spring planting, and to pay wages and pensions, which means an increase on the expenditure side of the budget. It will demand changes in tax policy, in favor of the producer, which does not correspond to the IMF's orders, and so forth.

Therefore, the threat of Parliament's being dissolved does exist. The international community should not allow it. Dictatorial regimes should be warned at the moment they are being formed, not after they carry out mass executions. Therefore, all progressive forces of humanity should present Kuchma with an ultimatum now, to change his policy, and not dissolve the Parliament.

The situation in the country is very difficult. If the Parliament is able to get to work, and I think it will—Ukraine is, after all, a member of the Council of Europe—it will be necessary to concentrate all efforts and attention on the Presidential elections. We understand that there is no possibility of abolishing the office of the Presidency, given the current line-up of forces in the Parliament. Therefore, the future of Ukraine depends on who is President. If it is Kuchma again, that will be a catastrophe. Ukraine will not survive his second reign. There is no reserve strength in the economy. It just won't survive. That's all there is to it.

**EIR:** Thank you very much for your interview. We wish you success in your work in Parliament.

**Vitrenko:** Thank you.

## Tasks facing the new Armenian President

by Karl-Michael Vitt

Robert Kocharian, the winner of Armenia's Presidential elections, was inaugurated on April 9. Our sources report that the mood in the Armenian population is one of great expectation. The atmosphere is comparable only to the pivotal period of 1990, when the Soviet Union was dissolving, and Armenia celebrated its independence.

Instead of experiencing improvement of its situation, Armenia plunged into a deep economic depression. The deindustrialization of the country has meant growing poverty

for the majority of the population. In addition, the country is burdened with an \$800 million foreign debt.

International Monetary Fund conditionalities have helped to spread corruption throughout all institutions in the country. The Parliament, the courts, the public prosecutors, the structures that monitor the government, and the municipal governments have become thoroughly corrupted, in the course of the last years under Kocharian's predecessor, Levon Ter-Petrosian.

During the electoral campaign, Kocharian, who was Prime Minister under Ter-Petrosian, clearly distanced himself from the ruling structures and adopted positions that won him support from opposition parties. The struggle against the criminal economy and the reconstruction of industrial capacities, which would provide people with jobs and some hope for the future, became his chief electoral campaign themes. He also declared that anyone who had led the country into calamity, should be brought to justice.

Kocharian, who has the reputation of a pragmatist, will be measured by his first steps. Hrant Khachatrian, who ran for President himself in the first round and supported Kocharian in the run-off, demanded that Kocharian form a consultative political council, on which the various Armenian political forces would be represented. Insofar as the people lack representation through the corrupt Parliament, this advisory council could stand at the President's side as he takes up the most urgent task, the formation of a new government. In response, Kocharian announced that he would broaden the National Security Council; leading political forces in the country would be coopted onto this body in the future.

Now, Armenians await the first steps of their young President.

### Renewed fighting is unlikely

Those who suppose, as the international press constantly wrote on the eve of the elections, that because Kocharian was the leader of the Karabakh enclave—Armenian-inhabited territory that is formally inside Azerbaijan—his election means that the conflict with Azerbaijan will flare up again, might like to play with fire, but they are actually out of touch with reality. Azerbaijan, too, faces Presidential elections this year. In Armenia, the expectation is that scarcely anybody in Azerbaijan will try to launch new fighting with Armenia. There would be little public enthusiasm for it among the Azerbaijani population.

If the new Armenian President succeeds in stabilizing the situation and restoring sovereignty over economic and financial policy, his election will have brought needed stability to the whole Caucasus region. For it to be long-term, will require the creation of a New Bretton Woods system according to Lyndon LaRouche's concept, in which the Caucasus region would be the crossroads of great development corridors from the north, south, east, and west, in the framework of the Eurasian Land-Bridge.

# LaRouche: Clinton should cooperate with Germany on spies

*The German magazine Focus (No. 15) ran an explosive report the week of April 6, titled “‘Stringer’ for Uncle Sam. Bonn Shakes Up the U.S. Intelligence Service: Is the CIA Covering for Former Stasi Agents?” The article asserts that after the fall of the Berlin Wall in 1989, the CIA grabbed the “operational registry” of the East German communist regime’s intelligence service, the Stasi—meaning, the names and dossiers of thousands of Stasi agents—and has since refused to turn this sensitive information over to the Bonn government.*

*About six weeks ago, according to the report, “a high-level emissary of the German Foreign Office travelled to Washington and depicted, in diplomatically correct language, the stomachache this was causing Bonn. The ruffled American partners at the State Department received the complaints coolly.”*

*Lyndon LaRouche, in an April 9 “EIR Talks” radio interview with Tony Papert, was asked to comment on the case.*

**EIR:** Lyn, you told me earlier that the German weekly news magazine *Focus* has a very important story in its current issue. Could you tell us about this?

**LaRouche:** Yes, well, it’s a big scandal which is of great importance, personal importance to the President of the United States. Some years ago, the U.S. intelligence community, under Bush, with Soviet cooperation and with East German cooperation, got at the major disks listing the agents of the Soviet services and the East German services working in West Germany.

Now, naturally, the German government would like to get this list of names of people who had been high-level agents of the Soviet and East German governments against Germany, during the period prior to 1989 and 1991. What happened, is the U.S. government promised to give the German government names, but did not. It gave them 2,000 names of very low-level agents out of a total of 20,000 names reportedly collected. It later turned up, through the German government’s going into counterintelligence investigations from other sources, rather than these disks which the United States got, turned up a number of people who they knew were East German agents, or had been. And these people said, “No, you can’t touch us. We’re working for the U.S. government, your ally, and we have guarantees from there, them, that you can’t touch us.” . . .

So, what happened recently, was that the German govern-

ment, in frustration, sent a special delegation to the United States, to try to get the United States to release the list of names of the 18,000 (estimated) agents, former agents of the Soviet intelligence services, and East German intelligence services, which the United States was holding back. And presumably, many of these people had been turned, to become U.S. agents (against whom? is open to question), and they would not give the German government the promised list of names.

Now, this—the German government, in desperation, leaked the story, obviously, to *Focus* magazine, which is presently the largest circulating newsweekly in Germany, in order to get this thing to the surface.

The problems of the United States with the European continent, under the conditions of this euro arrangement, are extreme, and they’re very dangerous. For the United States to continue to play this game against Germany, to protect, on behalf of Republican [Party] interests (because this was a Bush operation), the identities of 18,000 people who acted as traitors against their country as Soviet and East German agents, is actually not a very nice thing.

Now, at this point, the services, security services which the Germans approached in the United States on their visit, refused to cooperate, and gave the usual doubletalk and stall. At this point, there’s only one person who can really clean this mess up, and that’s President Clinton. And I am going to urge President Clinton to unilaterally override these idiots in the intelligence services, who are Bush League characters, and agree with the German government on some formulation where the United States will take cognizance that promises that were made to these people, but nonetheless, under those kinds of negotiated circumstances, will make sure that the German government has knowledge of the full list of these people who were agents against it, in the past.

This would go a long way to improving the strategic situation of the United States in respect to—particularly to its relationship to Germany. It would demonstrate to the world that the United States can be trusted, that once you become a friend of the United States, you enjoy the benefits of friendship, something that Bush never quite understood, and the Republicans never quite understood.

And, I think we can have some fun. We can ask how many of these Republican moles in the present administration, are going to continue to cover up for former communist agents? We may be able to ask: Is George Bush really a secret communist? I don’t think he is, but it’s an interesting question. And let’s see George say read his lips, or something, on that one.

But I think the President of the United States, if he has the kind of strategic sense that I hope he has, the sense of history and decency that I think he has, I think the President of the United States will immediately act to call up Helmut Kohl, his eating pal from Germany, and say, “Okay, we’re going to work with you guys. We’re going to help you guys out.” And I think that’s a timely, shall we say, development.

# Helga Zepp-LaRouche is campaigning in Germany's elections

by Ortrun Cramer

Helga Zepp-LaRouche is campaigning for Chancellor in the Sept. 27 national parliamentary elections, heading the slate of the Civil Rights Movement Solidarity (Bürgerrechtsbewegung Solidarität, or BüSo, for short). A small, but unusual and growing political party in Germany, the BüSo, which she heads, is bringing a voice of reality into the turbulent election campaign. Recently, Zepp-LaRouche spoke at public meetings in Berlin, Munich, Frankfurt, Hamburg, Dortmund, and other cities.

In several states, the BüSo has nominated slates to run in the elections, as well as many individual candidates in various cities. Petitioning is presently under way, in order for these candidates to appear on the ballot in September. Slates have already been elected in the cities of Berlin and Hamburg, and in the states of Saxony, Bavaria, Hesse, and North Rhine-Westphalia. Party organizations in other states, such as Baden-Württemberg, will follow soon. Zepp-LaRouche heads the slate in the state of North Rhine-Westphalia, where the Ruhr region, traditionally the center of Germany's heavy industry, is located. The state has approximately 17.5 million people, almost 20% of Germany's population.

In recent public meetings, Zepp-LaRouche has outlined the party's intent to address the most pressing issues: what kind of economic policy can re-start the German economy, and relieve the growing unemployment, which already has taken a heavy toll, especially among youth. "None of the German politicians," she told voters in Berlin, "is ready to tell the citizen the truth, in the face of the explosive world crisis. The present crisis of the global financial system is no mere monetary crisis, but a systemic crisis, which threatens our entire civilization. Of course, the politicians fear, that a mass panic would set in, if the population knew the full scope of this crisis."

Zepp-LaRouche has been working for years for a reorganization of the disastrous "post-industrial" world financial system, and for large-scale development projects, to save Germany's industry, particularly the highly productive machine-tool sector. In the 1976 elections, she campaigned as "Candidate for Chancellor, for a New, Just World Economic Order." Since then, her efforts have expanded in scope and complexity, including her demand today for constructing the "New Silk Road," or Eurasian Land-Bridge, a large-scale infrastructure



*Helga Zepp-LaRouche, known to German television audiences as "the Silk Road lady," is running for Chancellor.*

and development project, which will bring back millions of industrial workplaces to Germany's economy. A precondition to realizing such a policy, is the reorganization of the global financial system, the "New Bretton Woods," which she first demanded last year, in an internationally circulated appeal to U.S. President Clinton, co-authored by Ukrainian parliamentarian Dr. Natalya Vitrenko.

## Voters' growing awareness

Her discussions with voters during party events prove, that there is a growing recognition, not only of her analyses and programmatic initiatives, but also how urgent it is for citizens to step forward and become active in the political process. One candidate from Hesse recently insisted: "It is no longer sufficient to complain, or get upset. Everybody knows that the entire direction is wrong. As a citizen, everybody is called upon to intervene in politics, now." Some long-time activists with the major parties have now decided to run as BüSo candidates, including a former Social Democratic activist in Rüsselsheim, who is member of a union factory council, and a former Christian Democratic city council member from Düsseldorf.

A second plank in Zepp-LaRouche's campaign is the reform of German education, by returning to the classic Schiller-Humboldt concept of education, which many far-sighted nations successfully copied, and which Germany abandoned under the "Brandt reforms" in the 1970s. She warns of the "TV culture, of the drugs, and of the legacy of the Frankfurt School ideas, which have undermined all moral values, such as truth, justice, reason, and charity. What a man thinks, is determined by his culture," she stressed. The BüSo is preparing a symposium on the subject of a cultural Renaissance in Germany, which will take place in June. This symposium will discuss the role of the study of the Classics, in arts and science, as the foundation for a true education.

### A return to Classical education

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*An effort is being undertaken to reverse the crisis arising from 30 years of liberalism in the education system.*

In an initiative whose importance cannot be underrated, Annette Schavan, Minister of Cultural Affairs and Education in the state of Baden-Württemberg, has called for a return to the essential elements of the pre-1972 system of secondary and college-level education.

Schavan, a Christian Democrat whose remarks were covered in the leading German press on April 11, said that it is time to abolish the post-1972 system of specialized, fragmented *gymnasium* courses.

The “Brandt Reforms” of the early 1970s, sponsored by Social Democratic Chancellor Willy Brandt, changed the system of education, particularly the *gymnasium* phase (grades 10-13), which was designed to prepare students for university studies. The new system, with its bias toward sociology and environmentalism, was introduced with the populist slogan “freedom of choice,” and has eroded education standards to such an extent that new university students, as well as their professors, for some years now, have felt incapable of sound, in-depth studies, because the basic knowledge required to conduct such efforts simply is not there.

“Freedom of choice” has produced students who are unable to master even their native language. The young citizens who come of voting age at 18 and enroll in universities, no longer know what a good citizen ought to know about history, statecraft, and philosophy.

Schavan said that it is time to restore the pre-1972 Classical core of five studies, along with the classic school class structure, which keeps a

group of students socially together in one class through their essential studies from grades 10 to 13. These core studies include the German language, mathematics, one foreign language, one of the natural sciences, and an elective from history, geography, or religion. In addition, a sixth core study, such as the history of science, in combination, for example, with chemistry, physics, and philosophy, has been proposed by Schavan.

“Our elites are sometimes really helpless, with all their specialized knowledge,” Schavan said. With the present-day flood of information, it is necessary to return to essentials, such as “philosophy, where we have to get back to the standards for which the German school system has gained a reputation abroad.”

The basic outline of Classical German education emerged from the period of the great philosophers, poets, scientists, and political reformers of the late-16th to late-18th centuries. It is the continental European complement of the republican movement in America that led to the founding of the United States. The German Classical tradition is epitomized in the slogan, “The best education for the whole nation,” and was embodied in the reforms of Prussian cabinet minister Wilhelm von Humboldt in the early 19th century. The Classical system of the core studies for all students through the last three years of their *gymnasium* education, was developed out of the Humboldt design, and remained basically intact for 150 years, into the early 1970s.

However, the original Humboldt concept, to produce a republican citi-

zen who would contribute to ending the oligarchical era and to consolidating the industrial nation-state, was undermined early on. The republican movement in Germany failed, and the political “arrangements” between the industrial forces, and the landed oligarchy and financier-monetarist elites, meant the sacrifice of this very important republican aspect.

What survived was the core *gymnasium* studies, cleansed of their political threats to the oligarchy, but ideologized for the purposes of the ruling powers: the imperial era until 1918; the Weimar Republic, with its emphasis on “modernism” at the expense of the Classics; from 1933 on, the regime of the Nazis, with its emphasis on eugenics; after the war, from 1945 on, the system became one of the key conduits of Allied military occupation efforts to “re-educate the Germans.” This took an extreme form in the British occupation sector, where the pressure on teachers to replace the German Classics with British liberalism, was immense. And, in the Soviet occupation zone, postwar education began with the firing of all except the overtly pro-communist teachers.

Through all this turbulence, however, core aspects of *gymnasium* education survived, due to the resistance of teachers. In postwar West Germany, an unabated inflow of teachers fleeing from the Soviet zone, before the Berlin Wall was built in 1961, neutralized the British re-educators somewhat.

But, the worldwide paradigm shift of the 1960s, and the generation of young teachers who entered school services in the late 1960s and early 1970s, destroyed the relics of the Classical system, introduced hedonism, ecologism, and the drug counterculture. To restore the Classical system is therefore a gigantic job, but an essential one.

# International Intelligence

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## ***Will Germany's CDU commit suicide?***

In response to a proposal by the Green Party of Germany to raise the price of gasoline to 5 deutschemarks per liter (close to \$10 per gallon), the Christian Democratic Union (CDU) has countered with its own proposal: to raise the price to DM 4.60 per liter, or about \$9.50! The Greens want to raise gas prices to reduce greenhouse gases that cause so-called global warming.

This continues the policy the CDU has pursued while in power for over a decade, of pragmatically co-opting the environmentalist policies of the Greens. The Bavarian sister party of the CDU, the Christian Social Union, has threatened a split with the CDU over the issue. In this atmosphere, a CSU member of parliament has submitted a written inquiry to the government concerning the role of the Sun in climate change.

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## ***Zapatista supporters deported from Chiapas***

Twelve foreigners running an "autonomous town" for the Zapatista National Liberation Army (EZLN) were deported from Chiapas by the Mexican government on April 12. They were arrested, put on a bus to Mexico City, and then on planes out of the country, after Chiapas state officials witnessed them leading an "autonomous town council" meeting the day before. Eight Mexicans were arrested also. The foreign group includes three Americans, two Canadian, four Spaniards, two Belgians, and one German.

The town, Taniperlas, located near the Guatemalan border in Ocosingo, a Zapatista base of operations, had been declared by the EZLN to be an "autonomous" municipality, rejecting Mexican government authority. The Zapatistas have established 32 such "autonomous towns" in Chiapas, so the press asked the Government Secretariat official, Miguel Covian, who announced the deportations last night: Is the Mexican government going to re-establish state control over the other 31 of them? His answer: "No determination has been made in that respect, because that is a decision for the state of Chiapas."

Six of the foreigners were operating in the town of Taniperlas under the cover of being "human rights observers" for the Fray Bartolome de las Casas Center, run by Bishop Samuel Ruiz. While Ruiz's outfit claims that its people, like the others, were merely there to "witness" the creation of the new "autonomous town council," the press has published pictures of them making banners for the Zapatista operation.

The 12 were the first to be expelled from Chiapas under Article 33 of the Mexican Constitution, which empowers the President to order the expulsion of any foreigner caught participating in politics. As a Government Secretariat spokesman explained: "They not only interfered in our political affairs; they tried to exercise political authority."

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## ***Krueger reports slaughter of Hutus inside Rwanda***

In an interview with Kathy Lewis of the *Dallas Morning News* published on March 30, U.S. Ambassador to Botswana Robert Krueger exposed the genocide perpetrated by British-backed warlord Paul Kagame's Rwandan Patriotic Front (RPF) against Hutus in Rwanda in 1994, and implied that mass murder was carried out in eastern Zaire in 1996-97 by the same forces. Krueger was formerly the U.S. ambassador to Burundi.

Up to now, *EIR* has been the only source that has published the story of the genocide inside Rwanda after summer 1994 by the RPF.

Krueger does not contest the myth that only the Rwandan Army of murdered President Juvenal Habyarimana was responsible for the slaughter of Tutsis and Hutus in spring-summer of 1994. However, he then reports that the Tutsis carried out a counterslaughter of revenge.

As Lewis writes, "[Krueger] said Paul Kagame and his 'Rwanda Patriotic Force' came in and drove out the Hutu army that was responsible for much of this slaughter. The Tutsis then went back, but revenge is an extremely virulent disease in Central Africa. And then began the counterslaughter of Hutus by the Tutsis in Rwanda, including the RPF forces.

"I visited countless refugee camps—every couple of weeks or so—these would be then Hutu refugees coming from Rwanda into Burundi. . . .

"They were all afraid to go home. . . . Some of them would go back and those who would go back either would never return, meaning they were killed, or some who did return would come back with stories of others, Hutus being slaughtered in their villages.

"You would have asked them when they would go back and they would tend to say, when the RPF is gone. A vast majority of these people are women and children. None in Burundi were engaged in guerrilla fighting. There were Tutsi Burundian armies in charge of all these camps. So I have no reason to believe that the unanimous statements of these people were false.' "

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## ***Palestinian Authority shuts down Reuters***

The Palestinian Authority's Police department shut down the Reuters office in Gaza on April 10, and announced that the British news agency would remain closed for the next three months, the *Jerusalem Post* reported on April 12. Simultaneously, the police demanded that all Reuters reporters in Gaza henceforth sign a statement committing themselves to be "precise in their work, and determine the truth of the news."

The stated basis for the closure, was Reuters' carrying an inflammatory interview with Hamas operative Awad Awadallah the week before, threatening that Hamas "would bring sorrow into every Israeli home." Awadallah's brother, Imad, reportedly confessed on April 11 that he had been one of the assassins of Hamas military commander Mohieddin Sharif, in an internal Hamas war. Awad Awadallah said the confession was a fraud, and Israel was responsible for the murder.

Israeli Prime Minister Benjamin Netanyahu's communications director, David Bar-Illan, far from being upset at the accusation that Israel had murdered Sharif, attacked the PA, telling the *Post* that the Palestinian Authority "seems to be interested in proving that it has no desire to be a democracy."

**POPE JOHN PAUL II** will conduct a day-long fast on April 25, in support of famine victims in North Korea. The fast was organized by an international charity group in South Korea headed by the Roman Catholic cardinal of Seoul.

**THE EGYPTIAN** Department of Antiquities has announced the discovery of a 9,000-year-old settlement at Nabta Playa, in southern Egypt. So far, 18 villages have been excavated by an American archeological team. There are indications of cattle raising, as well as pottery production. The site is one of the world's oldest settlements.

**THE TERRORIST** group "November 17," which killed the CIA station chief in Athens in 1975, is now suspected of having launched the anti-tank rocket that hit a Citibank branch in Athens on April 8. It caused extensive damage, though no injuries. The deputy head of the Greek police, Yiannis Giorgiopoulos, declared that "all evidence points to November 17." The attack against the bank is the latest in a series of bombings against foreign companies in Athens.

**MYANMAR** has invited Thailand to put an end to border incursions by rival ethnic Karenni armed forces. The attacks, particularly on Karenni refugee camps on the Thai side of the border, have led Thai Prime Minister Chuan Leekpai to threaten military retaliation. The Thai refugee camps are largely occupied by family and supporters of the Karen National Union, which has been in a state of revolt against the Myanmar government for 50 years.

**PORTUGUESE** Prime Minister Antonio Guterres announced on April 5 that his government would give \$6 million over three years to non-governmental organizations in its former colony, East Timor, "which did not have close ties to the Suharto government" of Indonesia. The move is seen as an attempt to destabilize the government of Indonesia, which has sovereignty over East Timor.

## ***Thailand, Britain in 'strategic partnership'***

British Prime Minister Tony Blair turned on the charm for Thai Prime Minister Chuan Leekpai, as shown by statements made by Thai Foreign Minister Surin Pitsuwan on April 4. The two leaders proclaimed a "special relationship" going into the 21st century, during their bilateral meeting on the sidelines of the Asia Europe Meeting (ASEM) in London, according to the London-based publication *The Nation* on April 5.

Surin took credit for suggesting the idea to British Foreign Secretary Robin Cook, motivating it by saying that the two countries had more in common than differences between them, notably a long history of royalty and parliamentary democracy. Blair said he liked the idea: "Let's work on it," he told Surin. Surin and Robin signed the Thai-U.K. Bilateral Action Agenda on April 3.

Among the initiatives to follow, a British expert on privatization will be posted to the British Embassy in Bangkok to advise on privatization of public services and utilities. Blair expressed keen interest in providing educational opportunities, pointing out that three Thai premiers were British-educated: Seni and Kukrit Pramoj, and Anand Panyarachun—the latter having played the crucial role in setting up the Thai bubble economy.

## ***Jordan's Shubeilat released on bail***

Laith Shubeilat, the leader of the Jordanian opposition, was released on bail on April 15, following a ruling in his favor by the appeals court. His trial is continuing.

Shubeilat was arrested on Feb. 20, after having delivered a sermon in the city of Ma'an, south of Amman. Following his arrest, about 100 people staged a demonstration; security forces intervened, and one man was killed. Shubeilat was accused of having incited the unauthorized demonstration.

Reached by phone at his Amman home after his release, Shubeilat stressed that the entire case is a farce. He noted that it was rather absurd to hold him in custody, practi-

cally in isolation, for a small felony, which carries a maximum sentence of four months, or a fine. As for the trial, on which a total press blackout has been ordered in Jordan, witnesses who had been called by the prosecution apparently argued in Shubeilat's favor, as they testified that Shubeilat had explicitly called for "non-violent" actions and warned against violence. He was arrested 18 hours before any demonstrations broke out in Ma'an. Furthermore, the Ma'an elders had tried to convince the police not to intervene, but to no avail, and that led to clashes and one death.

His arrest and trial have only enhanced Shubeilat's stature among the population.

## ***UN envoy appeals to Afghanistan's factions***

Lakhdar Brahimi, the special envoy of the UN Secretary General, is appealing to the factions within Afghanistan, and especially to the neighboring countries, to mobilize the political will to put an end to the war in Afghanistan, according to a report in the Iranian newspaper *Ettela'at* on April 16.

In an interview with the Iranian news agency IRNA, Brahimi pointed to the self-interest of neighboring countries in seeking peace: The Uzbeks see problems in their own country which originate in Afghanistan; the Turkmen cannot build their pipeline due to the war; Pakistan has 3 million drug addicts and 1 million guns in Karachi, as an indirect result of the war; and so forth. Uppermost in Brahimi's remarks, was the consideration that Afghanistan has become the source of production and smuggling of narcotics, which he called "an international menace."

Brahimi said that the northern Afghan factions, as well as the insurgent Taliban, had designated representatives for talks, and now it is a question of whether these will take place or not. He emphasized the key role to be played by Iran and Pakistan, and highlighted the improvement in Saudi-Iranian relations, as a source of hope for progress on the Afghan track. It is known that Saudi Arabia has been supporting the Taliban. A change in the Saudis' stance could force the Taliban to come to terms with the other powers.

## Starr digs himself even deeper, in payola scandal

by Edward Spannaus

In an apparent effort to fend off growing conflict-of-interest charges being levelled against him, Whitewater prosecutor Kenneth Starr has admitted a key element of the witness-tampering charges which are now threatening to collapse his entire scandal-ridden “Get Clinton” operation.

In a letter sent to Attorney General Janet Reno on April 16, Starr acknowledged that there were a number of “FBI-supervised contacts” between his key witness, David Hale, and Parker Dozhier, the owner of a bait-shop in Hot Springs, Arkansas. Dozhier was, according to other sources, being paid \$1,000 a month in funds from “Get Clinton” moneybags Richard Mellon Scaife, channelled through the American Spectator Educational Foundation. In his letter to Reno, Starr was attempting to refute the suggestion made by Deputy Attorney General Eric Holder, that Starr would have a conflict of interest in investigating the witness-tampering allegations made regarding Hale, because of Starr’s conflicts of interest involving Scaife.

The Holder letter was sent to Starr on April 9, and it requested that Starr investigate allegations that Hale — Starr’s primary witness in the Arkansas “Whitewater” probe against President Clinton — “may have received cash and other gratuities from individuals seeking to discredit the President” during the same time that Hale was a cooperating witness in Starr’s investigation. Holder labelled this “possible witness-tampering,” and he also stated that Starr would probably have had an obligation to disclose this information to those he was prosecuting. This presumably refers to the fact that under both Federal criminal statutes and the Federal rules of criminal procedure, a prosecutor is supposed to advise a defendant of any information which is either exculpatory to an accused person, or which could be used to impeach the testimony of a witness.

But Holder went further: He also told Starr that Starr might have a conflict of interest in investigating these allegations, because the monies paid to Hale allegedly came from funds provided by Richard Mellon Scaife. Holder therefore generously told Starr that the Justice Department was prepared to conduct such an investigation, if Starr determined that he had a conflict of interest, or even the appearance of such a conflict.

According to some sources, there was a huge fight within the Justice Department over the letter to Starr — as to whether to send it at all, and how detailed it should be. This fight was also reflected in the fact that the letter was signed by Holder, the Deputy Attorney General, and not by Janet Reno herself.

### The Kendall letter

A more detailed letter was sent to Starr the next day, by President Clinton’s personal lawyer David Kendall. The Kendall letter upped the ante, by describing Starr’s conflicts of interest involving Scaife, Scaife’s close friend Theodore Olson, and others, in much more depth than Holder had done.

Kendall’s letter did not give Starr the benefit of the doubt; it requested that Starr “immediately refer this sensitive investigation back to the Department of Justice,” because “I do not think that you or your Office can credibly or appropriately conduct this investigation.” Kendall lays out a series of reasons for saying this:

“First, your Office has already made a judgment on the veracity and reliability of David Hale,” by relying heavily on his testimony, by publicly embracing Hale as a “model witness,” and seeking a sentence reduction for him.

“Second, you and persons in your Office are important witnesses in any thorough investigation of this matter”; Ken-

dall notes that a witness says that FBI agents from Starr's office brought Hale to visit Dozhier.

"Third, your Office has in fact prejudged a key aspect of this matter." Kendall quotes Starr's top deputy Hickman Ewing having already made a categorical denial of the Hale payments allegations.

"Fourth, you have well-publicized connections to Richard Mellon Scaife, whose contributions funded the so-called 'Arkansas Project' . . ."

"Fifth, any investigation of the David Hale allegations will inevitably involve the critical scrutiny of close friends of yours. For example, Mr. Theodore Olson is a friend and former law partner of yours. . . ." Kendall notes that Olson is the lawyer for both David Hale and the *American Spectator*. Kendall also cites Terry Eastland, "who also counts himself a 'good friend' of yours," and is now the publisher of the *American Spectator*.

### The money trail

The background to the Hale matter was described in the April 17 *EIR*. From 1993 through 1997, Richard Mellon Scaife, the British intelligence/CIA-trained propaganda specialist who has financed much of the "Get Clinton" media onslaught, put over \$2.4 million into the *American Spectator* for anti-Clinton investigations; at least \$1.8 million of this was poured into the "Arkansas Project," a dirty-tricks operation aimed at creating witnesses who would cook up stories about Clinton to be retailed to selected news media outlets, and to be presented in court testimony.

The payments were funnelled through the American Spectator Educational Foundation, a tax-exempt entity which owns the *American Spectator* magazine — which published the first "Troopergate" stories in late 1993. Starr's friend Theodore Olson is the lawyer for the Foundation and also a member of its Board of Directors; Olson also hosts a "Get Clinton" gathering of lawyers, judges, and editors at his Great Falls, Virginia home on a regular basis — which Starr reportedly attends.

The Scaife money was passed through the American Spectator Foundation, to Virginia attorney Stephen Boynton and another Foundation official, David Henderson, who is a longtime associate of Richard Scaife. Boynton and Henderson spent a great deal of time in Arkansas passing out money, gathering information, and hiring some private investigators; they also met with Hale many times in Hot Springs, on the premises of Parker Dozhier — who calls himself a "researcher" for the *American Spectator*. According to eyewitness accounts, Dozhier provided cash to Hale, as well as giving him the use of a car and a cabin.

Hale cooked up his stories about Clinton only after his office was raided by the FBI in mid-1993, and he was about to be indicted. He tried cutting a deal with the local Federal prosecutor, who wasn't interested, so then he hooked up with some of Clinton's bitterest adversaries in Arkansas, who put him in touch with national anti-Clinton investigators and re-

porters. In September 1993, Hale was indicted; it was only after the first Whitewater independent counsel, Robert Fiske, was appointed in early 1994, that Hale was able to make a deal. He was put in hiding in the Federal Witness Protection Program, while his grand jury testimony was used to indict Gov. Jim Guy Tucker and the Clintons' one-time business partners, James and Susan McDougal.

Hale was relocated to Shreveport, Louisiana, and kept in seclusion. Even the lawyers for Tucker and the McDougals could not find Hale to interview him — as defense lawyers are entitled to do; and a local prosecutor who was seeking to prosecute him for insurance fraud couldn't locate him either. Hale only re-emerged publicly during the Tucker-McDougal trial in 1996.

### Starr's startling admission

What Starr has done, in his April 16 letter to Reno, is not only to concede that Hale did meet with Dozhier, but that these meetings were "FBI-supervised." Why did Starr make such an admission — which could blow his Tucker-McDougal convictions out of the water?

From January 1994 through August 1994, the Whitewater investigation was being conducted by Robert Fiske, who had been appointed by the Attorney General under Justice Department regulations, because the independent counsel statute had been allowed to expire in 1992. Technically, Fiske was an employee of the Department of Justice; after Congress reauthorized the independent counsel law in July, the special three-judge panel refused to authorize Fiske to continue, and instead appointed Starr.

So Starr, clever fellow that he is, wrote to Reno on April 16: "Preliminary information indicates that most if not all of the alleged FBI-supervised contacts between David Hale and Parker Dozhier occurred prior to August 1994 — i.e., while the investigation was being conducted under the auspices of the Department of Justice . . . before the point at which I became Independent Counsel."

In the bigger picture, it makes no difference whether Fiske, or Starr, was in charge; if David Hale was meeting with, and receiving gratuities from, agents of Scaife and the *American Spectator*, his testimony was tainted, and those who were convicted by his testimony had the right to have that disclosed — before Hale testified against them.

And the fact of the matter is, that Starr took over Fiske's investigation lock, stock, and barrel in August 1994. Fiske's entire staff — both the FBI agents assigned to the investigation, and the prosecutors hired by Fiske — stayed on during the transition to Starr. The investigation scarcely skipped a beat; Starr's press spokesman, Deborah Gershman, told *EIR* that the transition was "very amiable." The Tucker-McDougal indictments were ready to go when Starr took over. Starr fully utilized David Hale as his primary witness against the McDougals and Jim Guy Tucker — and thus the taint — and the stench — were fully carried over as well.



# LaRouche Democrats launch campaigns to save the nation

by EIR Staff

With the Congressional primary election season coming into full swing, three LaRouche Democrats have been certified for the Democratic primaries to choose Congressional candidates in New Jersey and South Dakota. Dennis Speed and Lewis du Pont Smith of New Jersey, and Ronald Wieczorek of South Dakota, will be on the June 2 ballots in their states. Shortly before that, in Virginia, the Democrats in the Tenth Congressional District will choose between well-known LaRouche

Democrat, and anti-Ollie North fighter, Nancy Spannaus, and two other Democrats, to take on incumbent Republican Frank Wolf.

The outcome of these four Democratic contests will have a significant impact on the shape of the Democratic Party going into the fall elections. While many pundits are saying that the Democrats are well positioned to take back the House of Representatives from the Republicans, the party has, in fact, largely abandoned its traditional base among labor and the poorer strata of society, and turned to “New Age” appeals to environmental, consumer, and “information” issues, rather than the bread-and-butter reality of health care, physical infrastructure, and living standards.

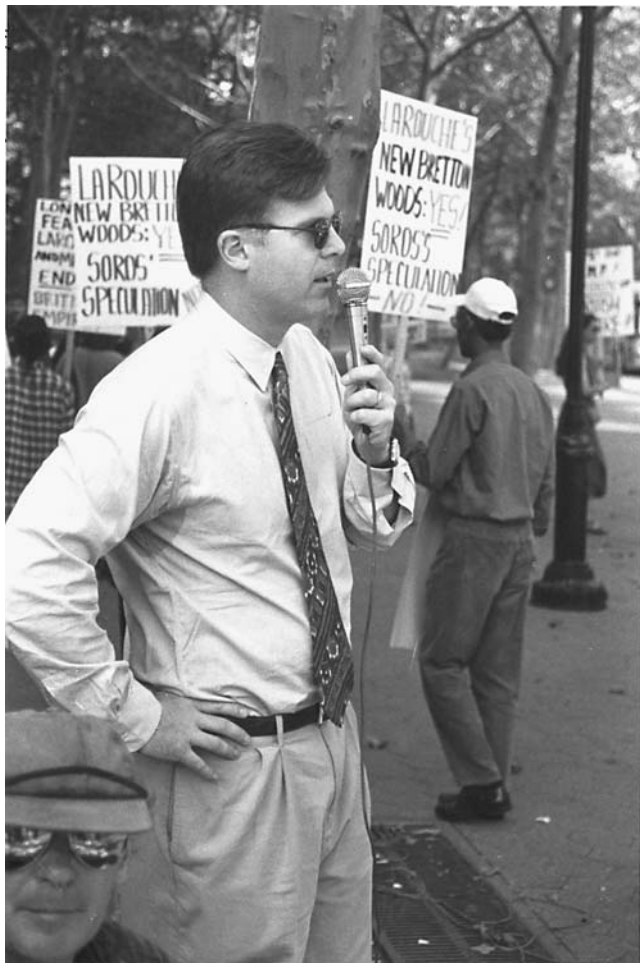
In the 1996 campaign, coincident and coherent with President Clinton’s ill-advised decision to endorse the welfare reform bill, the Democratic National Committee—under the now-disgraced Donald Fowler—chose to shoot itself in the foot by preventing Democratic primary contender Lyndon LaRouche from obtaining his duly elected delegates at the national convention. If the party were to choose to treat LaRouche Democrats the same way in these Congressional races, it would show a similarly suicidal urge, since the LaRouche Democrats are currently the most prominent wing of the party campaigning for the defense of the Presidency, and the necessary shifts in economic policy in the midst of global financial bankruptcy.

On the contrary, a victory—or even a very strong showing—by the LaRouche Democrats in these races, would represent a shot heard ’round the world, with significant implications for reversing many of the evil policies of the past 30 years.

## The Virginia campaign

Nancy Spannaus’s campaign, which is occurring in LaRouche’s home district, pits her against two Democrats for the right to oppose 18-year incumbent Republican Frank Wolf. The Democratic Party has generally shown great reluctance to run against Wolf, who has a heavily Republican, rural district, and has an entrenched reputation for constituency service. This year, after the Democratic Party was booted out of state office entirely as a result of a me-too campaign, the impetus to challenge Wolf was even less.

However, the Democrats knew that Spannaus, who an-



*Lewis du Pont Smith, candidate for the Democratic Party's Congressional nomination in New Jersey's Fourth CD, addresses a rally at the United Nations.*



*LaRouche Democrat Nancy Spannaus is shaking up Virginia's Hunt Country, with her campaign against incumbent Rep. Frank Wolf (R). She is battling two others for the Democratic nomination. Here, she is interviewed by a reporter in front of Wolf's office in Winchester.*

nounced against Wolf in May 1997, was going to make the fight, and apparently do not wish to repeat the experiment of 1990, when a Democratic Party decision for “no candidate” caused a total uproar in the party. A process has therefore been set up for three announced candidates to compete in caucuses across the district. This virtually secret procedure guarantees a small turnout and little publicity, unless someone changes the rules of the game.

The odds-on favorite is an African-American lawyer and minister named Cornell Williams Brooks, who also serves on the Tenth District Committee. Brooks's platform features issues in the areas of housing, jobs, schools, and the environment, and he has made a special point of opposing the flat tax. Brooks, a young man who uses a Martin Luther King style to declare his pride in having graduated both from Yale Law School and Headstart, has broken from the current Democratic “line” of economic recovery, by noting that the living standards of working Americas have actually declined since 1979. He is campaigning hard, but one gets the sense that his concentration lies in preparing for future campaigns.

Tim Kapper, the third candidate, is a 36-year-old businessman in the computer field, who, in his few public statements, has made a point of being more “conservative” than Brooks. He has failed even to acknowledge that Spannaus is in the race—not a good indication of his moral and political character.

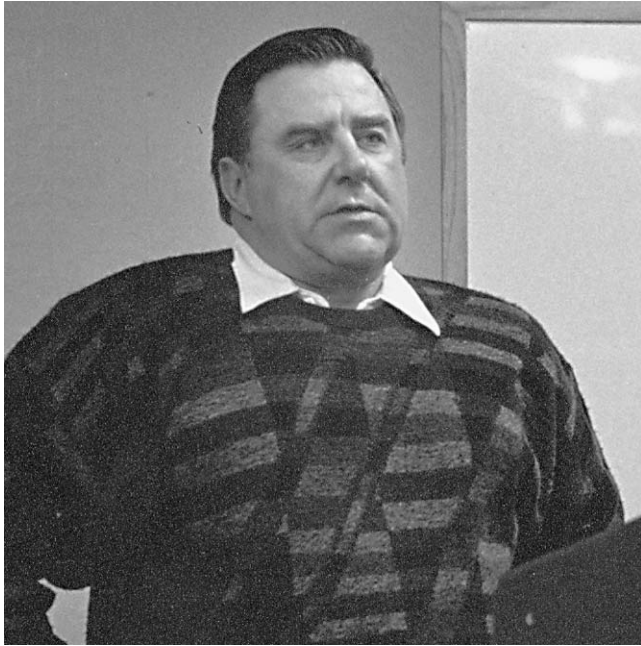
Spannaus, by virtue of her previous campaigns, especially the 1994 defeat of Ollie North, is by far the best known of the

three, and clearly the most feared by Wolf, who is habitually tongue-tied, but even more at a loss when confronted by Spannaus with his hypocrisy on human rights and moral issues. Within the Democratic Party apparatus, Spannaus's linkage with LaRouche is a matter of consternation, especially since many Democrats in this area actually collaborated with the Republicans in the witch-hunt against LaRouche. It remains to be seen whether any funny business will be tried.

### **The New Jersey campaigns**

The LaRouche Democrats have two campaigns in the state of New Jersey, a heavily populated state where the Democratic Party almost ousted prominent Republican Gov. Christie Todd Whitman in 1997. Dennis Speed, the East Coast Coordinator of the Schiller Institute, and a prominent spokesman for African and African-American civil rights and the revival of Classical culture, is running in the Democratic primary in the Tenth Congressional District, which includes Newark and a number of wealthy cities. He will be campaigning against the incumbent Democratic Congressman, ten-year veteran Donald Payne. There is not expected to be any Republican challenger in this heavily Democratic district.

Speed will be on the ballot with the slogan “Support LaRouche's New Bretton Woods,” and he has stated his intent to build a constituency for this new economic policy in the period running up to June 2, and beyond. Payne, former chairman of the Congressional Black Caucus, has already been exposed to withering revelations by Speed and his sup-



*Left: Ron Wiczorek of South Dakota, a farmer and farm activist, is seeking the Democratic nomination for the state's only Congressional seat. Right: Dennis Speed is challenging incumbent Rep. Donald Payne in the Democratic primary in New Jersey's Tenth CD, campaigning with the slogan, "Support LaRouche's New Bretton Woods."*

porters, because of the former Prudential Insurance agent's support for British genocidal policies against Sudan and Central Africa. The potential for Speed's campaign was hinted at by the turnout of 125 people at a recent Newark event commemorating Martin Luther King, which featured an address by Speed.

In the southern part of New Jersey, the Fourth Congressional District, which includes the state capital of Trenton, LaRouche associate Lewis du Pont Smith has been certified for the Democratic primary ballot, in the race to challenge 18-year Republican incumbent Chris Smith. Smith, who, like Wolf, works closely with British intelligence on international "human rights" assaults on nations like Sudan and China, is considered a prominent "right-to-lifer." Yet, while he has covered his rear by voting with labor against the North American Free Trade Agreement (NAFTA) and the fast track, he has been an active saboteur of the international economic measures, and domestic credit policies, which the United States needs in order to lead the world out of the current crisis.

Du Pont Smith, who has gained national stature through his successful fight against the enemies of LaRouche who plotted to steal his inheritance, and perhaps even kill him, is an experienced, aggressive campaigner. He is one of four Democrats running in the Democratic primary.

### **South Dakota battleground**

The fourth major arena in the period going up to June 2 is South Dakota, where LaRouche Democrat Ronald Wiczorek will face off against the state's Deputy Treasurer, Jeffery

Moser, for the Democratic nomination to the depopulated state's only Congressional seat. Wiczorek is famed for his prominent role in promoting Democrat Tim Johnson's defeat of longtime Republican Sen. Larry Pressler in 1996. The Republican incumbent, John Thune, is a first-term Congressman, who has announced for re-election with a statement expressing platitudes on fiscal conservatism and saving Social Security.

Wiczorek has proposed "one debate a week" to his opponent, and plans to campaign very aggressively through a state-wide network. He has said of his opponent, a certified public accountant, that "we don't need another bean counter; we need a bean producer." Wiczorek is a farmer, and farm activist, who has his finger on the pulse of the state's heavily agricultural population, and is highly knowledgeable about the economic development proposals which could bring South Dakota out of its poverty, in the context of a new monetary system.

It is suspected that the Democratic Party only put up Moser, because it was fearful of nominating LaRouche supporter Wiczorek. The party has declined to challenge at least 28 Republican state legislators, for example. But Wiczorek notes that, while South Dakota is considered solidly Republican, his petitioners encountered many individuals who apologized for being registered as Republicans. Wiczorek, who ran for Congress in 1992 and again in 1994 as an "independent affiliated with the Democratic Party," thinks it's quite possible that the population, devastated by low agricultural prices and the lowest wages in the nation, may be ready for the kind of change he represents.

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# National News

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## Clinton: NASA achieves 'impossible missions'

NASA is where "impossible missions are accomplished by remarkable people," President Clinton told employees at NASA's Johnson Space Center in Houston, during a visit on April 14. President Clinton was given a tour of the facilities by former Mir crew member David Wolf and other astronauts, and spoke with Sen. John Glenn (D-Ohio), 76, who is in training for a flight on the Space Shuttle next year. He also spoke by phone to the crew of the next Space Shuttle mission, at the Kennedy Space Center in Florida, and which was set to launch on April 16 for a 16-day mission to study neurological changes in microgravity.

President Clinton referred to the experiments on aging to which Glenn will contribute on his mission, and those that will be conducted on the Neurolab Shuttle mission: "We are living longer than ever before. . . . It is imperative that we live healthier than ever before. That requires not only the maintenance of our physical health, but the continuing fires of our imagination. . . . It is imperative that we learn as much as we can about the aging process. . . . It's also imperative that we hold up as role models, people who, in their mid-70s, still dare to dream new dreams. And I think we should all learn a lesson from that, whether we go into space, or not."

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## Virginia defies world protest, executes Breard

Both Virginia Gov. Jim Gilmore—a "law and order" Republican—and the U.S. Supreme Court defied demands from the International Court of Justice at The Hague and a request from the Secretary of State Madeleine Albright to delay execution of Paraguayan citizen Angel Breard, who was killed on April 14. The World Court and Mrs. Albright based their arguments on the fact that Breard's right to contact his embassy under the Vienna Convention was denied when he was arrested in 1993. On April 9, the World Court requested the U.S. to stop the execu-

tion, until the judges consider whether Breard should receive a new trial on the basis that Virginia had violated his rights. This is the first known intervention in a U.S. criminal matter by the World Court.

While Secretary Albright urged Gilmore to stay the execution, the Justice Department, ultimately with the sanction of the Supreme Court, put its imprimatur on the execution, employing the usual "procedural arguments." Had Breard been allowed to consult the Paraguayan consul, his attorneys argued, he would have been advised to accept a plea agreement, under which he would have to serve life in prison. Virginia acknowledges that it violated the Vienna Convention, but shrugs that Breard got a fair trial anyway.

The Breard execution underscores a recent report from the UN Human Rights Commission that some U.S. states ride roughshod over the law in their rush to carry out the death penalty.

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## U.S. diplomatic activity gears up throughout Asia

The Clinton administration is intensifying its diplomatic activities in Asia, in anticipation of President Clinton's trips to China and India this year. On April 9-11, Undersecretary of State for Political Affairs Thomas Pickering was in Beijing for meetings with Chinese officials, to discuss "global, regional and bilateral issues of mutual concern."

Soon after, Undersecretary of Commerce for International Trade David Aaron travelled to Beijing, Shanghai, and Hong Kong from April 13-18. Accompanying him was a delegation of 18 business leaders, many of whom are from small and medium-sized business, encompassing industries with expertise in "infrastructure . . . engineering, design and construction, information technologies, machine tools, insurance and project finance," according to a Commerce Department release.

UN Ambassador Bill Richardson left on April 10, for visits to Afghanistan, Pakistan, India, Sri Lanka, and Bangladesh. According to an unnamed senior administration official cited by the April 9 *Washington Post*,

Richardson is expected to deliver a strong message to Afghanistan's Taliban government, that the United States will not recognize the regime, until a broad-based government is established in Kabul. According to the *Post*, he will speak both as a U.S. representative, and on behalf of the group comprised of Afghanistan's six neighbors plus Russia, and the United States. The *Post* notes that Afghanistan policy is one area where Iran and the United States are cooperating.

From April 28-May 2, Secretary of State Madeleine Albright will travel to Japan, China, Korea, and Mongolia, the first of four trips to the region this year. The focus of this trip includes the "situation on the Korean peninsula; the Asian financial crisis; progress toward free, fair and credible elections in Cambodia, and Burma (Myanmar)."

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## FBI racist sting trial in Houston falling flat

The first four weeks of testimony in the Houston trial of African-American elected officials and lobbyists have shown up the desperation of the FBI agents who conducted the sting, and the corruption within the Department of Justice (DOJ). Defense attorney Dick DeGuerin said, "They want to corrupt people. They want to create crime."

The trial, which opened on March 11, is the product of an elaborate sting operation designed by FBI special agent Ron Stern, who also ran the 1990 entrapment of Washington, D.C. Mayor Marion Barry. Stern's gang from the Public Integrity Section of the FBI, created a dummy corporation to run a sting, using job-creation programs for minorities to incriminate minority elected officials.

The defense knocked two holes in the DOJ's case: First, there is no evidence of a crime, since the defendants already supported the program, and assumed that "contributions" offered by the dummy company—which were less than the limit for campaign contributions—were legitimate campaign donations. Second, the FBI's dummy investor, Julio Molineiro, served time in Paraguay, was later fired as an informant for the Drug Enforcement Administration, and currently has 27 arrest warrants outstanding from Chile and Paraguay.

### *Northern Ireland deal renews hope*

On April 10, an historic agreement was signed between previously warring parties in Northern Ireland and the governments of Ireland and Britain, to end 30 years of bloodshed, known as the Troubles. Without President Clinton's personal intervention, this would not have happened, in what the Queen's Privy Council considers its backyard. The new agreement, while not perfect, means that the killing can stop, and the two-centuries-long collaboration for economic growth between America and the Emerald Isle, can begin anew.

But, as with the Clinton administration's Dayton Accords halting the Bosnian conflict, if peace is not accompanied with economic development, the agreement will not hold. A New Bretton Woods agreement among nations, combined with a worldwide drive to build the Eurasian Land-Bridge, is the only hope to secure this peace accord.

Solving the Northern Ireland conflict had been a priority of President Clinton as early as 1992, when he made a campaign pledge to grant Sinn Fein President Gerry Adams a visa and to appoint a special envoy to work on the Northern Ireland problem. In 1993, British officials, including then-Prime Minister John Major and Northern Ireland Secretary Patrick Mayhew, visited the White House and worked against granting Adams a visa. But, because of the strong Irish-American lobby in the United States, as well as the role of Ireland's then-Prime Minister Albert Reynolds and Northern Ireland's leader of the Social Democratic and Labour Party John Hume, President Clinton had allies with whom to pursue his commitment for peace.

One year later, on Jan. 30, 1994, the Clinton administration granted a visa to Adams, which President Clinton hailed as an opportunity to "help advance the cause of peace in Northern Ireland." In February, Adams travelled to the United States and made a presentation on the prospects for peace. In March, Irish Prime Minister Reynolds attended the White House St. Patrick's Day festivities. After a meeting with him, President Clinton said, "In the earliest days of our Republic, the American dream has often been the story of Irish-American

achievements. In the words of the Irish poet Thomas Kinsella, we must set no limits to the possible." Then, in early August, the President made a bold intervention, over the objection of the U.S. Departments of State and Justice, to grant Joe Cahill, a former Irish Republican Army leader, a visa to enter the United States. On Aug. 31, 1994, the IRA announced a cease-fire. The President had won his gamble.

One Irish journalist, Niall O'Dowd, commended the President "for not taking the British point of view, as the Reagan and Bush administrations have done for almost 15 years."

In a May 1979 feature, *EIR* reported that Ireland was the fastest-growing economy in Europe. It had surpassed all other industrialized countries in rates of manufacturing output, capital investment, and GNP. "The population of Ireland is rising for the first time since the Great Famine," we wrote. "The 150-year hemorrhage of forced emigration which has drained the country of its most valuable resource—its labor power—is being halted as more and more high-technology jobs are created every year." Precisely what the British feared, and so, the British-fueled Troubles escalated, and free-trade globalizers undercut that capital-intensive approach.

But now, President Clinton has the chance to change history for all mankind, not only for Northern Ireland. Only by eliminating poverty born of underdevelopment, can one beat swords into plowshares. Hundreds of billions of dollars for infrastructure development, as outlined in the Eurasian Land-Bridge program, to gird the globe with railways, power plants, and water systems, is the way to eliminate the British dogs of war. Ireland, North and South, under the terms of the new agreement, could be united economically.

*EIR* commends President Clinton, his envoy Sen. George Mitchell, and all the signatories to this agreement, for their unswerving commitment to peace. But now, the command decisions made to secure this agreement must become a precedent for the tough battles ahead: building a new just, monetary system.

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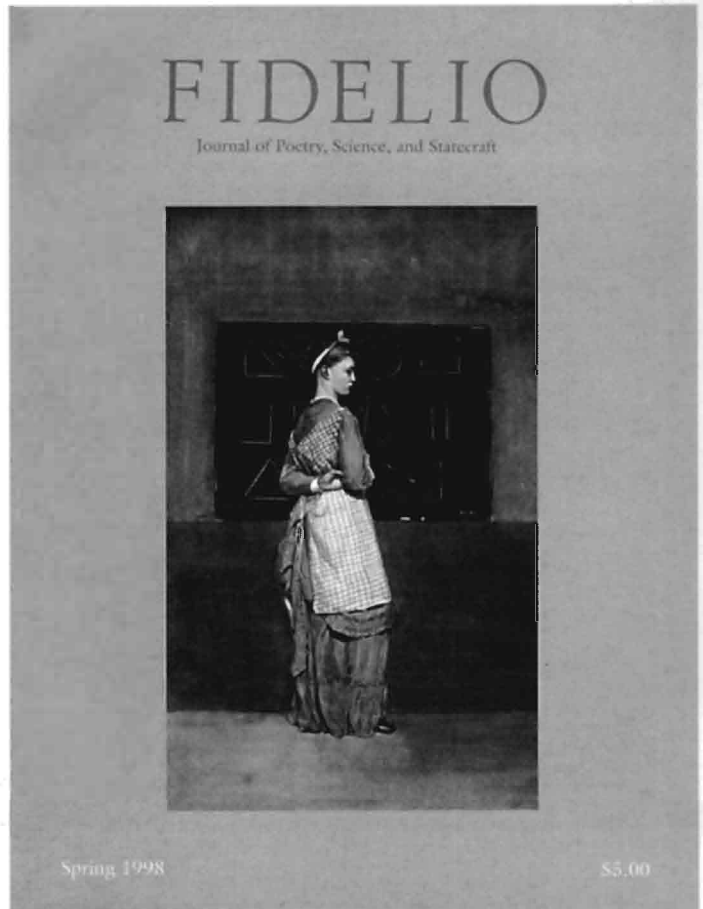
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