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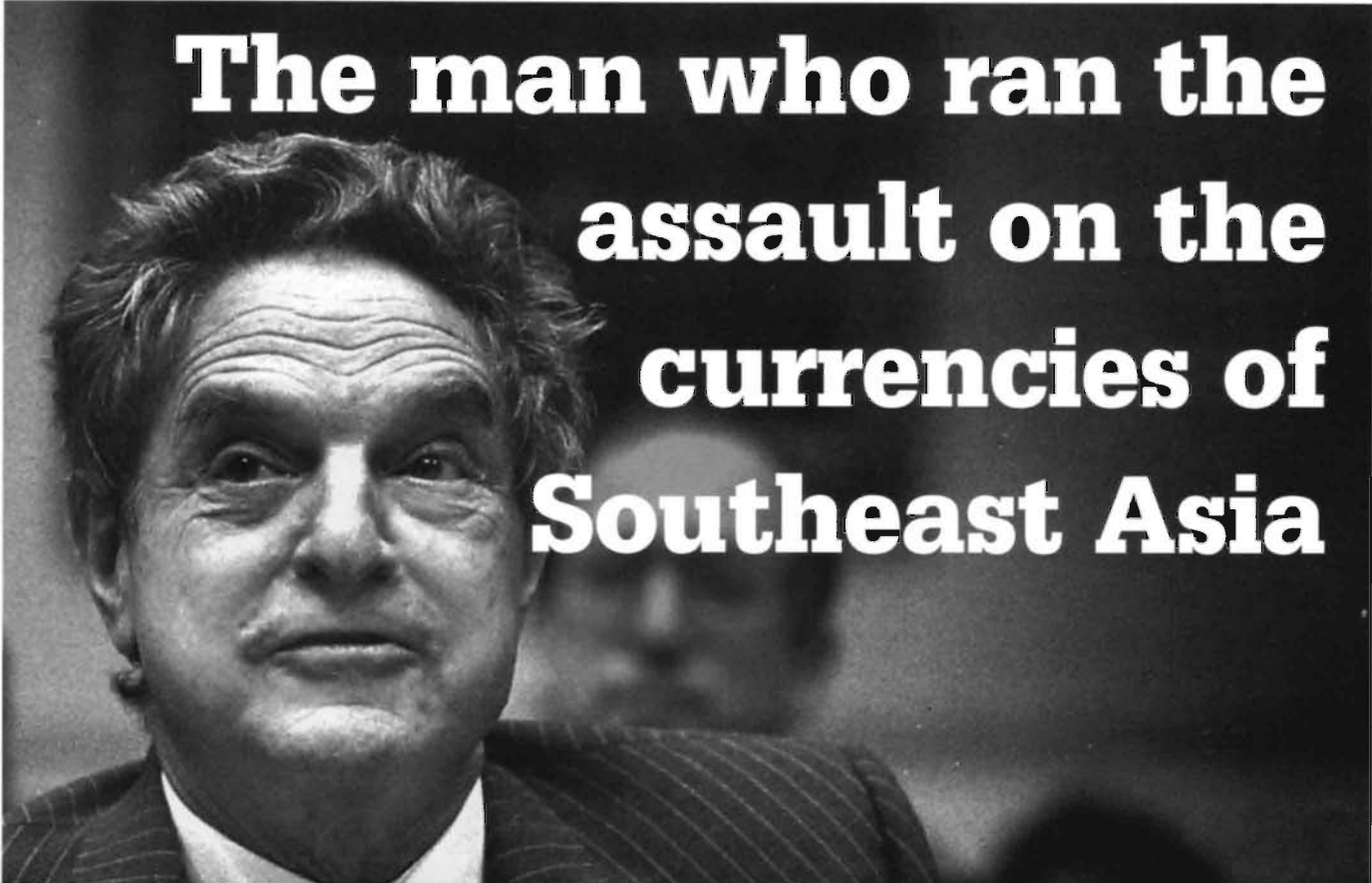
Executive Intelligence Review

May 22, 1998 Vol. 25 No. 21

Indonesia proves why the IMF is finished
Financial crisis: end-phase of a 30-year disease
Bipartisan demand grows for curb on DOJ abuses

**Clinton affirms America's
partnership with Germany**





The man who ran the assault on the currencies of Southeast Asia

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From the Associate Editor

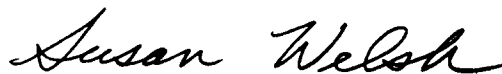
The last time we put President Clinton and Chancellor Kohl on the cover of *EIR* was on July 22, 1994, just after the President's historic visit to Bonn, when he ended the "special relationship" with Great Britain, in favor of a strategic partnership with a reunified Germany. Reflecting back on what has happened in the intervening four years, we can see how much more grave the worldwide strategic and economic crisis has become.

That 1994 visit coincided with Lyndon LaRouche's release of his "Ninth Forecast," warning of a catastrophic global financial collapse, possibly before the end of the first Clinton administration, if the British monetarist policies of the International Monetary Fund were not repudiated by sovereign nation-states, in favor of an American System approach to industrial, scientific, and technological development. Such a financial blowout did not take place at that time; instead, we have seen a growth of the speculative financial bubble, unprecedented in world history. This has made things even more fraught with danger, as the recent developments in Indonesia show (see *Economics*).

Shortly following Clinton's 1994 visit to Germany, came the sweep of the U.S. Congress by Newt Gingrich's Jacobins, in a mid-term election in which 60% of the registered voters stayed home. That victory for the Conservative Revolution made possible the assault on the U.S. Presidency which we see today: the strategic attack by a British-led financial oligarchy, determined to block the potential which Clinton's partnership with Germany represented.

In this issue, we feature Jonathan Tennenbaum's review of the past 30 years of history, carefully documenting how the financial crisis developed. We also have an exclusive report by Rainer Apel from Berlin, on the 1998 summit between Clinton and Kohl.

It is clearer than ever, that had LaRouche's policies been implemented in 1994, we would not be seeing such tragedies as that now unfolding in Indonesia. And truly, as one news analyst commented on May 15, there is a much greater danger to the stability of the world than the Indonesian riots or the Indian nuclear tests, and that is the asset bubble on the U.S. stock market. We'll have more to say about that next week.



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Photo and graphics credits:

Cover, page 43, Bundesbildstelle Bonn. Pages 9, 17, 25, 28, 31, 39, 65, EIRNS/Stuart Lewis. Page 19, NASA.

Correction: In our May 8 issue, the name of the author of "The Legal Status of the Caspian Sea," was misspelled. The contribution was by Prof. Yang Shu, vice president of the Institute of Central Asia Studies at Lanzhou University, Lanzhou, Gansu Province, P.R.C.

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Indonesia proves why the IMF is finished

by Gail G. Billington

Five hundred million dead: The greatest genocide in history, and no one stands in the dock. A decade ago, Egypt's President Hosni Mubarak was quoted, charging that International Monetary Fund (IMF) conditionalities had led to the deaths of more than 500 million people, through the cutoff of subsidies for essential foods, budget cuts affecting health care and access to clean water, inputs to improve agricultural productivity, forced devaluation of currencies, elimination of tariffs to protect fledgling industrial sectors, and general improvement in infrastructure, including distribution of goods and services necessary to maintain a healthy national economy.

Genocide trials have become a popular topic of late, especially in Asia, following the demise of one of this century's most notorious butchers of his own people, Pol Pot, "Brother No. 1" of the Khmer Rouge. Yet, no one has dared suggest that those responsible for, now, far more than 500 million dead, should be brought to account. Whole new generations of prospective witnesses are lining up, victims of the IMF's most recent "bailouts" in Asia, South Korea, Thailand, and Indonesia. That 500 million is roughly equivalent to the entire population of Southeast Asia today.

The largest and most serious student protests, followed by riots, have erupted in Indonesia, and show no signs of abating, triggering the "worst ever critical crisis in Indonesia's history, according to a senior Indonesian military spokesman. Workers in South Korea are threatening unprecedented mass strikes. In Thailand, a broad coalition cutting across economic and social sectors has launched a national resistance movement to suspend IMF conditions and stop the foreign takeover of the economy, modeled on the "Seri Thai" ("Free Thai") underground resistance against Japanese occupation during World War II.

Without a doubt, a new paradigm is in the offing. The

crisis in Indonesia demonstrates why the ideas behind IMF policies are as deadly as crimes committed by the likes of Pol Pot. When the global "financial architecture" is so clearly disintegrating before our eyes, Indonesia, the fourth most populated and one of the most ethnically diverse countries in the world, an archipelago of more than 17,000 islands straddling 3,000 miles of the world's most important strategic searoutes, proves the "moral hazard" of the IMF's continued existence.

A sure bet

During May 11-13, Egyptian President Hosni Mubarak hosted the G-15 summit in Cairo, bringing together leaders of, now 16, member-countries representing Ibero-America, Asia, and Africa. The focus of the meeting was a discussion among these nations of the "South," of the international lessons to be learned from the economic and financial crisis that has wrought havoc in Asia since July 1997. Indonesian President Suharto spoke on behalf of the Asian countries present: India, Indonesia, and Malaysia.

President Suharto reported on the effect of the crisis, which, in Indonesia's case, included a more than 75% collapse in the value of its currency, the rupiah, the catastrophic collapse of the stock market, the instantaneous bankruptcies of its banking and corporate sectors, and the disintegration of the distribution system for essential food and services throughout this island nation. The effect of the crisis, President Suharto said, has been equivalent to wiping out three decades of progress in the eradication of poverty. Worse, he said, the crisis "does not show signs yet that it will end," while its impact has been widespread, especially in the social and political realms.

Indonesia entered a new phase of crisis during the week of May 4. Under the terms of its *third* IMF "reform" program

in less than seven months, Indonesia has committed itself to the most rigorous timetable of compliance ever exacted by the IMF. Literally, week by week, the IMF would keep a scorecard on Jakarta's performance. Under the first two regimes, Indonesia was repeatedly chastised by the IMF, by Group of Seven (G-7) government officials, and by the Western establishment press, in particular, for showing too much "defiance" and stubborn clinging to "the old ways." Finally, after withholding assistance until precisely such a controlled situation had been created, the IMF Executive Board announced that it would release, not the full \$3 billion second tranche of funding, but \$1 billion, each month for the next three months, on condition of continued rigorous compliance. Jakarta, in accordance with the terms of the date-by-date, week-by-week, terms of the IMF-III timetable, proceeded to implement one of the category of measures that have been the most contentious since the first IMF program was agreed to on Halloween 1997: that is, the lifting of subsidies on essential commodities. This resulted in 25-71% increases on a range of fuels, from cooking oil to premium gasoline, and an immediate increase of 20% in electricity rates, to be followed by similar increases in August and November. The results were absolutely, dead-on certain—a sure bet. Before the clock struck midnight on May 4, riots broke out.

The point is not, *per se*, the lifting of subsidies. The core of the problem is the embedded implication and foreseeable consequence of acting on such a policy. And, that is precisely why Jakarta had resisted for so many months, until that refusal itself would most likely have triggered a literal economic strangulation of Indonesia by the international community.

In other words, the reaction to Indonesia's *rigorous compliance* with IMF demands proved that Indonesia, under the IMF, is damned if it complies, and damned if it doesn't. The events of May 4 exposed the *political* intent behind *every* IMF program.

That idea was nowhere more clearly stated than by British Foreign Secretary Robin Cook, on the sidelines of the ministerial meetings of the G-7 in London on May 9. "There is a clear lesson here, which is that open financial markets require an open political system and that getting on top of the financial turbulence also requires progress on social reform and political development. That is a lesson that is applicable across the region," he said.

One of the gravest threats to Indonesia comes from those shouting the loudest and most stridently for "political reforms," without addressing the cause of the economic crisis. There will be no political stability in Indonesia, nor elsewhere, without solving the *systemic* nature of that problem. The problem is not and cannot be solved within Indonesia, within Thailand, or within any single country. The root of the problem is the system itself, and the lack of political and moral will by leaders to do the obvious: build a new system.

Furthermore, it should come as no surprise that those organizations and institutions which stand behind the most fer-

vent demands to dismantle the Suharto government, back a strategic plan to dismantle the nation itself, relying on the centrifugal forces of a religiously and ethnically diverse country, under conditions of extreme economic and political strife to destroy national unity. That such institutions, as those connected to the East Timor and Aceh causes, including British Member of Parliament Lord Avebury's Tapol, Christian Solidarity International, and the Unrecognized Nations and Peoples Organization, are safehoused in the motherlands of Indonesia's former colonial masters, Portugal, the Netherlands, and Britain, should also come as no surprise.

Then, and now

Step back, and compare Indonesia's track record, prior to the onset of the "Asian contagion," in improving the general welfare of its population to, say, the third most populous nation in the world, the United States. In October 1997, the month that Indonesia would sign its IMF-I accord, President Suharto received the UN award for poverty eradication, "In recognition of outstanding accomplishment in and commitment to the significant reduction and continued eradication of poverty in Indonesia, and for making poverty eradication an overriding theme of national development efforts." Over 30 years, the number of people living below the poverty line had been reduced from 60% to 11%. President Suharto told the G-15 meeting that annual growth had averaged 7% per year for two decades, but, in 1998, it will collapse to -4%. Over that same time frame, the total population rose 72%, from 120 million to 184 million. The ratio of doctors rose from one doctor for 47,000 people, to one doctor per 7,000, and overall school enrollment increased from 50% to 75%, with elementary school enrollment rising to 92%. When it comes to voter participation in elections, in the legislative elections of 1997, over 90% of 125 million eligible voters went to the polls.

There are those who would dismiss this, saying that, no matter what, elections in Indonesia are not "democratic." How does the United States compare? Forget the bubble talk of "booming economy." Wall Street will unquestionably "bull" its way to the biggest bust in history, and soon. *EIR* has exhaustively demonstrated that over the same 30-year period, the U.S. economy has contracted by an average 2% per year, such that, today, the same market basket of consumption-production requires 50% more per household in hard-to-scrape-together earning power. In 1996, when Indonesia had reduced the percentage of people living below the poverty line to 11%, the same figure in the United States was 13.7%. And, as for the gap between rich and poor—which some might call a "cronyism" problem—the 20% of U.S. households with the highest incomes received 49% of the total national income; in other words, 20% received nearly half, while 80% of the U.S. population "shared" the rest. But, only 5% enjoyed the proceeds of nearly one-quarter of total U.S. national income.

And as for "free and fair elections," in the 1996 U.S.

Thais launch resistance movement against the IMF

A new “Free Thai” movement is taking shape in Thailand, modelled on the underground resistance movement, the “Serei Thai,” against Japanese occupation during World War II. This time the “invader” is the International Monetary Fund, and the resistance intends to put an end to the IMF’s brutal austerity and pressure to sell off national assets to foreigners. On May 11, some 1,000 people, representing a broad-based coalition of 28 non-governmental organizations, including industrial and civic leaders, academics, doctors, farmers, state-sector workers, and an environmental protection network from 16 universities, gathered in Bangkok to demand full public disclosure of Thailand’s fourth letter of intent with the IMF, followed by suspension of any further talks. The group will be named the “Community to Build and Revive the Country,” according to a report in the *Bangkok Post* on May 12.

The founding meeting took place on May 11, the anniversary of the birth of Prof. Pridi Banomyong, a scholar and statesman who founded the renown Thammasat University, and who led the “Serei Thai” underground resistance during World War II. The group compares the economic crisis to a loss in wartime, and chose Phra Sumen Fort, as the site for their founding meeting. A further report will follow in next week’s *EIR*.

—Gail G. Billington

Presidential elections, 49.1% of registered voters went to the polls. But, best estimates are that perhaps only half of eligible voters are registered. The President of the United States can be elected with, at best, 25% of eligible voters casting their votes in his favor. In 1992, the figures were only slightly better, in terms of the percentage of registered voters, who actually voted. In 1988, Democratic Presidential candidate Michael Dukakis received more votes than President Clinton did in his first campaign in 1992, but Dukakis lost his race to George Bush!

The IMF loves ‘people’s power’

In the past weeks, as student demonstrations have increased in number and violence across Indonesia’s numerous campuses, “people’s power,” echoing the social, political revolt that sealed the fate of the government of Ferdinand Marcos in the Philippines in 1986, has been more liberally bandied about. A sage observer noted that the IMF’s demand to lift subsidies on essential commodities and services was particularly devastating to this generation, the first generation of

Indonesians ever to have such a broad social safety net. The students are also likely to be the most hard hit by the record unemployment projected this year. Even in its early calculations, the Department of Manpower included the entirety of those entering the labor force for the first time this year, in its estimates of the full-time unemployed. Thus, it is stunning that the role of the IMF in imposing “tight monetary and fiscal policies,” as a condition for eeking out credits to Jakarta, has not been a target of these demonstrations. On the contrary, “democracy” advocates have demanded cutting off IMF funds, to force the ouster of the Suharto government.

In the Jan. 19, 1996 issue of *EIR*, this author and *EIR* Ibero-America editor Dennis Small compared the 1982 Mexican debt crisis to the IMF coup in the Philippines, which was torturously dragged out over 1983-86. It is useful to revisit that report here, with the caveat that, as *EIR* said at the time, and again recently, the global debt crisis of 1982 could have been solved, if measures Lyndon LaRouche outlined in his “Operation Juárez” proposal had been carried out. That is categorically *not* true today. This time around, we have reached the end of the system itself.

Until the fateful shooting of Filipino opposition leader Benigno Aquino on Aug. 21, 1983, Marcos had kept the banks and the IMF at bay, to some extent. But within six weeks of the assassination, the Philippines’ foreign reserves plummeted to less than enough to cover one month’s imports. Marcos declared a debt moratorium on principal payments, and a 20-month wrangling with the banks ensued, while his political ouster was mobilized and orchestrated from abroad. An IMF letter of intent was not agreed to until November 1984, contingent on reaching agreement with the creditor commercial banks. This was not signed until May 1985, and even then, the standby loan was not released until after Marcos was out in February 1986.

Manila’s 1983 bailout package with the IMF set out the regimen that would dominate financial and economic policy-making to the present, and it was a classic IMF swindle. The entire package went either for debt rescheduling, or to pay off overdue debts and current obligations. Nothing went to private industry; no new development loans were made available to the government. Instead, this was the typical IMF racket: “no money in, all money out,” to pay the debt. The “restructuring” measures included:

- takedown of any protectionist measures with respect to tariffs, including removing certain items from the restricted imports list, and liberalization of imports;
- promotion of exports, with restructuring of investment incentives to that end;
- “rationalization” of certain industries;
- implementation of a “flexible” exchange rate;
- deregulation of interest rates and other bank reforms;
- dismantling of monopolies, aimed at the so-called Marcos cronies, particularly in the agricultural sector;
- privatization of government corporations; and
- diversification of energy resources.

The Philippines went into its worst depression since World War II, from which, it was forecast in 1983, the country would not recover before the mid-1990s. And, it has not. President Marcos's 11 "major industrial projects" were shelved.

'People's power': debt comes first

From the onset of the debt crisis in the Philippines in 1982, until 1994, i.e., under the continuous IMF regime from Marcos, through the Corazon Aquino administration, and two years into the Fidel Ramos administration, debt service as a percentage of the total government budget more than tripled, leaping from 9.6% to 33.9%. Defense spending was cut by more than half, from 13.9% to 6%; health care was cut by 40%, from 4.2% to a pathetic 2.5%; and education stagnated at 12-14%. The slashing of military expenditure took place in the context of decades-old insurgency campaigns against the constitutional government of the Philippines, from both the leftists of the Communist Party, New People's Army apparatus, and an Islamic separatist insurgency in Mindanao.

But the top priority of the "people's power" government of Corazon Aquino was to make peace with the banks and the IMF. From the outset, Aquino massively indebted the government, under the rubric of "pump priming." The result was that debt service, as a percentage of the total government budget, increased 85% in her first year in office, and stayed at over 40% of the national budget throughout her term. Under her successor, President Fidel Ramos, debt service has averaged 34% of the total budget. Aquino's Policy Agenda for People-Powered Development imposed the austerity necessary to match such budget commitments to debt service, including further devaluations of the currency, abolition of subsidies, and liberalization of foreign investment. Average interest rates ranged from 21% to 27%; ceilings on foreign ownership of banks were raised to 40%; subsidies to farmers and production loans were withdrawn, and land reform policies contributed to the disastrous situation today, in which the Philippines, once a rice-exporter, is now dependent on imports.

If all of this sounds familiar, it should. It goes to show that the IMF is one old dog that doesn't learn new tricks, it simply perfects its synchronization with "market" determination of the fate of nations. Recent editorial statements, remarking on the new-found "harmony of interests" between Indonesian student demonstrators and the "markets," should be re-examined in this light.

Eliminating hazardous debt

Solving the problem of Indonesia's private sector foreign debt provides an opportunity for the world at large to prove its commitment to solving the "moral hazard" of the current speculation-driven global economy. An estimated \$74 billion out of \$80 billion in foreign debt is held by the Indonesian private corporate sector, with nearly 800 firms compelled to make full disclosure of their debts to the central bank, Bank

Indonesia. Some \$35 billion of that debt is short-term. A committee of 13 foreign creditor banks have now held two sets of talks with the Indonesian government and private sector team tasked to solve the stalemate. At the latest talks in Tokyo, progress was made in addressing the problem of trade financing and bank debt, but not the corporate debt.

The first question that should be asked is: Who is more bankrupt, the debtors or the creditors? The 13 creditor banks include American, European, and Japanese institutions. Indonesia's private foreign debt, of banks and companies, is \$66.3 billion, according to a May 14 Antara News Wire, of which roughly \$8.7 billion is held by banks and the balance of \$57.7 billion by non-bank corporations. The estimate of outstanding, highly leveraged derivatives debts of the 13 creditor banks equals \$21.9 trillion, using 1996 figures, and the announced mergers of Citicorp to Travelers Insurance, and Bank of America to NationsBank, would add an additional \$5.7 trillion in such risky debts. Moreover, the U.S. financial sector has repeatedly blocked Congressional attempts to force full disclosure of off-balance-sheet obligations, i.e., to block "transparency" of the financial sector.

A second question that should be asked is: How much did these same creditor banks make in currency speculation against the currencies of Southeast Asia since July 1997? Financial results for 1997, released by British banks on Feb. 27, 1998, revealed that Standard & Chartered's foreign ex-

LAROCHE ON THE NEW BRETTON WOODS

"The present fatally ill
global financial and
monetary system must be
radically reorganized.

It can not be reformed, it
must be reorganized.

This must be done in the
manner of a reorganization
in bankruptcy, conducted
under the authority
not of international
institutions, but of
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change profits rose 84% to \$600 million. Standard & Chartered was formerly head of the Indonesian creditors committee. The Hongkong and Shanghai's foreign exchange profits rose 72%, to \$1 billion, and National Westminster made \$700 million in such speculation, a 41% increase. Surely, that is only the tip of the iceberg.

On April 30, Indonesia's senior economics minister, Ginandjar Kartasasmita, briefed a select group of journalists on the country's private sector foreign debt. "It's like opening up a Pandora's box, but we need to know," he said. "We just cannot fail, there is no room for failure." Ginandjar identified three separate groups among the corporate debtors: 1) those which need no assistance, no matter the exchange rate, i.e., those that can pay; 2) those with good assets and viable projects, but which fell victim to the 75% collapse of the rupiah, and the stock market; and 3) those that were bad investments from the beginning, and should not have received funds.

It is the second group, those viable firms clobbered by the financial rout, that are the subject of the debt talks. As for the third group, Ginandjar made very clear, as Indonesia has said all along, there will be no government bailout. "The third category will just have to go bankrupt," he said. "But creditors are at fault for approving these kinds of projects."

Here is a clear-cut example where a major feature of the talk of "new architecture" for the world monetary system boils down to a very simple act: give Indonesia the support to write off this debt, and the extended grace period required to restart its economy. Do not hold another 200 million people hostage to the greedy, and willful, choices of the banks, and their debt collector, the IMF.

Documentation

Commentary on the eve of the Birmingham summit

Rubin upholds role of the nation-state

U.S. Treasury Secretary Robert Rubin, speech to the Group of Seven finance ministers meeting, London, May 8. *The session was part of preparations for the G-8 heads of state summit in Birmingham, England, on May 15.*

Rubin placed great emphasis on the role of sovereign nation-state governments in solving the global financial crisis. "Some have argued," he said, "that in this world of huge global markets, government has, in essence, become largely irrelevant. . . . The underlying strength of a modern economy is a productive and competitive private sector. But, as both the President and Prime Minister have also said, government remains critically important, although its role is changing. In

a modern economy, governments have a necessary and vital role in creating the legal, institutional, and economic setting in which the ingenuity, skill, enterprise, and dynamism of the private sector can flourish, and in which the benefits of growth are broadly shared."

Rubin reiterated that the euro, the single European currency which is scheduled to come into existence on Jan. 1, 1999, does not pose a threat to the United States, *if* the monetary integration brings about economic prosperity in Europe. "Some have raised concerns about the effect of a successful euro on the international role of the dollar," he said. "We do not share these concerns. We expect the dollar to continue to play a central role in the international system. This role stems from the size and strength of the U.S. economy, the extensive ties between the U.S. economy and the rest of the world, the depth and liquidity of U.S. financial markets, and sound macro-economic policies. None of this will change with the creation of a successful euro. We look forward to a successful euro that would benefit Europe, the United States, and the rest of the world. As the euro helps to further integrate some nations in Europe, it is critical that Europe does not build walls between itself and the rest of the world. . . . As to ties among European nations, it is our view that monetary integration should not delay bringing the transitional economies of eastern and central Europe into the EU."

Rubin then turned to the Asia crisis, focussing on the dangers facing Japan and China, noting that, in both cases, the "enormous shifts in policy will pose great political challenges." "The crisis in Asia has illustrated the importance of the work that the international community began three years ago to strengthen the international financial architecture to help prevent such crises and to deal with them more effectively when they occur," he said. "The Bretton Woods institutions have served the international community well for 50 years, but—as will be discussed in our meetings today and tomorrow and at the upcoming leaders' meeting in Birmingham—that architecture needs to be modernized for the challenges of today's global economy."

In that context, Rubin raised the "so-called moral hazard problem," and called for better mechanisms to be devised "to facilitate debt-creditor negotiations and exploring lending into arrears." He concluded by focussing on the priority of "continuing to promote growth and reform in the poorest countries," particularly singling out recent U.S. commitments to Africa.

Chorus of attacks on the IMF

Jeffrey Garten, "Adrift in the Global Economy," *New York Times*, May 11. *Garten, now the dean of the Yale School of Management, was, during 1993-95, Undersecretary of Commerce under the late Ron Brown.*

Garten warns that the global financial system is facing more crises on the scale of the Asia collapse, and that these crises won't abate until there is more concerted action by

world leaders to redress the flaws in the present system.

When the G-8 heads of state gather in Birmingham, he writes, “one of their most important tasks will be to figure out how to prevent another Asia-type crisis.” “Unfortunately,” he complains, “they cannot succeed.”

Garten details how the international financial system has become “crisis-prone” over the past two decades, through the globalization and deregulation of international finance. He singles out Japan, China, and Brazil as three likely places where the next big financial crisis could erupt. He notes that financial regulation “lags well behind” the phenomenal growth in exotic trading instruments, such as derivatives. He cites the \$1.5 trillion per day foreign-exchange trade as another point of vulnerability, and notes that “lenders have become emboldened to take even greater risks with increasing sums of money because they believe—with good reason—that in a crisis Uncle Sam and the IMF [International Monetary Fund] will bail them out to limit global fallout.”

Garten concludes: “None of these factors should deter the leaders at this week’s summit meeting from doing the best that can be done now. But down the road they’ll have to do more, like stabilize exchange rates among major countries and establish real global financial regulation. For the time being our leaders resemble King Canute, who, in the old legend, tried vainly to hold back the tides.”

Renato Ferraro in Hong Kong, “Toward a ‘Great Depression’: Asia, Stock Markets Crash; Everybody Is Against IMF Austerity,” *Corriere della Sera*, May 14:

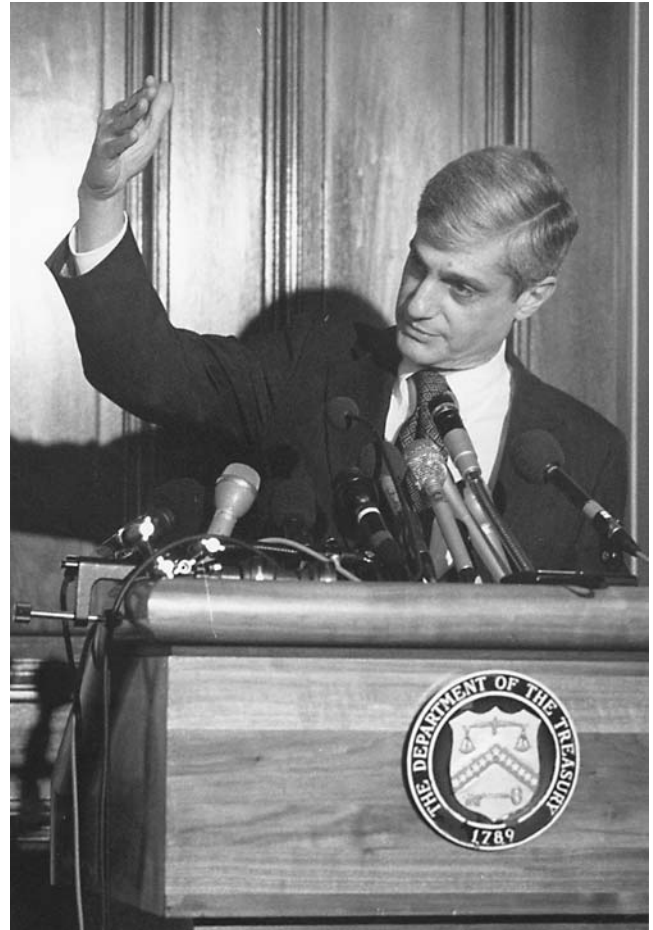
“There was a general crash of the Asian stock markets yesterday. The revolts of Indonesia, the signs of recession in Hong Kong and Singapore, the bankruptcy of the industrial groups of South Korea, the fall of exports in China, the reprisals against India for the atomic tests: All this led the continent closer to a second crash, after that of last October.

“Minus 7% in Singapore, -6% in Indonesia, -4% in India (the Bombay market lost 123 points after the announcement of the nuclear experiments) and Hong Kong, -3% in Thailand and Malaysia. . . .

“Everywhere, the entity under attack is the International Monetary Fund, which, with its austerity policy, ends up strangling the economies and unleashing social conflicts, provoking a crisis that involves even the most solid countries of the Asian-Pacific area.

“‘In Indonesia, South Korea, and Thailand, the recipes of the IMF have an impact that can be compared to the American Great Depression of the 1930s,’ says a document issued by the International Labor Organization. When—and it is happening in Indonesia—growth goes suddenly from 8% to -5%, governments are no longer able to face the problems.

“The strategy of the IMF, with its ferocious fiscal and monetary squeeze, is insane. It will lead to an Indonesia catastrophe and a collapse of Asia, Steve Hanke, an economist from Baltimore hired as a consultant by [Indonesian Presi-



Treasury Secretary Robert Rubin repeats his call for a new world “financial architecture,” and emphasizes the role of the nation-state in this process.

dent] Suharto, stated yesterday in Geneva. The region is falling apart. In Indonesia, interest rates will rise 100%; unemployment and inflation will escalate; there will be non-stop social revolts.

“Negative as well, but for opposite reasons, is Jim Mellon, president of the Hong Kong financial group Regent Pacific. ‘You can put a stone over Asia for the next five years,’ he said. ‘The crisis is deep but the governments spit out the medicine of the IMF. They refuse to face the problems that they let rot, until they explode.’

“In Thailand, demonstrations against the IMF are planned, starting next week, and in South Korea, the trade unions are preparing for a confrontation to defend employment levels. Even Singapore and Hong Kong are going down the tube. In the former British colony, Peter Churchouse, director of Morgan Stanley, foresees a recession, an event that has not happened in the last 70 years. And in the north, in the People’s Republic of China, for the first time yesterday a government economist recognized that ‘the facts do not encourage optimism.’ because the export toward the Asian

countries is collapsing. The big international speculators are preparing another attack against the currencies, starting, perhaps, with the Hong Kong dollar like last October, the analysts say. 'The writing is on the wall,' stated the broker Howard Geroges.

"According to Mark Faber, who manages institutional funds, 'it is useless to delude yourself that the disaster of the Asian markets will spare the American and European markets: The West cannot be protected when a continent sinks that includes 56% of the world population, produces 25% of the exports and supplies 60% of the growth in the world.'

"In Tokyo, people are worried about the consequences, including the strategic ones. 'Regional security is in danger,' argued political economist Satoshi Morimoto, former diplomat and former executive of the Defense Ministry. 'It is possible that the Indonesian military will take over, or that they will fight each other, because they are split. ASEAN can split; and in that case Chinese influence will increase in the region, destabilizing the equilibrium.'

Sopon Onkgara, "Time To Get Tough with the IMF," editorial, *The Nation*, English-language Bangkok daily, May 11.

Commenting on the ongoing talks in Washington of Thailand's Finance Minister Tarrin, on the fourth tranche of IMF

funding, the editorial reviews the absence of any sign of improvement in the condition of any of the three Asian "bailout" cases of 1997, and comments that, in Indonesia, "things have become much worse," including that "a repeat of the anarchy of the 1960s cannot be ruled out." Furthermore, "a dreadful specter is emerging that another wave of turbulence could spread across Asia with unpredictable results. More economic bubbles could burst in countries that remain vulnerable to a meltdown." Whatever the result of the Washington talks, the fact remains that Thailand "has not been very responsive to the IMF all-purpose prescription." Early warnings that the Asia crisis is not a repeat of Latin America in the 1980s, but reflects a "much more diverse" economic structure and environment, went unheard.

"That's why the IMF package, which has been released in various tranches, resembled a bottle of snake oil concocted and handed out to cure the Asian flu." Will the Thai delegation in Washington have "the nerve to ask the IMF executives . . . why their magic potion has obviously failed to work"; why the continuing collapse of small and medium-sized businesses due to high interest rates and lack of liquidity; why capital flight has not stopped; why confidence in Thailand has not returned; why currency speculators continue to be pessimistic?

The editorial concludes with sharp warnings to the government: "If more harsh conditions are applied, then the government can expect a public backlash and a plunge in its popularity. The Chuan Cabinet knows as well that it cannot find new targets for its accusing finger. . . . But there is still one more villain that has yet to own up to its failures, which like a sitting duck, waits to be shot by the Chuan government. It must take the ultimate blame for the current malignant economic climate and the spreading hardships as a result of the failure of its rescue package.

"It's the IMF, of course."

The crisis is not over

Continental European banker, discussion with *EIR*, May 14:

"Below the surface of the uneasy calm, there is a huge volcano. We have had a major shift in mood in the financial markets over the past two weeks. Now, the realization has finally dawned that the crisis is not 'over.' Most people who handle financial investments in the major international banks or fund managers have little idea or interest in the real economy. They think when the IMF and other moves calm the financial problems, it's over and time to hunt for bargains. But when a country undergoes a 10% plunge in its GDP in a year, that ruptures the entire domestic economic fabric. These economic realities are now coming to the surface, and it is dawning on investors how serious things are. Something big is going to crack somewhere, it's not clear where, but it's a very nervous market out there right now, despite the new record highs in New York and Europe."

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How to reorganize the banking system

The following are excerpts from a dialogue between Lyndon LaRouche and participants at a seminar on the New Bretton Woods system, on April 2, in Rome. The briefing was attended by Members of Parliament, economists, journalists, and diplomats. (See EIR, April 17, pp. 44-48 for LaRouche's presentation.) Many of the questions were translated from Italian, and are summarized here.

Q: Concerning the crisis which you are forecasting: Where is it going to hit? And second, why are you so against the Maastricht Treaty? Isn't this an attempt to create a stronger Europe, which could balance the power of the United States and of Asia, and of other continents?

LaRouche: Well, that's what the British commentary is, on the second point: that it will make Europe stronger. In point of fact, the immediate effect—once the European nations were to agree on the future peg of the currencies to the future euro, there would be a collapse of the value of the European currencies, reflected by a sudden outrush of capital, financial capital, from Europe in general, from the so-called Maastricht countries, the euro countries, into Swiss banks, which are nearby, and into the United States dollar. The result of the euro's adoption would become not a harder euro, but a softer euro.

Now, this would be coupled by the fact that, first of all, the purpose of Maastricht was to destroy Germany. The purpose of Maastricht was *never* to make a strong Europe. That's pure propaganda! The designer never intended that. Kohl was forced, at the point of a gun, with support of Bush—Bush supported Kohl in the unification of Germany, on condition that Kohl accept this proposal by Mitterrand, to destroy Germany.

So that Kohl made a "debt of honor," as he puts it, to submit to the French. And at present, even though in Italy, or, to a large degree, even in France and in Germany, there's tremendous opposition to the euro, but at the top, there's official support. It's like people who have signed on to a suicide pact, and they're going to kill themselves simply for purposes of "honor," because they've committed themselves.

The secret of the thing is that if you destroy Germany, you destroy Europe, because the German economy is the *center* of the European economy.

Now, you look at the impact of the so-called Asian crisis

on Europe. Look at the percentile of the productive investments by Europe, in terms of trade agreements and so forth, in East and Southeast Asia. Look at the related issue of investments and trade agreements with Iran and Middle East countries generally. Look at the effect of the new Balkan war which Milosevic, a British agent, is trying to stir up around the issue of Kosova and Macedonia.

Remember, the Balkan war was started by the British and French, to contain Germany. The United States signed a rotten agreement at Dayton, because the Europeans wouldn't give the United States enough support against Britain on these agreements.

You take the losses which will be incurred by companies in Italy, Germany, and France, by the collapse of Southeast Asia investments and trade agreements. This time, the impact will be much greater, and not only because the impact of this crisis now erupting will be greater than that at the beginning of the year, but because it becomes obvious that these solutions, so-called, that were made in December and January of this year, these so-called solutions are blowing apart.

It is obvious the IMF conditionalities are not workable. They intrinsically can not work. And therefore, the effect on Europe this time, as a second blow, will smash what remains of European stability. You will have a spiral of collapse in Germany, Italy, and elsewhere, as a result of trying to absorb the losses which will radiate and impact Europe most strongly, a result of the Southeast Asia/Asia crises.

This is a global systemic crisis, it is not an Asia crisis. You see the media talking about the "Asia crisis." It's *not* an Asia crisis. It's a global crisis.

This will have as much impact on Europe as the August 1971 crisis had, and more than the 1975-76 crisis. The oil price crisis was minor compared to this. It's bad.

Q: How can we remedy this now, without a devastating crisis? Do we have time enough to absorb this mass of paper which has been created?

In the '70s, I was in a taxi with Paul Volcker, and I asked him, "What do you think about the European currency?" And he said, "We already have enough confusion with the dollar itself. We don't need another one." And now, Volcker is one of the few supporters of the euro in America. So, either Volcker changed his mind completely, or the discussion in the 1970s of the European currency was completely different, and the euro today is not the idea of de Gaulle.

LaRouche: No, of course not. The first thing is, remember the way you organize a system, is you set up rules under which national governments can act. That is, you get a group of nations, sovereign nations, not a Maastricht minestrone, but a group of sovereign nations. And they agree to set up a group of rules, which are designed to have a certain purpose, which means that their governments agree to address certain problems by certain methods, sovereign methods.

The first thing that would happen is, in my view, if I were

President of the United States, is that no person would be authorized to make any payment on account of obligations incurred by derivatives, which means that you would nullify, effectively nullify claims against banks and others, based on derivatives. You would nullify all obligations based on derivatives.

That would immediately eliminate \$130 trillion.

Q: This is the moratorium that we already spoke about.

LaRouche: Yes, right. A real moratorium. This is one with a certain dramatic impact. This is known as the entry into Paradise: a little fire, naturally, as is explained by Dante, but—

So that otherwise, you do the same thing, using the sovereign power of sovereign nation-states. You go into a bankrupt bank, a bankrupt financial institution, and you *freeze* everything. Now, you set up rules for releasing funds, that is, to allow people access to their savings, payment of pensions.

Other things, you play around with. You take some debt and you say, “This is short term; we automatically decide this is long-term, and it’s 1%. It can not be liquidated, but it can be used as a credit asset.” Because, in many cases, we will wish to keep the banks, even though they’re hopelessly bankrupt, in operation.

Banks have two functions in society, apart from bad ones. One is they are a form of investment; private banks are a form of investment. They also are sometimes private investments, in the sense of being syndicates, as in the old German system of a group of industrial enterprises. It’s a way of syndicating power to be able to conduct international trade and long-term investments.

They also are an essential instrument of relations between the state and the average citizen, including the business community.

Now, the good banker, as opposed to the young idiot, knows his community, knows the people in the community. Therefore, he plays a very important social role in assisting and coordinating the distribution of credit in society, in ways that are needed by the society as a whole. What, essentially, we would do, is take all these bankers who are considered essential, socially essential for society, and say, “That bank will stay in business. It may be bankrupt, but we’ll keep it in business, under special bankruptcy rules.”

In other words, certain financial institutions, we will say, are socially useless. They’re bankrupt, they’re hopeless, we shut them down. We liquidate them under bankruptcy rules. A second group of banks and financial institutions, we say, these are socially essential. So, therefore, these institutions we do not close down; we reorganize, we put them in reorganization. So, we use them as instruments to get national credit out to where national policy wants to have it delivered. We’ve done this before. We did it in the United States, for example, during World War II.

For example, the government authorizes a major infrastructure program. Let’s take the case of Italy, water systems: Do you have any rotten water systems in Italy that need repair? Or we say, for example, the Messina Bridge must be constructed now. Or other projects. Or improvement in rail systems, water systems, power, more power stations.

So, the state then makes—the Executive branch, with the consent of Parliament—makes an indicative planning program for distribution of state-mobilized credit. And, under this kind of indicative planning, which is what de Gaulle tried to do, which was also done with Enrico Mattei, in Italy. So, the state gives an indicative plan, saying, “These are the priorities, national priorities. And these are the general proportional importances of these various things.”

So, what we do, is, the state then initiates a contract to create an agency to do each of these projects. This agency is like the master contractor, which is run by responsables, but also by technicians, engineers, and scientists. They are instructed to go to the best resources, but with emphasis on local resources, to find private contractors to assist them in implementing the project. So, they approve a sub-contract to these people.

Now, the credit is not given in cash payment. The credit is given in progress payments. In other words, when the contractor agrees with the master contractor to sub-contract, they are paid their payroll, certain materials costs, and so forth, on a schedule of performance. In other words, they don’t actually touch the money, but, however they submit their payroll, the payroll is paid; they submit the materials costs, that’s paid, and so forth, as in a normal construction contract.

So, what you need, then, is that the local banker becomes the medium through which the sub-contracts are approved for payment, through the banking facility. And they also relate to the auditors who audit these accounts, to make sure that the things are being done that are supposed to be done. Inspectors.

Now, under that system, with a very small amount of actual money, and a great deal of credit organized by the government, you can revive an economy. That’s how it’s been done many times. And the object is to make these banks, who know whom to call, who know who was successful in the past, who could do the job. Because the intangible personal relationship between people in the community, is essential to make something work. The bank is also a mechanism of social help, because the bank can indicate, most quickly, on the basis of people coming to the bank about their money, for loans and so forth, what the needs are of the population.

So, any bank that performs that essential social function, you keep alive in reorganization, under government protection. The object was, as in postwar reconstruction, these banks that succeed in doing what they’re supposed to do, we would hope become free of reorganization, and then come out as independent institutions again. . . .

The fire sale of the century

The state of Victoria has broken all records in its zeal to sell off public assets.

On April 28, the Treasurer of the state of Victoria, Alan Stockdale, announced the major achievement of his sixth annual state budget: the return of the state's AAA international credit rating. Stockdale boasted that, over six years, he had reduced Victoria's state debt from \$32 billion to \$10 billion. All of that \$22 billion came from the most far-reaching privatization program ever implemented by any government in the world, in which an estimated 75% of all state assets have been sold off.

The architects of this sale are the Australian agents of the British Crown's Mont Pelerin Society, who in six years have turned Victoria into a laboratory of economic rationalist policies: privatization, deregulation, budget cuts, drug legalization, and so on. This crowd is pushing to sell off the rest of Australia, and to move on to Asia.

Victoria's asset fire sale was planned fully a year before Premier Jeff Kennett was elected in October 1992. A darling of Melbourne's Anglophile business establishment, Kennett was the protégé of establishment figure John Gough, the former chairman of the ANZ bank, the most British of all Australian banks, which was headquartered in London until 1977. Gough is a leader of the Institute of Public Affairs (IPA), which was founded in the 1940s and is dedicated to the ideas of Friedrich von Hayek, the founder of the Mont Pelerin Society. Mont Pelerin also set up the Centre for Independent Studies, in 1977; the H.R. Nicholls Society, dedicated to union busting, in 1986; and the Tas-

man Institute, which specializes in privatization, in 1989. The founding chairman of Tasman was Sidney Bailieu Myer, chairman of the Australian branch of N.M. Rothschild, which has overseen the worldwide privatization push from London. In 1991, Tasman and Gough's IPA co-wrote "Project Victoria," the privatization plan for the future Kennett government.

During 1991-93, Tasman-IPA cranked out reports on electricity, ports, workers compensation, water, and public transport, all of which concluded with the identical recommendation: Privatize! This, Kennett and Treasurer Stockdale enthusiastically did. From the sale of the state's electricity system alone, the biggest single sector privatized, Kennett raised \$22.5 billion for debt reduction. And, even though the Tasman Institute's Dr. Michael Porter, the author of Project Victoria and one of 14 Australian members of the Mont Pelerin Society, has bragged that 75% of all state assets have now been sold off, the IPA's Michael Warby gloated to *The Australian* on April 27, "We haven't worked out a limit yet!" on sales.

Victoria has become the model for Australia's five other states and two territories, which are all planning massive asset sales as well. In fact, so keen is the desire to sell, that there is a real danger that the market will be oversupplied, especially in power utilities—three states are simultaneously planning multibillion-dollar sell-offs of their electricity systems; the New South Wales sale alone will be \$25 billion. Successive federal governments

have also sold off some of Australia's most cherished icons, including its national bank (the Commonwealth), and one-third of the super-profitable national telecommunications carrier, Telstra. The federal government has just completed the second stage of the world's biggest privatization of airports, the first stage of which included the sale of the Perth International Airport to a consortium that included British-directed mega-speculator George Soros. To date, Australia has sold \$61 billion of state and national assets, second only to Britain in dollar terms and second only to New Zealand in per-capita terms; this figure is soon expected to jump to more than \$100 billion, with the sale of the remaining two-thirds of Telstra.

The mass fire sale of public assets has taken a dramatic human toll. During 1989-97, the number of people employed in publicly owned trading enterprises has been slashed by 163,000 (42%), from 388,000 to 225,000, which has been a major contributor to Australia's high official unemployment rate of more than 8%, which in reality is much higher. In his zeal to pour tens of billions of dollars into the coffers of his banking cronies, Kennett has slashed public services drastically, notably in health care, where he has closed 1,400 beds, cut 40,000 jobs, and blown out waiting lists for surgery to 70,000, while death rates, inside and outside of hospitals, have soared.

Now, however, the Tasman Institute's Michael Porter has announced that the privatization of health care, as well as other human services such as public education, family services, and the like, is "very much the next step." Plans have already been drafted to sell off child protection agencies and youth training centers as well. Porter's Tasman gang is also now scouring Asia, which is seen as the new privatization frontier.

Business Briefs

Western Asia

Chinese experts study bridge project in Iran

An eight-member Chinese team of experts on April 26 inspected the proposed construction site of the Persian Gulf bridge in the Qeshm Island port of Loft, the *Tehran Times* reported. The deputy director of Qeshm Free Trade Zone Development and Expansion Organization, Nikokar-Isfahani, said that the Chinese experts are in Qeshm for a feasibility study on the bridge. He added that it is the second time in the past month that this group, which is affiliated with the city of Shanghai's Municipality, has visited the area.

Nikokar-Isfahani said that the bridge will be 2,500 meters long, and has been designed in a way that water pipelines, electricity, and telephone cables will pass through it. He further said that, once constructed, the Persian Gulf bridge will connect the Central Asian states to other countries, and will have a favorable impact on transit of goods in the region.

Russia

Professor Muranivsky attacks speculators

Prof. Taras Muranivsky attacked financial speculators for creating "zones of instability," in an article analyzing the results of the mid-April world financial meetings in Washington, in the May 7 Russian weekly *Ekonomicheskaya Gazeta*. Concerning the Group of 22 session of April 16 in Washington, convened to look at a "new architecture" for the world financial system, Muranivsky wrote that the most useful outcome was the acknowledgment of the global, systemic nature of the "Asian" financial crisis. At the same time, he added, the meeting came up short of providing the "weighty recommendations," prescribed by economist Lyndon LaRouche.

Muranivsky wrote about the growing attention to "social aspects of the Asia crisis," highlighted by Malaysian Finance Minister Anwar Ibrahim in his remarks after the Inter-

national Monetary Fund-World Bank Development Committee meeting on April 17. The growing poverty and instability, said Ibrahim, is caused by the failure to curb short-term capital flows. The Malaysian minister's analysis illustrated Muranivsky's main theme, that "'zones of instability' are created by speculative games on the currency markets, and other unscrupulous manipulations," while the "heavy artillery" of the IMF and World Bank is used to enforce "all the rules of usury, parasitizing on the economic and financial difficulties of countries in need." This is also the case in Russia, Muranivsky said, where "around 30,000 foreign consultants are working, earning an average [monthly] wage of \$10,000; not knowing the language, history, or economy of our country, they draft models and scenarios for Russia."

While the Washington meetings failed to produce adequate results, Muranivsky concluded, "the world financial crisis is about to take its next turns."

Nuclear Energy

Russia helps China's plant construction

The construction of the Lianyungang nuclear power plant, in Jiangsu province, China, was inaugurated with a "powerful, directed explosion," the Russian news agency Itar-Tass reported on April 25. Russia is to provide the first two reactors, and the plant is being built with Russia's assistance.

The managing director of the Beijing office of the Russian firm Atomenergoexport, Valeriy Kurochkin, said that the project's start is a "landmark event in the construction of the nuclear power plant," and that the project is now entering "the plane of practical implementation."

Chinese partners have started installation of communications at the construction site, and an additional road leading to the site is being built, as well as an 11 kilometer water pipeline, which will pump 7,000 cubic meters of water daily to the project.

The plant's first reactor is to be launched in 2004 and the second in 2005. Under an inter-governmental accord, Russia will export two light-water VVER-1000 reactors,

each with a 1 million kilowatt capacity. Sources told Itar-Tass that the construction site is laid out for four reactors. "Russia hopes to get an order for two more reactors and in the future for the fifth and sixth power units," one source said. "However, as specialists reckon, this will depend on the quality of work of the first two units and China's plans of developing its nuclear energy sector."

For more on the Lianyungang project, see the *EIR Special Report*, "The Eurasian Land-Bridge."

Economic Policy

Asian bishops in Rome attack globalization

Eleven working groups at the Special Assembly of the Synod of Bishops for Asia, from nations including the Philippines, India, Vietnam, Indonesia, and China, addressed in their documents the effects of globalization, and called on the church in the West to join the Asian church in the fight for debt cancellation and economic solidarity. The reports were given on May 1 in Rome "in the presence of the Holy Father," according to Bulletin No. 20, posted on the Internet. Discussion themes also included evangelization efforts, and "the Church's works in the domain of teaching and education, of health care, and social services."

"Globalization erodes the culture and economic values of the poor countries. Money makers and multinational companies destroy the values of family. As a pastoral response, the Church should appeal that the debts of the Third World countries be cancelled or lightened in the Jubilee Year," reported Msgr. Peter Remigius, Bishop of Kumbakonam, India.

"The group asks the Synod to call for a discernment in Asia of the phenomenon of globalization. It asks the Synod to call upon sister churches in the First World to join the churches in Asia to appeal to international bodies for justice and equity," reported Msgr. Leonardo Legaspi, Archbishop of Caceres, the Philippines.

Monsignor Bastes, Bishop of Romblon, the Philippines, attacked globalization,

AVVENIRE, the Milan-based daily tied to the Italian Bishops conference, on May 5 carried an article entitled "LaRouche: a New Bretton Woods." It reported on Lyndon LaRouche's meetings with parliamentarians in Rome in April, which concerned the need for a New Bretton Woods system to deal with the global financial crisis.

IRAN has announced that it will build a 300 kilometer oil pipeline from Neka, its port on the Caspian Sea, to Tehran, the daily *Jomhuri Es-lami* reported on May 4. The project would cost \$400 million, take 30 months to complete, and would transport 380,000 barrels per day from the Caspian to Europe, via Iran.

GERMANY'S young Christian Democrats in the state of North Rhine-Westphalia called for new nuclear power plants, in an energy policy platform presented on May 7. The paper warned that because of the take-down of nuclear technology, Germany is on the verge of losing its high-tech nuclear engineering know-how.

FASTSHIP Inc. has received preliminary approval from Den Norske Veritas (one of four organizations which certify oceangoing ships) for its water-jet-propelled design, which will allow the company to seek financing for an initial order of four ships. The ships will carry 10,000 tons of cargo across the Atlantic in less than four days, twice as fast as conventional ships.

U.S. LAYOFFS in April were up 220% over April 1997, according to a report by Challenger, Gray & Christmas, Inc. The April 1998 figure is more than double the layoffs during March 1998. Layoffs during the past six months are 36% higher than comparable figures for 1996-97.

NATIONSBANK'S securities division agreed on May 4 to pay \$6.75 million in fines resulting from charges that it misled customers on whether certain investments in derivatives were insured by the U.S. government.

"which certainly brought misery to many Asians because of its economic policies. As the church, we Asians should denounce the evils coming from globalization, and we are appealing to our sister churches of the First World to join us in our crusade for justice and solidarity among nations. A concrete issue is the cancellation of the Third World's staggering external debt, a suggestion of the Holy Father himself in his [1994] letter, 'As the Third Millennium Draws Near.'"

Agriculture

New food-control weapon is patented

A new genetic technique that prevents second-generation tobacco seeds from germinating, has been patented by Delta & Pine Land Co. and the Agricultural Research Service of the U.S. Department of Agriculture. This technique, nicknamed the "seed terminator," will make it impossible for farmers to harvest seed to replant from crops that have been genetically engineered. This means the farmer will have to buy seed every year from the cartels, at cartel-controlled prices.

There is ongoing research to see if the new technique will work for other crops, including wheat, rice, and sorghum, which are not easily hybridized. The cartels have been demanding intellectual-property-rights protection of crop seeds from developing nations, which have so far refused to grant them. This new technique, if it becomes more widely applicable, will give the cartels another way of enforcing their control over food production.

Labor

'British model' yields lower productivity

A survey compiled by the British Department of Trade and Industry has found that Britons are working more hours than their colleagues on the continent, simply because most of them have to, the German weekly *Wirtschaftswoche* reported on May 7. The

British work nine hours per week more than Germans, and five more than the French. On average, British productivity was found to be 20-30% lower than that of workers in continental Europe, and as much as 40% lower than in the United States.

British productivity is low because of poor professional training levels, general education skills, and undersupply of companies with modern machines. The CBI, Britain's industrial association, has calculated that in order to earn as much as their colleagues on the continent, British workers would each have to be paid £3,000 more per year.

"The comparably good British economic conjuncture can be traced back to more working hours, rather than more efficient work, predominantly," said Trade and Minister Margaret Beckett.

Health

Dengue fever epidemic hits Southeast Asia

Thailand, Indonesia, and the Philippines are likely to be the nations hardest hit by an epidemic of dengue fever sweeping Southeast Asia. The epidemic is expected to be worse than in previous years, because of the impact of the ongoing financial crisis throughout Asia.

Current rates of infection are at least three times last year's. Indonesia tops the list, with 32,665 people infected as of May 5, and 777 deaths. In 1997, total deaths for the year were 707. Jakarta has been particularly hard hit, with severe shortages of blood supplies and medical equipment. Total dengue cases in the capital are 8,702, with 72 reported deaths. The tourist island of Bali has 680 cases, and 8 dead.

Thai health officials expect 300,000 cases this year, and already in the first three months they have recorded 10,197 cases and 31 deaths. Last year's total was 3,280 cases and 8 deaths. Thai health officials also report that 75% of the cases are children between 5 and 14 years of age. Younger children have usually been the hardest hit age group; in older children, the symptoms don't show until the patient is near critical condition.

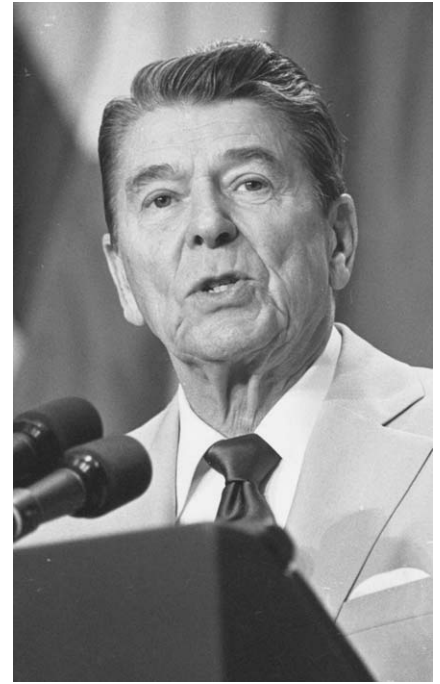
Financial crisis: the end-phase of a 30-year disease

by Jonathan Tennenbaum

Following the outbreak of the full-scale Southeast Asian financial crisis in the fall of 1997, countless articles and reports have been written, analyzing the crisis and attempting to draw lessons for the future. Unfortunately, the vast majority of authors fail to acknowledge the most important fact concerning the Asian crisis: the fact, that the events in Southeast Asia are only part of an ongoing process of disintegration of the entire world financial system.

To understand the gigantic scale and deep causes of the global financial crisis, it is not sufficient to study the events of last few years. The origins of the present crisis go back over more than 30 years, and involve the entire financial and economic history of the post-World War II period. The history of the world financial crisis presents us with the picture of a disease which develops over a long time and generates more and more dramatic symptoms, before finally causing the death of the patient. In this case, the onset of the disease can be traced back to no later than the middle of the 1960s, when certain fundamental changes in Western economic policy were initiated, first in Britain, and then transmitted to the United States and other nations. The first generally recognized symptoms of this illness were the currency instability leading to the British sterling crisis of 1967 and the 1968 dollar crisis, and finally to the breakdown of the original Bretton Woods gold-reserve system in August 1971. The pathological process took hold more deeply during the course of the 1970s, leading to the Third World debt crisis and the emergence of a gigantic speculative bubble on the world financial markets during the 1980s. From the early 1990s on, with the aggressive globalization of the financial bubble and the rise of the so-called "derivatives market," the disease of the global financial system entered the "terminal stage," in which the system is absolutely doomed to destruction.

The crucial practical question for today is, not how to predict the exact moment and circumstances of the final collapse, but rather how to quickly establish a new world financial system, which can protect the world's population and nations from the effects of an otherwise uncontrolled disintegration of the old system, and pro-



Left to right: Presidents Richard Nixon, Jimmy Carter, and Ronald Reagan, each of whose administrations made blunders in economic policy which have now brought us to the brink of a worldwide financial collapse.

vide the basis for survival and real economic development in the future. This is the task of the “New Bretton Woods” policy initiated by Lyndon LaRouche. But governments will not be able to carry out the necessary actions of emergency bankruptcy reorganization of the present financial system, unless clarity has been established concerning the 30-year disease which has brought us to the point of its eminent collapse. Above all, the existence and nature of the disease itself, and the fundamental errors of policy which have permitted that disease to flourish and progress for so long, must be openly acknowledged.

Without a decisive break with the prevailing established trends of economic and related policy of the last 30 years, our world is doomed—as much doomed as a cancer patient who refuses to see a doctor, or the passengers and crew of the *Titanic*, who refused to acknowledge the fact that their ship was sinking and it was time to get off.

This article has the chief purpose, to provide conclusive, overwhelming documentation of the 30-year “global financial cancer” which has entered its terminal phase. We recommend that the article be read and re-read by anyone who still believes, that the crises in the Southeast Asian countries and in many other nations around the world are somehow isolated events, to be blamed on local conditions. Our historical overview should above all help readers appreciate the fact, that the present global crisis differs fundamentally from the crisis of the late 1920s and 1930s. What we are facing now, is much more than merely a new wave of stock market crashes, currency and banking crises worldwide. What we are facing can only be

compared to the fall of a great dynasty—a “dynasty” whose impending doom is symptomized by the cruelty, corruption, and criminal incompetence of the International Monetary Fund (IMF) and other leading institutions of the London-based world financial oligarchy. We are at the endpoint of a long historical cycle, at which awesome, “tectonic” forces, built up over decades and even centuries, are acting to bring down an entire set of ruling institutions and ruling ideas.

To identify the deeper cultural, political, and strategic nature of this historical “long cycle” in an adequate way, and to fully elaborate the fundamental principles, according to which a new world financial and economic order must be established in the immediate period ahead, lies beyond the scope of this article. For this, we refer readers to the writings of Lyndon H. LaRouche, Jr. We shall provide a few indications at certain crucial points in our account. This applies particularly to the United States, which naturally has played a central role in world financial and economic developments throughout the post-war period until today, and must therefore occupy a great deal of our attention in this historical review.

The three phases of the post-war period

For the purposes of our analysis, it is useful to divide the post-World War II period into two main phases, with a short transition between them. First, is the phase of postwar recon-

struction and development (1945-63). There follows, from 1964 to 1966 a transition-period, during which a fundamental change in economic and social policies was initiated in the West. The third phase, from 1967 to the present, is the 30-year period of progressive degeneration of the global financial and economic system, leading to the present, acute breakdown crisis.

I shall now describe the first two periods in a summary way, before turning to a more detailed examination of the third period.

I. Postwar reconstruction and prosperous development (1945-63)

The period from the end of World War II until the mid-1960s was characterized by relatively healthy, real physical growth in the economies of most nations of the world. This included the post-war economic reconstruction and recovery in Europe (particularly the European Community, including West Germany, France, and Italy) as well as Japan; strong industrial and technological development in the United States and the Soviet Union, and real economic development in many so-called “Third World” nations, including China, India, and many Ibero-American nations, which were able to build up a significant infrastructural and industrial base.

Generally speaking, although there was a growing competition and adversary relationship between the socialist and capitalist sectors of the world economy, both were oriented toward increasing the physical output of goods per capita, through capital-intensive forms of investment in agriculture, industry, and infrastructure.

This was a period of relative monetary stability under the 1944 Bretton Woods agreements and related arrangements. Those arrangements included relatively fixed currency parities, a central role of a U.S. dollar whose value was backed by a gold-reserve system, and relatively tight regulation of currency and banking systems. Trade agreements allowed for governments to foster and protect domestic producers by means of reasonable tariffs, subsidies, price-support measures, and supportive credit and tax policies, particularly in the area of food production and infrastructure, and in key industrial sectors. Generally, the government policies of the United States and other Western industrial nations discouraged speculation, and encouraged public and private investment into infrastructure, agriculture, and industry, with emphasis on high-technology capital goods production and improved scientific qualification of the population. Financial profits were mainly derived with the production and trade in physical goods. As a result, the financial system was strongly coupled with the real, physical economy.

However, the United States entered the post-war period with a problem: the premature death of President Franklin Roosevelt. Roosevelt’s policy for the world after the war, was to eliminate the British, Dutch, and French colonial systems, and initiate a period of worldwide industrial development in

cooperation with the Soviet Union, China, and other nations. After Roosevelt’s sudden death on April 12, 1945, his successor, Harry Truman, under the influence of Churchill and others, launched the Cold War. Instead of exploiting U.S. industrial capacity, which had been built up to a high level during the war, to help develop the post-war world, Truman’s economic measures unleashed the first of a series of post-war recessions in the United States in 1948-49. In 1954, Truman’s successor, Dwight Eisenhower, attempted to launch an economic recovery by means of a large expansion of credit. After a short-lived boom, however, this led to another, very serious recession, beginning 1957.

Around that time, Lyndon LaRouche, then working as an industrial consultant, made a careful analysis of developments in the U.S. economy, in interrelation with the other industrial economies in the period after the war, with special attention to the significance of the 1957 recession as a “turning point” in post-war economic history. LaRouche came to the conclusion, that unless the prevailing trends of economic policy were changed, the Western economies were heading toward a series of major international monetary crises, which he predicted would break out by the end of the 1960s.

LaRouche noted, among other things, that Eisenhower’s credit-expansion policy had led to an unhealthy “bubble” of consumer credit—especially connected with automobile sales—rather than stimulating investment in the capital goods sector as the basis for healthy long-term growth of the industrial economy. This error had been made on the advice of the head of the Federal Reserve System, Arthur Burns, who in turn was strongly influenced by the monetarist philosophies of Paul Volcker, George Shultz, and Milton Friedman. Under conditions of a structural stagnation of industrial development in the United States, Keynesian methods of stimulating the economy aggravated the shift toward short-term profits through a wasteful boom in consumer-goods and services and an unnecessary expansion of employment in administration and sales activities. This led to an increase in overhead costs per unit of physical output of the economy, without a corresponding increase in productivity through technological improvements in the industrial base. Thus, the expansion of credit was coupled with a decrease in the real, physical efficiency of the U.S. economy. Coming at the same time when industrial production in the Western European nations was rapidly expanding, the Federal Reserve policy was leading to a rapid depreciation of the dollar relative to the Western European currencies. This was inevitably leading toward a crisis of the Bretton Woods system.

LaRouche warned, that without correcting the fundamental errors of policy which had led to the 1957-59 recession, Western governments would respond to the next monetary crisis in exactly the wrong way, with disastrous consequences. LaRouche’s forecast turned out to be exactly right.

In the intervening period, however, a positive turn in U.S. economic policy was carried out under the administration



President John F. Kennedy and Vice President Lyndon B. Johnson are shown a mock-up of the Gemini spacecraft in Houston, by astronaut "Gus" Grissom. Kennedy's promotion of the space program, among other policies, kept the United States on a path of modernization and technological innovation. But when Johnson came to power after Kennedy's assassination, the disastrous transition to the "post-industrial society" began.

of President John Kennedy (from 1961 to 1963). Kennedy introduced a tax policy which greatly encouraged industrial enterprises to invest in new, advanced technologies, leading to higher productivity. This was coupled with Kennedy's expansion of the U.S. manned space program, and advanced science-linked military programs, using government investment to push forward rapid technological development and to expand and improve the education of scientists and engineers. These policies, together with the continued, capital-intensive industrial and technological development in Western Europe under German Chancellor Konrad Adenauer and French President Charles de Gaulle, ensured a relatively rapid rate of modernization and technological innovation throughout most of the Western industrial economies.

II. The transition period (1964-66)

Unfortunately, Kennedy was assassinated on Nov. 22, 1963. Under his successor, Lyndon Johnson, together with the new Labour Party government of Harold Wilson in Britain, the previous policies of capital-intensive industrial development began to be abandoned. Tax, credit, trade, and monetary policies which had previously encouraged long-term investments into the productive sector of the economy and development of new technology, were eliminated, step by step. The new direction of policy was to create a gigantic expansion of consumer-goods and non-productive service sectors, offering higher rates of monetary return in the short and medium term. Although some positive effects of Kennedy's policies continued into the late '60s and beyond,

Kennedy's death marks a political turning point with decisive economic consequences.

It is important to understand the fundamental implications of this policy change, especially for the United States. Up to the beginning of the 1960s, it was generally taken for granted, that the foundation of America's prosperity, wealth, and power lay in the development of its industry, agriculture, and infrastructure. The rise of the United States to become the world's most powerful industrial economy, was based on methods of industrially oriented national economy, which were established by Alexander Hamilton, Mathew and Henry Carey, Friedrich List, and others during the nineteenth century. Those methods were strongly opposed to the "British System" of "free trade."

The traditional "American System" always favored a strong role of the state in promoting long-term productive investment in scientific and technological progress, sponsoring large-scale infrastructure development, promoting new branches of industry, and fostering domestic production by means of "protectionist" policies. It was commonly recognized in the United States, even up into the 1960s, that the principle of maximization of purely monetary profit by so-called "market forces," if permitted to govern economic processes without any interference or intervention from the government, would inevitably lead to the collapse of any industrial economy. To maintain a modern industrial economy based on scientific and technological progress, the state must play an active role: It must constantly intervene to maintain the long-term productive orientation of investment, to control

FIGURE 1

Number of weekly paychecks required to buy new car in the U.S.

(includes finance costs)

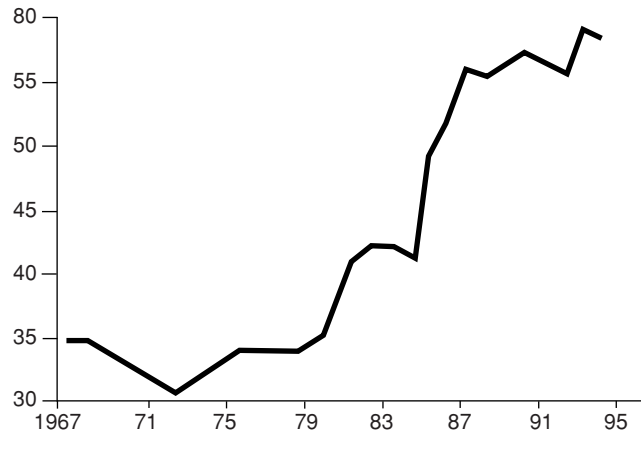
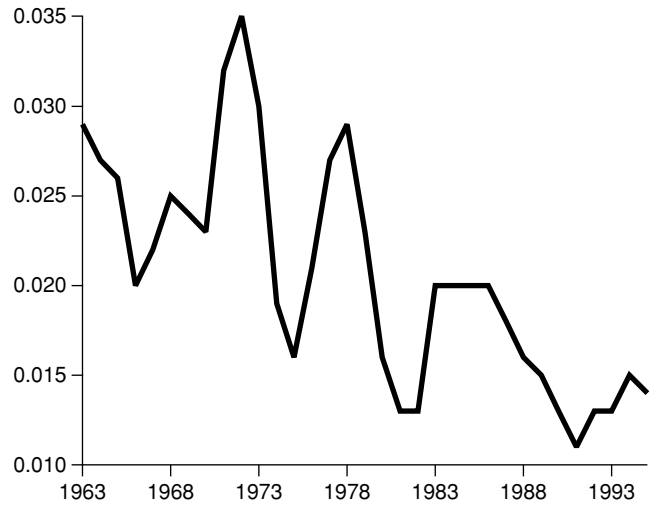


FIGURE 2

Housing starts per U.S. household, 1963-95



speculation and waste, and restrain the tendencies of the “market forces” for short-term profits at the expense of the long-term public interest. Similar principles of national economy were adopted in the industrial development of France, Germany, Italy, Japan, and other nations, and were key to the successful period of post-war reconstruction and development.

On this background, what began under Johnson and continued in later U.S. administrations, was a radical abandonment of the American System of industrial economy. This fundamental policy change is reflected in the concept of “consumer society” or “post-industrial society” which began to become popular in the mid-1960s. It is also directly connected with the launching of the youth counterculture, associated with rejection of traditional moral values, opposition to industrial technology, spread of rock music, “sexual liberation,” and growing use of marijuana and other psychotropic drugs. From Great Britain and the United States, these tendencies gradually spread to other Western industrial countries. As a result, the leading positive influence of the American System industrial model around the world, began to turn into its opposite.

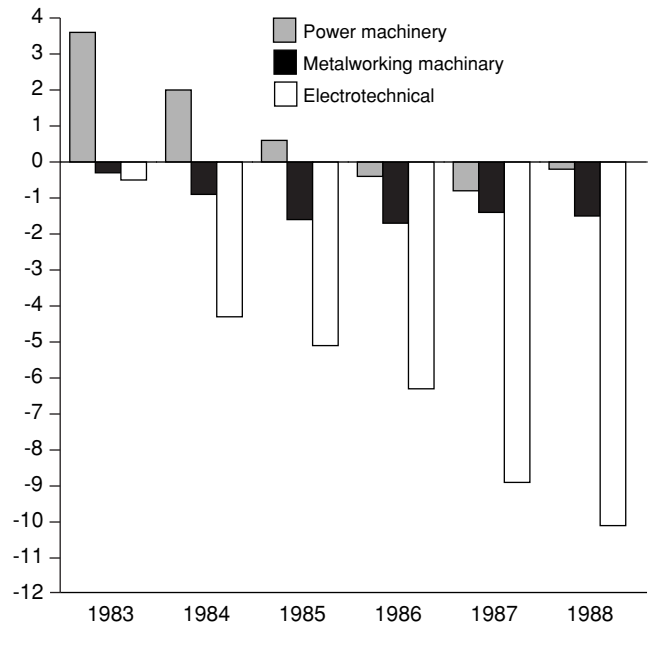
Many people consider, that since the United States has been the largest and most powerful economy in the world, and a military superpower, also, it must have the main responsibility for everything that has gone wrong with the world economy during recent decades. Although it is true that the spread of “financial cancer” is closely connected with U.S. economic and financial policies over the last 30 years, the standpoint of “blaming the United States” overlooks two important facts.

First, the traditional United States industrial system has

FIGURE 3

U.S. net exports of capital goods (exports minus imports)

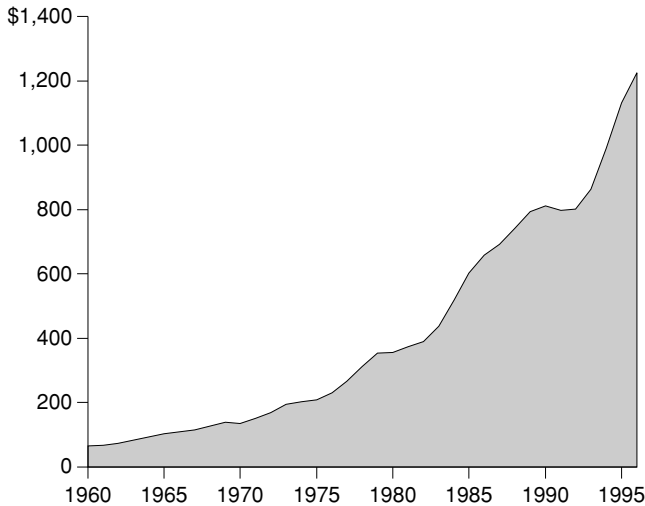
(billions \$)



itself been one of the biggest victims of the “financial cancer” of the last 30 years (see **Figures 1-3**). Contrary to myths which have been widely spread outside the United States, the productive base of the U.S. economy is vastly weaker today,

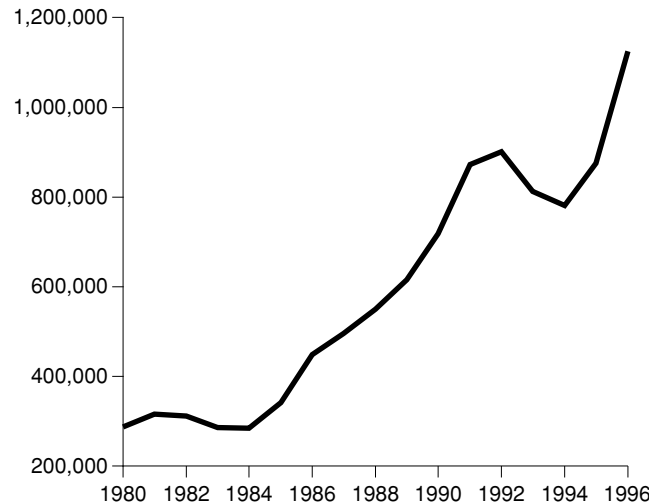
FIGURE 4
U.S. consumer credit, 1960-96

(billions \$)



Source: Board of Governors of the Federal Reserve System, "Flow of Funds Accounts of the United States," "Household Table," various years.

FIGURE 5
U.S. personal bankruptcy filings, 1980-96



Source: Administrative Office of the U.S. Courts, "Annual Report of the Director."

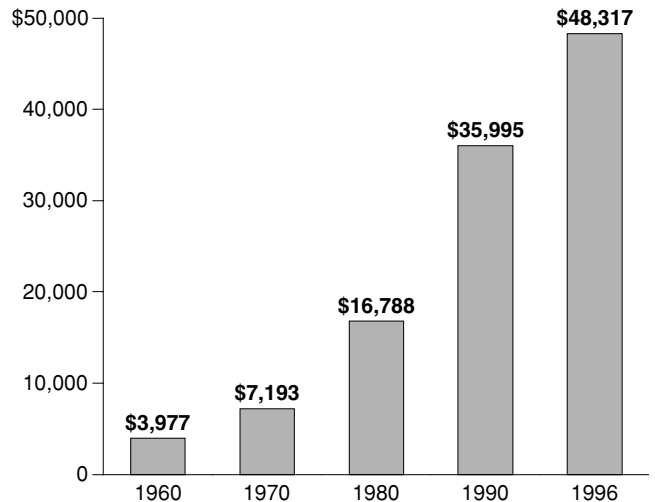
and the real, material living standard, and educational and cultural levels of the majority of the U.S. population is much lower, than in the middle of the 1960s. The impression of an economic boom connected with the "Information Society" distracts attention from the fact, that the U.S. economy no longer can support itself in physical terms, but depends on enormous imports of industrial equipment, semi-finished goods, and consumer products from abroad. Even so-called domestically produced goods incorporate a large and growing content which is produced outside the United States—often concealed in the operations of multinational companies. At the same time, the official U.S. trade deficit in physical goods was more than \$198 billion in 1997.

What has happened, is that a shrinkage and decay of the real productive base of the U.S. economy is being compensated for by artificial purchasing power coming from the financial "bubble." This process cannot be maintained indefinitely. Already in 1997, more than 1 million U.S. households officially declared bankruptcy, largely because of the decline in real family incomes (despite an increasing number of jobs) and the pressure of a huge accumulation of consumer debt. (See **Figures 4-7.**)

Second, a careful study of the broader historical background proves beyond any doubt, that the policies which have ultimately been responsible for the "global financial cancer," did not originally come from the United States. Those policies are much older; they originate in the British Empire, and were imposed upon the United States, almost like a colony—by the Anglo-American financial oligarchy, through what is

FIGURE 6
Household debt per U.S. household

(dollars)



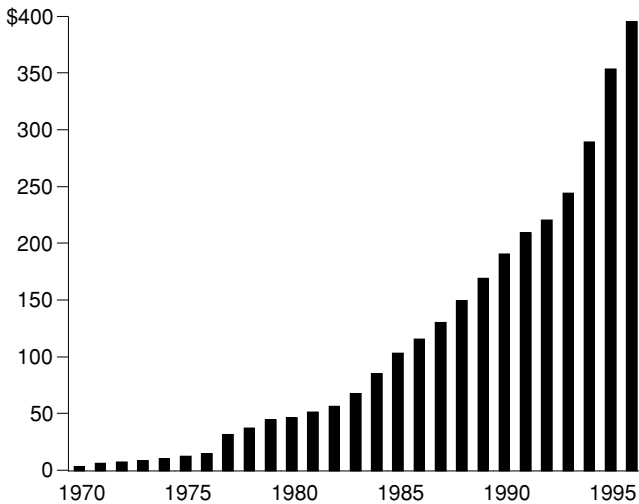
Source: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years.

sometimes referred to as the "Anglophile East-Coast establishment" of the United States. The role of that establishment is exemplified by the British-linked Morgan banking interests in the history of Wall Street until today; by the role of other powerful Anglo-American financial families such as the

FIGURE 7

Outstanding U.S. credit card debt, 1970-96

(billions \$)



Sources: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years; EIR.

Rockefellers and the Harrimans; by the "Boston Brahmin" families and the elite families of the so-called "New Confederacy" in the Southern states. These U.S. elements of the financial oligarchy were always opposed to the American System of Hamilton, the Careys, and List, and they have always been directly or indirectly allied with the British monarchy and its intelligence services. U.S. history is a history of continual struggle between the Anglophile, oligarchical tendency, and the traditional republican tendency, the latter exemplified most clearly by President Abraham Lincoln.

At the beginning of the twentieth century, the assassination of President William McKinley — a representative of the American System — and the accession to power of the Anglophile President Theodore Roosevelt, helped tip the balance in favor of growing domination of the Anglo-American oligarchy. Nevertheless, the influence of the American System remained powerful into the 1960s, and even beyond. One reason was, that the establishment considered it necessary to maintain a strong industrial base for military and other strategic reasons. This began to change, however, under the influence of the strategic doctrine promoted by the British aristocrat Bertrand Russell.

Russell argued that the unlimited progress of science and technology had created a threat to human survival, in the form of nuclear weapons in the hands of sovereign governments. As long as sovereign nations were able to freely develop their own industrial capabilities and scientific research, they would ultimately be able to produce nuclear weapons. Therefore, Russell and his followers argued, the only way to make the

world safe, would be 1) to eliminate national sovereignty, in favor of a "world government" with dictatorial powers; 2) to stop the spread of industrialization, and limit access to industrial technology; 3) to eliminate scientific and technological progress itself, or at least place it under strict control. The first essential step would be to bring the United States and Soviet Union into a process of negotiation on "worldwide arms limitation."

In reality, Russell's whole argument was a deliberate fraud, aimed at dealing a death blow to the influence of the American System, and restoring the British Empire's oligarchical system under a new guise.

The first breakthrough for Russell's policy, came with the agreements made during 1958-59 between the Russian and U.S. governments under Khrushchov and Eisenhower. Although their profound impact on Western economic policy only became fully clear in the subsequent decades, these agreements already gave an important push toward abandoning the policy of broad-based scientific and industrial development, and adopting the "post-industrial society" policy instead. This tendency was clearly stated, for example, in a book published in 1960 by James Schlesinger, who later became Secretary of Defense under President Carter. The book was titled *The Political Economy of National Defense*. Schlesinger argued that in the era of nuclear weapons, full-scale wars had become impossible; therefore, military power no longer depended on maintaining a large industrial infrastructure and workforce. He also called for the United States to stop its policy of helping developing nations to acquire advanced technologies, such as nuclear technology for peaceful purposes (President Eisenhower's "Atoms for Peace" program).

By the middle of the 1960s, it was clear, that the Anglo-American establishment was fully committed to Russell's policy and the transition to a "post-industrial society." The death of Kennedy marked a turning point in this process. From that point on, the oligarchical faction was able more or less to dictate much of U.S. economic, financial, and foreign policy, with relatively weak resistance from what remained of the American System faction. Under the shock of the present financial collapse, however, that situation may shift again, in the opposite direction.

III. The cancer of the world financial system (1967-98)

The transition period ends in 1967, with the beginning of a series of explosive monetary crises within the Bretton Woods system, exactly as LaRouche had warned.

Undoubtedly, a major contributing factor was the inflationary effect of deficit spending for the Vietnam War, as well as the massive expansion of consumer credit in the United States from the late 1950s into the 1960s, at a time when continental European countries still continued on a course of capital-intensive industrial development. However, as subsequent developments make clear, the late 1960s crisis of the

Bretton Woods system was not a temporary or merely cyclical phenomenon. The fundamental shift away from the successful American System orientation of the immediate post-war period, planted a deadly cancer into the world economy. In the course of the following 30 years, the cancerous process produced the largest bubble of fictitious, speculative values and unpayable debt, ever known in human history.

For the purposes of analysis, it is convenient to divide the evolution of the global financial crisis from 1967 to the present, into the following periods:

1967-71: From the British sterling crisis of 1967; through the explosion of the dollar crisis in March 1968; the deepening recession in Europe; to the decoupling of the dollar from gold in August 1971.

1972-79: From the transition to “floating exchange rates” and outbreak of massive currency and commodity speculation; through the mid-1970s “oil price shock,” which launched the Third World debt crisis, and the rapid expansion of the Eurodollar market and “petrodollar recycling”; to the “interest rate shock” beginning October 1979.

1980-87: From the U.S. industrial collapse, brought on by high-interest-rate policy; through the Ibero-American debt crisis of 1982-83; the imposition of IMF conditionalities policy on Mexico and other Third World countries; the “Reagan recovery” based on massive pumping of liquidity into financial markets; the launching of the bubble economy in Japan; radical financial deregulation in the United States, Great Britain, and other nations, and the launching of the speculative “junk bonds” bubble; to the October 1987 market crash.

1988-91: From the take-off of the financial derivatives bubble, through the acceleration of radical liberalization, deregulation, and globalization policies under George Bush and Margaret Thatcher; the breakdown of the U.S. system of savings and loan institutions; the collapse of the “junk bonds market”; to the collapse of the Soviet Union and the consolidation of IMF control over the economic reform process in eastern Europe and the former Soviet Union.

1992-summer 1994: From the collapse of the productive sector in Russia and eastern Europe under IMF shock therapy, through the initial breakdown of the European Monetary System and the major wave of mass unemployment in Germany and other western European countries; to Lyndon LaRouche’s “Ninth Forecast,” warning of the inevitable disintegration of the global financial system.

Fall 1994-98: From the collapse of the Mexican financial system (beginning December 1994) and the initial outbreak of the Japanese banking crisis; through the period of uncontrolled asset-price inflation on world stock markets and other markets; to the explosion of the Asian financial crisis, which is now spreading to the rest of the world.

Within this 30-year historical process, the disease of the financial system went through a series of stages, each marked by major crises which had to be addressed by governments and leading financial institutions. The history shows, that at

each crucial turning point, the decisions that were taken made the underlying problem even worse, creating the preconditions for even more serious crises at the next stage. The common feature of these decisions, was to try to “solve” the problems created by the growing bubble of debt and speculative financial assets, by sacrificing more and more of the real, physical economy in order to “feed” the bubble, while successively removing the barriers to its further growth. It is like a man who tries to save his house from burning down, by throwing his furniture into the fire.

This irrational, self-destructive behavior of governments and leading institutions, including in the United States, constitutes the most remarkable feature of the last 30 years of economic history, requiring a profound analysis of cultural and other factors determining policymaking in the post-war period. Evidently, the reasons for the disease of the world financial system, and the fact that the disease has been tolerated for so long, are connected with deep-seated errors in the habits of thinking of governments and leading institutions in many countries.

We shall now focus our attention on some of the most important turning points in the growth of the “financial cancer” in the world economy. We shall pay special attention to the actions taken by governments at various stages, and the effects of those actions. In next week’s issue, we shall provide a chronological account of the most important financial and economic events relevant to our topic.

Turning points

1967-71 monetary crisis and the transition to a neo-Malthusian economic policy

I have already described how the fundamental policy-shift begun in the 1964-66 period, combined with the inflationary effects of the Vietnam War and other factors, created the conditions for a series of monetary crises, beginning with the 1967 collapse of the British pound sterling. Unfortunately, the response to the 1967-71 monetary crises, was *not* to return to policies of healthy industrial development that would have restored the value of the dollar and stabilized the Bretton Woods system. First, U.S. President Johnson in March 1968, and then again, three years later, U.S. President Nixon — under advice from then-Undersecretary of Treasury Paul Volcker, George Shultz, Milton Friedman, and others — gave the signal for “decoupling” the financial system from the real economy. This was done despite the fact, that French President de Gaulle’s economic adviser Jacques Rueff and others had put forward alternative policies, which could have saved the dollar and restored healthy development in the world economy.

On Aug. 15, 1971, Nixon took the decision to eliminate the gold-reserve backing for the dollar. This put a decisive end to the post-war period of currency stability under the

original Bretton Woods system. It opened the way for a flood of currency and commodity speculation, and for introducing the system of floating exchange rates, undermining healthy long-term planning and increasing the risks of long-term international investment and trade.

Parallel with the elimination of the original gold-reserve system and fixed currency parities, regulations and policies were put into effect in the United States, which greatly accelerated the flow of dollars into offshore markets having no restrictions on interest rates and virtually no regulatory supervision. A large part of this exodus of dollars went to British Commonwealth areas, including Britain, Canada, the British West Indies, Singapore, and Hong Kong. This was the beginning of the Eurodollar market, whose center became the City of London. Through its controlling share of the growing Eurodollar market, its "special relationship" to the United States, and its powerful influence within a vast network of institutions in the British Commonwealth, London was able to retain an extraordinary degree of power and influence around the world, in spite of the loss of most of its colonies.

By 1979, more than one-third of all U.S. dollars were circulating outside the United States. These dollars became the basis for uncontrolled credit-generation by the offshore Eurodollar banks, on the basis of the so-called "Keynesian multiplier." Under conditions where the lending potential of domestic U.S. banks was restricted by policies of the Federal Reserve, increasing amounts of Eurodollar loans began to flow through Canada and other offshore centers, into the U.S. banking system. In this and related ways, the growth of the Eurodollar credit bubble became a major source of inflation in the United States and other countries. At the same time, U.S. financial policy became more and more a prisoner of the overseas dollar markets.

During this period, the anti-industrial orientation of economic policy became more and more obvious. This is revealed, for example, by the channelling of millions of dollars from the Rockefeller and Ford Foundations and other prominent American and European foundations, into "popular movements" protesting against nuclear power plants, roads, and industrial projects. With the help of this flow of funds, the student rebellion of 1968, which began mainly as a protest against the Vietnam War, was transformed into the so-called environmentalist movement of the 1970s and 1980s. A leading role in these developments was played, once again, by British strategist Bertrand Russell.

At first glance, it seems paradoxical, that powerful foundations linked to multinational companies (especially oil companies) and banks, as well as influential elements of the old European oligarchy (such as Prince Philip of England and Prince Bernhard of Holland), would support a movement directed against industrial development. Nevertheless, this is a fact, which coincides with a growing shift of investment out of production, into parasitical, non-productive sectors, and

into a speculative bubble. Actually, the shift from an industrial economy into a parasitical "bubble economy" would not have been tolerated by the population and leading institutions of the various nations involved, unless it had been prepared by a change in cultural attitudes.

The oil price shock of 1973-75

Instead of bringing the "dollar bubble," including the London-based Eurodollar market, under control, the decision was made to pump it up with an enormous injection of liquidity. This was done at the expense of the entire world economy, with the help of the "oil price shock" of the mid-1970s. As the secret May 1973 Saltsjöbaden Conference and other evidence demonstrates, the huge oil price increase, following the October 1973 Middle East War, was carefully planned in advance and orchestrated by leading circles within the Anglo-American establishment, its banks and multinational oil companies, in an entirely artificial manner. The sudden, fourfold increase in oil prices created a new bubble, a bubble of Third World debt, at the same time looting the world's industrial economy in the interest of the Anglo-American banks and oil cartels.

Rather than freezing or writing off that artificial debt, the debt bubble was massively expanded in the subsequent period, by the increase of "floating interest rates" to usurious levels, and the repeated issuance of new loans to cover payments on old loans (the so-called "rollover"). This policy, together with the IMF conditionalities imposed beginning in the early 1980s, have driven most of the developing-sector economies into virtual bankruptcy, while drastically constricting the potential market for high-technology capital-goods exports by the industrial nations.

By the second half of the 1970s, the financial cancer had already reached a life-threatening stage. Nevertheless, a workable alternative policy had been put forward by LaRouche and his collaborators, and circulated among governments and leading institutions internationally. LaRouche's International Development Bank (IDB) proposal for a new, gold-reserve monetary system oriented toward large-scale infrastructure development and technology transfer to the developing nations, was placed on the table at the United Nations General Assembly in 1976. In the same period, leading industrial circles from Germany and other European nations, as well as policymakers in Japan, attempted to pursue a policy for Third World development based on infrastructure development and advanced technology. This thrust is exemplified by programs of cooperation between Germany, France, and a number of developing nations for construction of nuclear power plants, and proposals such as the Mitsubishi Research Institute's Global Infrastructure Fund.

The resistance of France and Germany against the destructive economic policies of the U.S. Carter administration

and the “floating currency rate” policy, reached a high point with the 1978 decision to establish the European Monetary System (EMS) and European Monetary Fund (EMF). LaRouche had been intensively involved in discussions with European statesmen, bankers, and industrialists on this subject since at least 1974, when he circulated the proposal for a “golden snake” of European currencies. Later, LaRouche called for the EMS-EMF to be made into the kernel of a new, worldwide monetary and financial system based on the principles embodied in the original IDB proposal. The strategy was to gain the support of the United States and to bring in the U.S.S.R. other East bloc nations, and the developing nations, at the earliest possible time.

Unfortunately, these initiatives suffered serious setbacks, including the assassination of several prominent European industrial and political leaders who had favored industrial development in the Third World. The pro-industrial current in Europe was decisively weakened by the early 1980s.

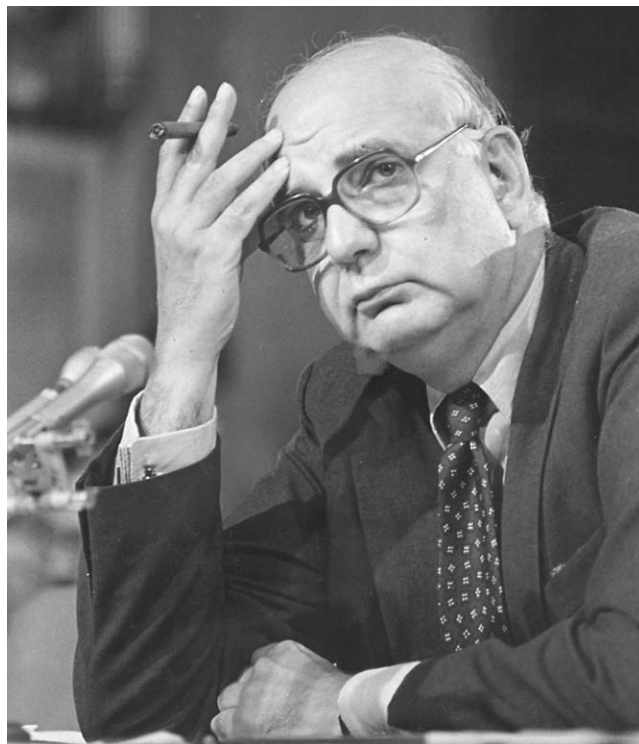
One consequence of this has been, that the present European plan for financial union and a common European currency, embodies radical monetarist, oligarchical policies which are quite opposite to the pro-industrial tendencies of the 1976-78 period.

As a result of the temporary defeat of the IDB and related policies, the financial cancer went into a new, even more lethal phase.

The interest rate shock of 1979

Inevitably, serious inflationary effects resulted from the further growth of the Wall Street bubble, the Eurodollar bubble, and the Third World debt bubble. Rather than addressing the underlying cause of the problem, the newly elected Thatcher government of Britain, and soon afterward the U.S. Federal Reserve Bank under Paul Volcker, applied the ultramonetarist policy of shock therapy, by suddenly raising interest rates to the highest levels since the U.S. Civil War. This, combined with credit controls and other measures imposed by Volcker and the Carter administration, dealt a devastating blow to the industrial and agricultural base of the U.S. economy. Within a few years, hundreds of thousands of farms and medium-sized industries were ruined and driven out of business. In many areas of industrial production, the physical output of the U.S. economy declined by between 30% and 50% within three years. Even today, U.S. industry and agriculture have not recovered from the effects of the 1979-81 shock therapy. (See **Figures 8-13.**)

The effects of high-interest-rate policy were naturally not limited to the United States and Britain. The interest rate on Eurodollar loans grew from 7% in early 1978, to up to 20% at the beginning of 1980. World trade suffered its worst collapse since 1958. Above all, the interest rate increase meant an unexpected, terrible blow to developing nations, which had financed their oil imports through Eurodollar loans having



Paul Volcker, as chairman of the Federal Reserve, raised U.S. interest rates to the highest levels since the Civil War, wiping out industry and agriculture.

floating interest rates, coupled with the London LIBOR (interbank lending rate). Overnight, those nations had to pay more than double the amount in debt service that they had envisaged at the time the loans were made.

The deliberate nature of this shock therapy against the industrial economies and developing nations of the world, was underlined in a series of studies published by the New York Council on Foreign Relations at the end of the 1970s. The CFR, founded after World War I as an offshoot of the London Royal Institute of International Affairs, is one of the most prominent policy organs of the Anglo-American establishment. In a series of books entitled “Project 1980s,” the CFR proposed a policy to promote “a certain degree of controlled disintegration of the world economy.” One of the main purposes of this policy was to crush the forces in favor of an industrial development in the so-called “Third World,” which I have referred to above. By delivering decisive blows to the national economies of the various nations, the path would be cleared for a later phase of “globalization,” in which national economic sovereignty would be eliminated.

The impact of the interest rate shock was made even worse by a second oil shock, which followed the overthrow of the Shah of Iran in early 1979. World oil prices rose sharply again, reaching 13 times their pre-1973 levels.

FIGURE 8
U.S. prime interest rate, 1940 to present

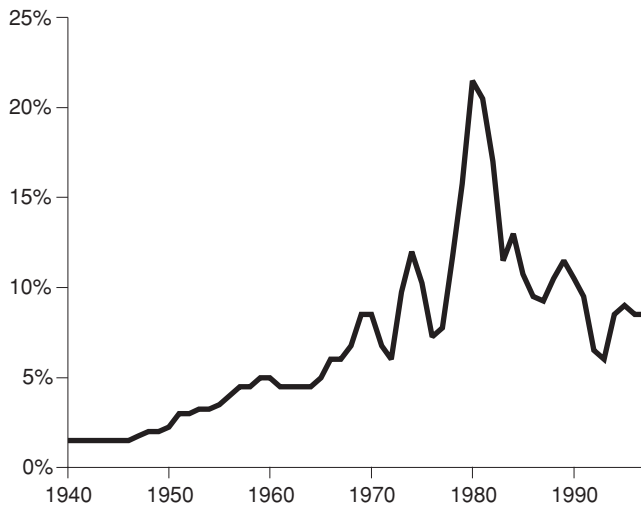


FIGURE 9
U.S. production of lathes, milling machines
 (yearly output in thousands of units)

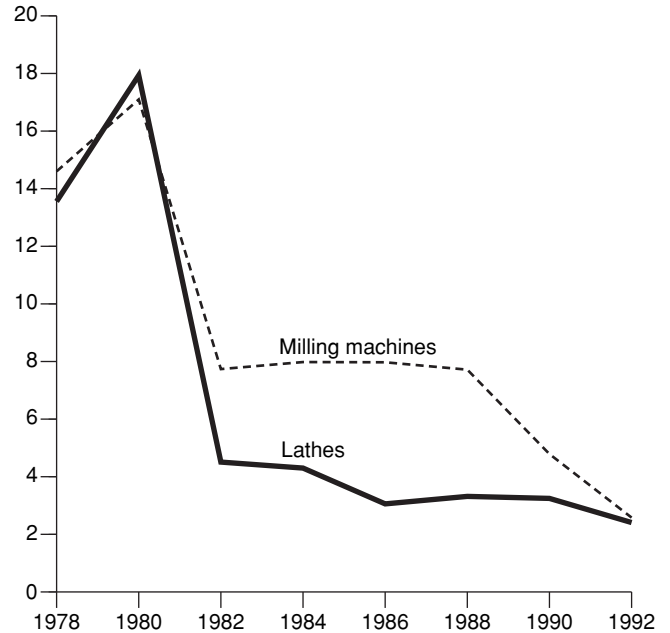
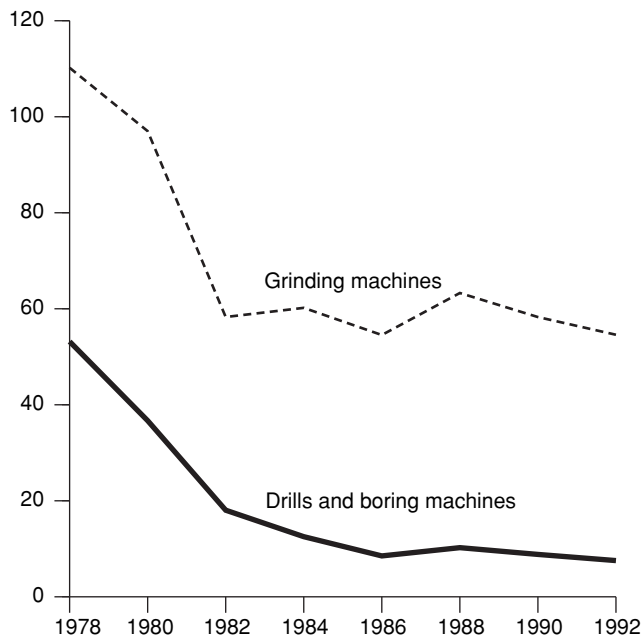


FIGURE 10
U.S. production of drills and boring machines, grinding machines
 (yearly output in thousands of units)



Source: U.N. statistical yearbook

The Ibero-American debt crisis of 1982-83

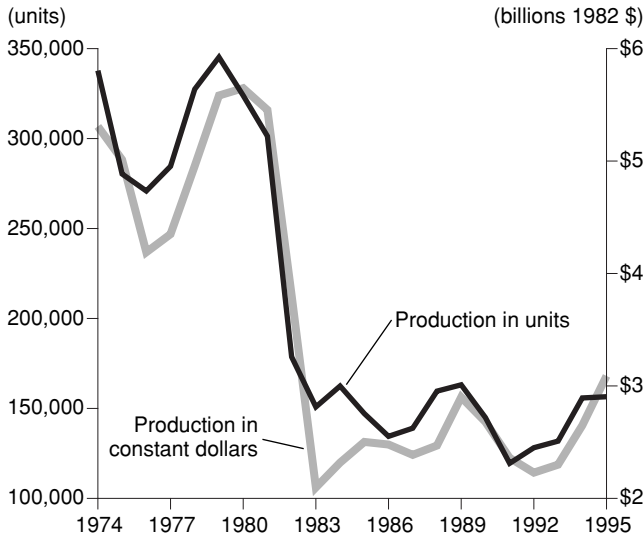
The combination of the drastic interest rate increase together with a second oil price shock in 1979, created an intolerable situation for many developing countries, and led directly to the Ibero-American debt crisis. In the four years between 1978 and 1982, the official foreign debt of the Ibero-American countries had more than doubled, from \$156.5 billion to \$322.8 billion. During the same period, more than \$78 billion in flight capital left the Ibero-American countries. All of this occurred without any significant inflow of investment to compensate for the huge losses. In 1981, the situation was aggravated by speculative attacks against Ibero-American currencies.

The strongest point of resistance to this looting process was the President of Mexico, José López Portillo. In May 1982, López Portillo met with LaRouche in Mexico City to discuss measures to save the Mexican economy. Soon thereafter, LaRouche drew up an economic plan for all of Ibero-America. This plan, entitled "Operation Juárez," centered on the proposal that the Ibero-American nations should form a "debtors' cartel" and a common market, in order to impose a fair reorganization of the debt and launch a continent-wide economic development boom based on the principles of physical economy.

By the beginning of August, when "Operation Juárez" was published, Mexico was de facto in a state of default on its foreign debt payments. Capital was leaving the country in panic, and the entire financial system was collapsing. In this

FIGURE 11

U.S. machine tool production, in units and 1982 constant dollars



Source: "Economic Handbook of Machine Tool Builders," various years.

emergency situation, López Portillo moved toward implementing key aspects of LaRouche's policy. To recover control over the economy, he imposed strict currency controls (Aug. 5), declared a temporary moratorium on payment of foreign debt (Aug. 22), and nationalized the banking system (Sept. 1). Parallel with these emergency steps, Mexico made urgent efforts to gain the support of other Ibero-American nations, particularly Argentina and Brazil, to join in a common policy vis-à-vis the foreign creditors. Since Mexico was not strong enough to stand up on its own economically and politically, everything depended on the response of the other countries.

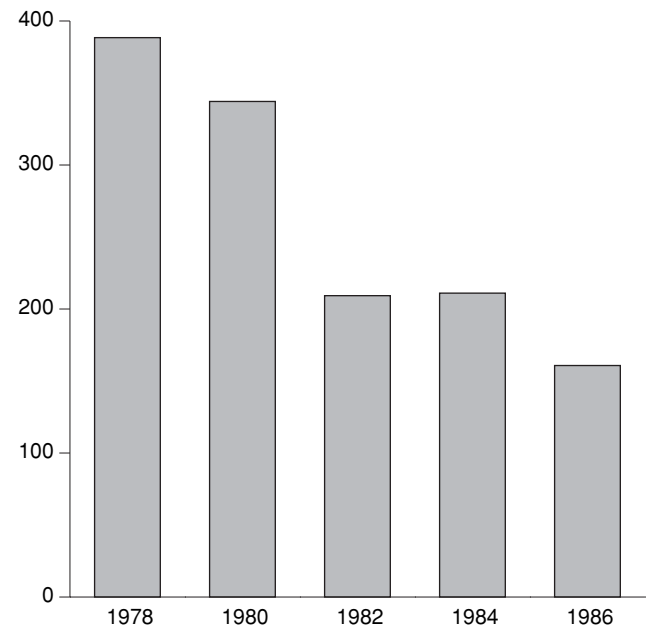
Unfortunately, due to the vacillation and cowardice of some Ibero-American governments, and massive pressure from the outside, including Britain's Malvinas War against Argentina, the historical chance to realize "Operation Juárez" was missed. One by one, the governments of the Ibero-American countries submitted to the conditions of the creditor banks and the IMF.

The policy to make the IMF into the "world policeman" for enforcing the payment of Third World debt, was already stressed on the night before López Portillo's speech to the United Nations, by U.S. Secretary of State George Shultz. Shultz proclaimed that the United States was heading for a new "economic recovery," and called for IMF management of individual nations' debt problems. This policy was expressed in the IMF's conditionalities and structural adjustment programs. Debtor countries would be forced to carry out drastic devaluations, to eliminate state subsidies for food and other basic commodities and production sectors, and to

FIGURE 12

U.S. diesel motors production

(yearly output in thousands of units)

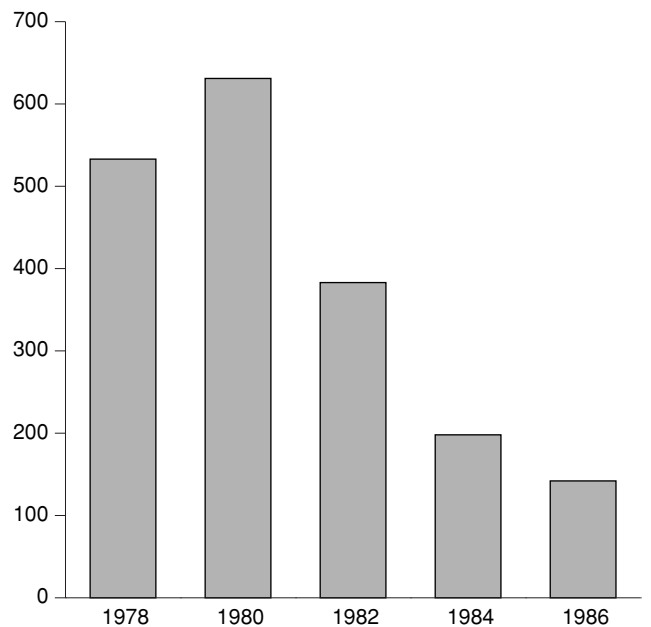


Source: U.N. statistical yearbook

FIGURE 13

U.S. production of forging and stamping machines

(yearly output in thousands of units)



Source: U.N. statistical yearbook



President Reagan with Mexican President José López Portillo, June 1981. One year later, López Portillo attempted to implement LaRouche's "Operation Juárez" plan, but the failure of other Ibero-American governments (and the United States) to support him, meant that the strategic opportunity was missed.

make severe cuts in public spending. In each case, the effect of the IMF's programs was to collapse living standards for the majority of the population, suspend net investment into the productive base of the economy, and vastly increase the burden of debt through devaluations of the national currency. (See **Figures 14-16.**)

From the standpoint of the claimed purpose of solving the debt problem, the IMF policy has been a miserable failure. On the other hand, the policy did lead to a gigantic looting of Third World nations caught in the "debt trap." By the mid-1980s, the developing countries were supplying tens of billions of dollars per year in net capital flow to the industrial countries, and especially to Anglo-American financial institutions. According to UNICEF, the net capital flow from poor nations to rich nations grew from \$6 billion per year in 1983 to \$30 billion per year at the end of the 1980s. Taking into account the dramatic drop in raw materials prices, the real, physical-economic cost to the developing countries was at least double that. In addition, the total amount of capital flight from developing nations to the industrial nations, in the course of the 1980s, is estimated at more than \$400 billion.

Despite this enormous capital flow out of the Third World countries, the debt continued to increase. According to World Bank figures, in 1980 the total external debt of 109 developing countries, including private and public debt of more than one-year maturity, was approximately \$430 billion. Payment of interest from 1980 to 1986 totalled \$320 billion, and repayment of principal \$332 billion. Thus, Third World countries paid a total of \$658 billion between 1980 and 1986, on an original debt of \$430 billion. Yet, the total debt outstanding

in 1986 was \$882 billion! Only a small part of this increase was connected with additional, real credit issuance for new investment; the growth of the debt bubble was almost entirely a result of the high interest rates and the roll-over of old debt by means of new loans. By 1994, the debt of 109 developing countries had grown to \$1.6 trillion.

In the case of Mexico, López Portillo's national-economic policies were soon reversed. Subsequently, the successive "solutions" imposed by the IMF and the creditor banks, including the "Brady Plan," had the effect of only delaying the full onset of the crisis, while making the underlying problem worse. This laid the basis for the explosion of the Mexican financial system in December 1994.

The 'Reagan recovery,' the 'bubble economy' in Japan, and the growth of the drug trade

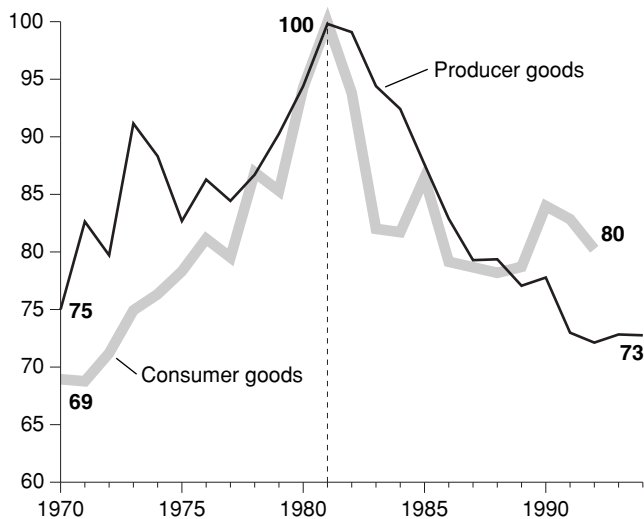
President Reagan had been elected as the result of a popular reaction against the destruction of the U.S. economy under Reagan's predecessor, Jimmy Carter. With the productive base of the U.S. economy devastated by the effects of the interest rate shock, the urgent requirements for the United States were to channel credit and investment back into industry and agriculture, to revive the nuclear and other advanced technology sectors, and to rebuild the nation's basic infrastructure. LaRouche, who had played a leading role in promoting the policy of rebuilding and modernizing the U.S. economy for many years, became intensively involved in discussions with inner circles of the Reagan administration, concerning future economic policy for the country.

In late 1981, LaRouche began to elaborate a comprehen-

FIGURE 14

Mexico: producer and consumer goods

(index 1981=100)

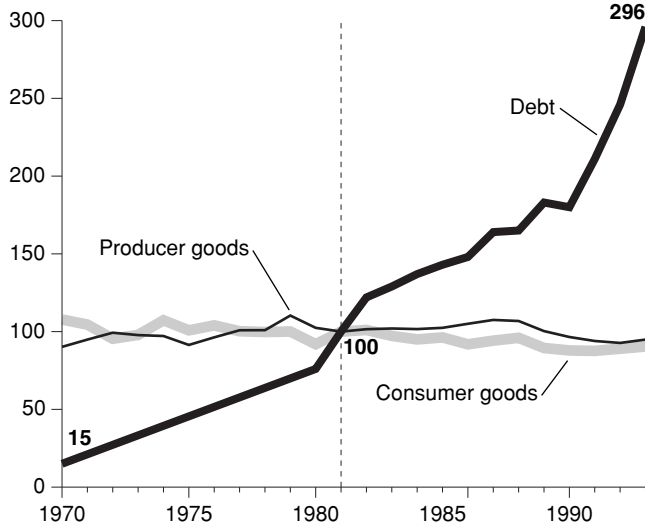


Sources: ECLAC (United Nations), INEGI (Mexico).

FIGURE 15

Argentina: foreign debt versus consumer and producer goods production

(index 1981=100)



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

sive policy for a technological and strategic revolution, based on development of new types of weapons systems for defense against nuclear attack. Development of these systems would involve a wide range of new technologies, including new types of lasers, high-temperature plasma and particle beam technologies, and nuclear and other advanced energy sources. LaRouche proposed using the civilian “spinoffs” of such a military program, together with a new, long-term space program aimed toward manned missions to the Moon and Mars, as a means to modernize and transform the entire U.S. economy. Key aspects of LaRouche’s policy were adopted by Reagan in March 1983, and became known as the Strategic Defense Initiative (SDI).

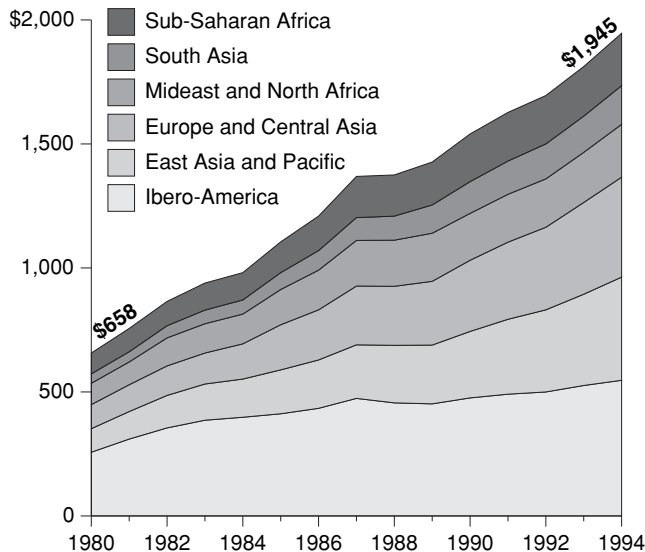
The SDI played a decisive role in bringing about the end of the Cold War, and also led to important technological developments. However LaRouche’s broader economic policy was not adopted. In fact, under the influence of the Anglo-American establishment, as typified by Treasury Secretary Donald Regan, the Reagan administration adopted exactly the opposite economic policy. Soon, LaRouche and his movement became the target of an unprecedented campaign of political persecution, which escalated into blatantly unjust legal prosecution, and finally to the jailing of LaRouche for five years, beginning 1989.

The strategy of the so-called “Reagan recovery” was to open the floodgates for an unprecedented expansion of the financial bubble. This was accomplished by 1) tripling the national debt of the United States, from \$998 billion in 1981 to \$3 trillion in 1989 (Figure 17); 2) radical deregulation of the banking and financial system, permitting high-risk specu-

FIGURE 16

World foreign debt, by region

(billions \$)



Source: World Bank.

lative operations on a scale which would have been unimaginable in former times (see Figures 18-20); 3) pumping up a gigantic real estate bubble in the United States, with bank loans to real estate almost doubling between 1986 and 1990; 4) permitting the takeover and savage looting of the assets of

FIGURE 17

U.S. government debt as % of GNP

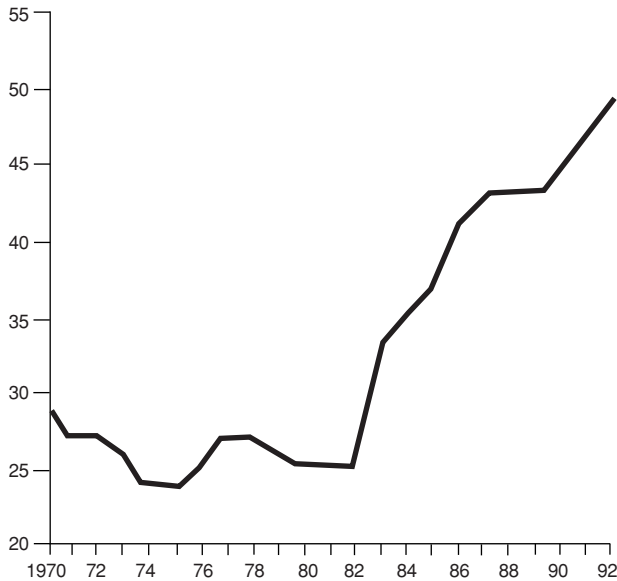


FIGURE 18

Mergers and acquisitions versus manufacturing new plant and equipment

(billions \$)

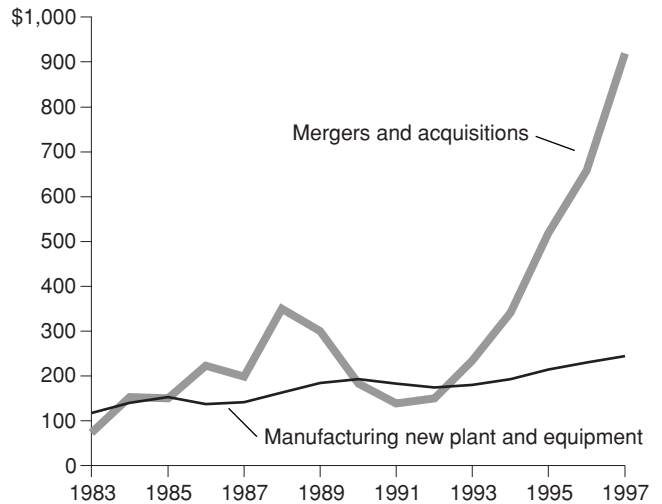
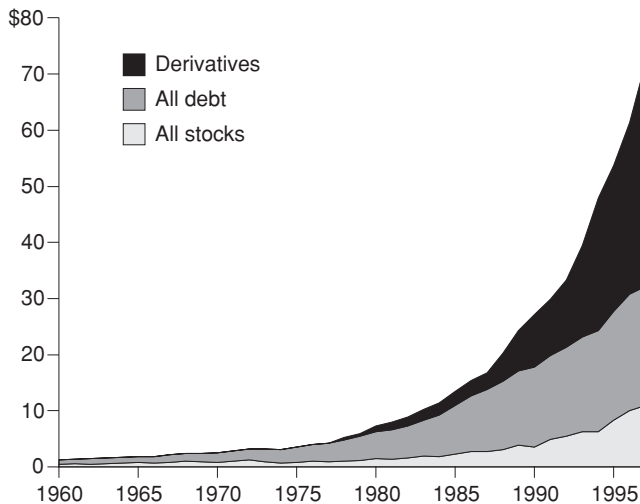


FIGURE 19

Hyperbolic growth of the U.S. financial aggregate

(trillions \$)



U.S. agricultural and industrial enterprises by speculators, using methods such as “junk bonds” and leveraged buyout deals (LBOs); and 5) increasing the net flow of capital into the United States, in the form of debt payments and flight capital from developing nations, as well large imports of funds from Japan and western Europe.

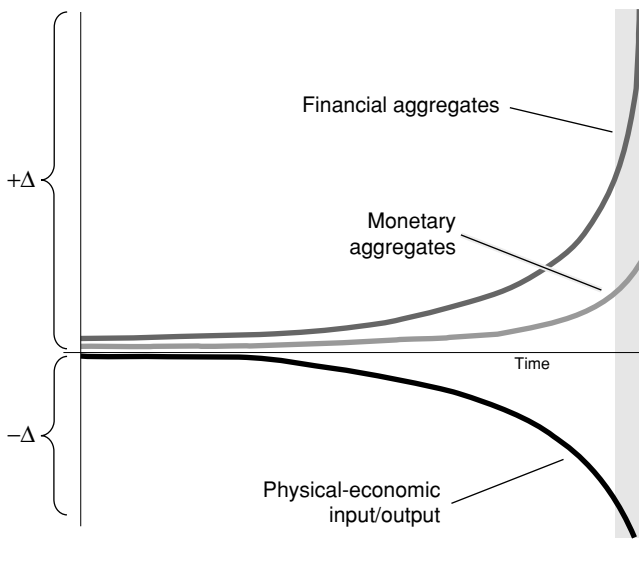
A direct product of bank deregulation in the United States was a bubble in the system of more than 3,000 savings and loans associations in the United States. The operations of the S&Ls were formerly restricted mainly to financing long-term purchases of homes at low interest rates which were fixed by law. These and other restrictions were removed by a new law in 1982. The resulting competition for investors and depositors, and other factors, pushed these banks into wild speculative practices. During the second half of the 1980s, the real estate bubble went into a collapse, and the S&L system was virtually bankrupted. By 1989, more than 400 thrift institutions were declared insolvent, while others were only saved by emergency mergers and an injection of over \$300 billion of government funds.

But, this was only part of the wild ups-and-downs of speculative activity, which reached a fever pitch in the period leading up to the stock market crash of October 1987. In the course of the 1980s, encouraged by deregulation and changes in tax laws, a new epidemic of speculation and looting broke out on Wall Street, in connection with the so-called junk bonds and leveraged buyouts. Typically, companies were taken over by speculative raiders using borrowed money, and the resulting debt was loaded onto the victim company, to be paid at the expense of selling off assets, closing down factories, and firing workers. These speculative looting operations were often connected with issuing high-risk, high-yield speculative “junk bonds,” often leading to unpredictable shocks and sudden bankruptcies.

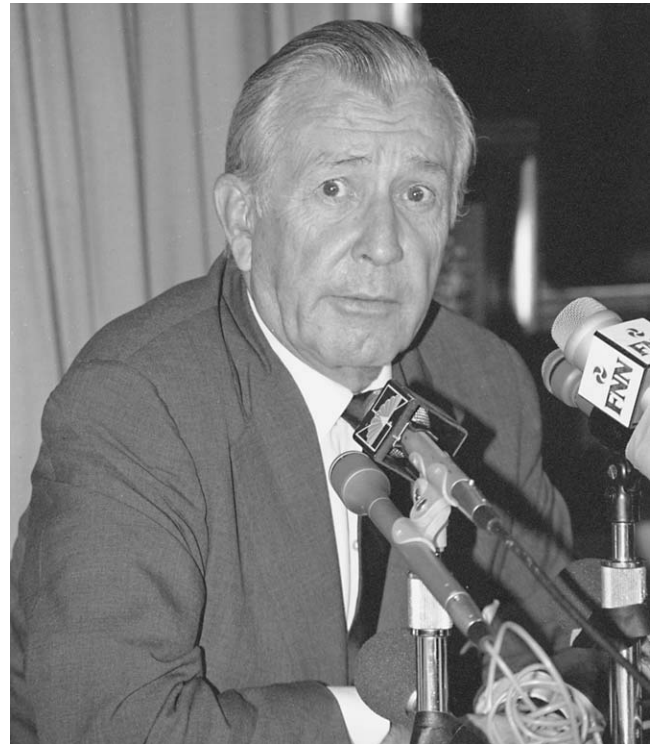
Instead of intervening to stop this orgy of parasitical speculation, which was rapidly destroying what remained of the

FIGURE 20

A typical collapse function



LaRouche's "triple curve" schematic shows how the hyperbolic growth of financial and monetary aggregates ("the bubble") proceeds at the expense of the physical economy, until a point of blowout is reached.



U.S. Treasury Secretary Donald Regan's policies toward Japan, including the September 1985 Plaza Accords, helped pump up a financial bubble there, which is now blowing out.

healthy American industrial companies, the government actively encouraged the speculators, and took steps to extend the bubble overseas. Japan was an important part of this process.

According to a commonplace myth, the spectacular growth of the annual Japanese trade surplus to the United States — which rose from less than \$20 billion in 1982, to over \$40 billion in 1985 and over \$50 billion in 1986-89 — was the result of unfair Japanese trade practices. The main cause, however, was the collapse of the U.S. industrial base which resulted from the 1979 interest rate shock and other anti-industrial policies of the Carter, Reagan, and Bush administrations. Apart from the huge import of automobiles, the U.S. economy had become dependent upon large supplies of industrial equipment from Japan and Germany.

Enormous pressure was exerted on Japan, to help prop up the U.S. "recovery" by channelling hundreds of billions of dollars into the U.S. financial markets and by pumping up a new financial bubble in Japan. This process was greatly accelerated following the Plaza Accords of September 1985. External pressure aggravated the effect of a fundamental cultural shift inside Japan itself, as shallow-minded young professionals moved in to replace the older elite that had rebuilt Japan after the war.

At the same time, the Japanese banking system, which had traditionally been oriented to physical trade and industry, was sucked more and more into the spectacular real estate bubble in Japan and some other parts of Asia. The total loans

of Japanese banks quadrupled between 1985 and 1990, while the percentage of loans going to the productive sector shrank from 38% to only 25%. (In 1965, fully 63% of all lending of Japan's top 150 banks went into the productive sector.) This set the stage for the Japanese banking crisis of the 1990s. (See **Figures 21-25.**)

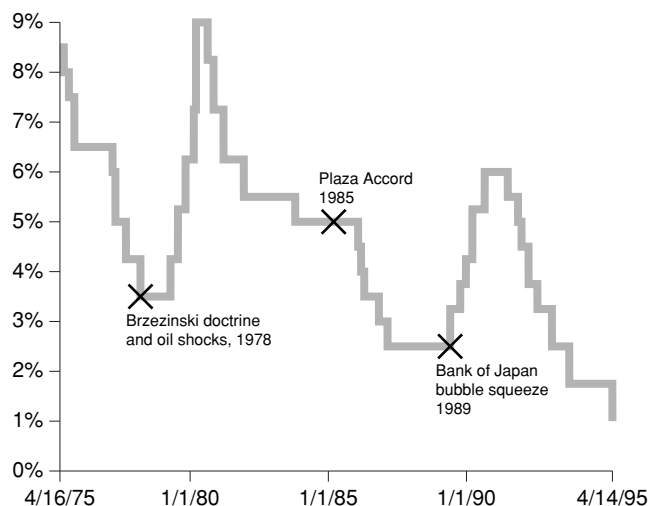
In 1994, Japanese economist Mitsuhiro Seki described the 1980s process of structural decay of the Japanese economy in the following words: "For the Japanese economy the recession began with the Plaza Agreement of 1985. An abnormal spiral of land prices resulted. . . . Instead of major factories, apartments, skyscrapers, parking, houses, and office buildings were built up, leading to a disintegration of the industrial structure. . . . Since 1991, the big concentrations of small factories, which had been responsible for basic technologies, began to disappear."

After Britain, Japan became the second largest foreign source of financial support and capital for the United States. In 1988, for example, Japanese investors covered 40% of the new issuance of U.S. debt. Japanese financial institutions also became a major source of capital for the five-year epidemic of junk bonds and LBOs on Wall Street.

The shift of policy which had led to the bubble economy in Japan, naturally had negative effects in Southeast Asian and other countries. In the course of the 1980s, the orientation toward long-term industrial and infrastructure investment

FIGURE 21

Bank of Japan central bank discount rate, 1975-95

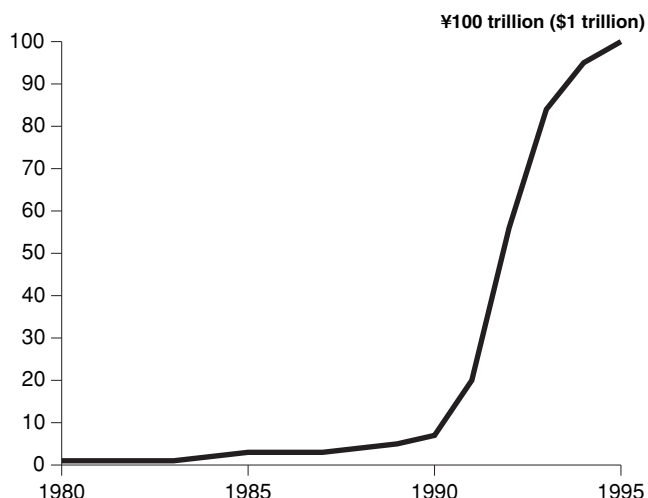


Source: Japan Ministry of Finance.

FIGURE 22

Bad Japanese bank loans

(trillions of yen)



Sources: EIR estimates; Merrill Lynch, Tokyo; Salomon Brothers Tokyo; Standard & Chartered Bank, London.

was weakened, in favor of a policy of bringing in “quick money” by establishing offshore financial centers and “emerging markets.” This began relatively early in Thailand, which already came under strong IMF control in 1980. Indonesia and Malaysia, which had benefitted from a large income from oil exports, were hit hard by the collapse of oil prices in 1986. By the beginning of the 1990s, the “new tigers” of Southeast Asia were being fully integrated into the global bubble of “emerging markets.” Although these economies had significant problems to begin with, it was financial globalization that undermined government control and provided the leverage for speculators to destabilize and destroy national financial systems.

Another very significant phenomenon of this period is the spectacular growth in the illegal drug trade. According to rough estimates published by *EIR*, the total sales value of the illegal drug trade grew from about \$175 billion in 1977, to \$558 billion in 1989. This is a very significant figure compared with total world trade, and demonstrates why funds from the illegal drug trade necessarily play an important role in the overall capital flows within the world financial system. In fact, it can be demonstrated that the deep involvement of certain prominent banks and financial families in the management of the multibillion-dollar world illegal drug trade, has continued in an unbroken line, since the time of the British Opium Wars.

There is no doubt, that the failure of governments to take effective action against the expansion of the illegal drug trade during the 1980s, is closely connected with the policy of maintaining and supporting the speculative bubble. It was even

stated openly by some U.S. financial experts in press interviews in the 1980s, that strong measures against laundering drug funds by major banks, would threaten the stability of the banking system!

In the case of the Ibero-American countries, an intimate relationship developed between the 1) the debt crisis; 2) the growth of illegal drug production and the power of the local drug lords; and 3) the growth of terrorism and organized insurgency. It is an ugly fact, that the growth of illegal drug consumption in the United States, particularly the epidemic of cocaine use in the 1980s and 1990s, provided a huge and growing market for drug exports from Colombia, Peru, and other Ibero-American countries; and the receipts from drug exports by those countries indirectly provided a major source of funds for paying the debt. The cocaine production of Peru, Colombia, and Bolivia grew by 30-50% from 1980 to 1988.

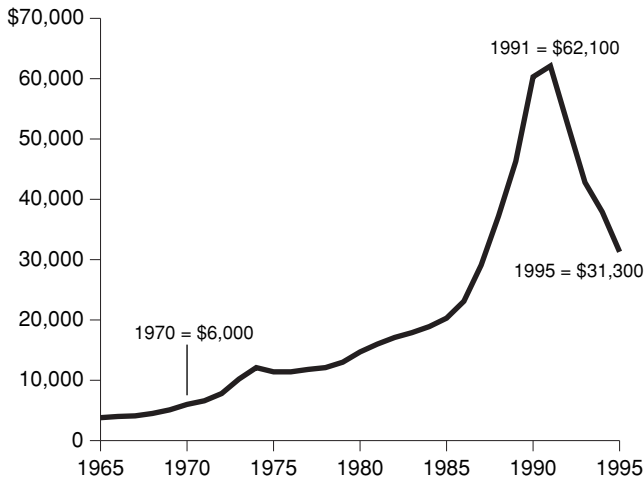
At the same time, the IMF’s “structural adjustment” policies and other policies imposed by the creditor banks, greatly weakened the national governments, collapsed living standards of the majority of the population, and in that way contributed to the power of the drug-mafia and terrorist insurgency movements. In fact, as the term “narco-terrorism” suggests, there is a very strong connection between the drug mafia and certain insurgency movements in the Ibero-American countries. Together, these processes acted to weaken and destroy the resistance of national institutions against the continued looting of their countries under IMF control.

Some economists, who helped to design and carry out the IMF policies in Ibero-America, were well aware of these facts. One example is Harvard economist Jeffrey Sachs, who

FIGURE 23

Japan's urban real estate price bubble

(urban real estate prices, \$ per m²)



Sources: Japan Ministry of Finance, Bank of Japan, *Japan Statistical Yearbook*.

later became a leading promoter of shock therapy in the former Soviet Union. One of Sachs's early successes was his work as an economic adviser to the Bolivian government, where he practiced a form of shock therapy as a cure for inflation. Sachs's policies were indeed successful in reducing inflation, but they led to a severe collapse of production and employment—except in the sector of illegal drugs. Sachs himself wrote that his recommendation to close down numerous state-owned mines, helped to build up the drug economy: Left with no other source of income, many of the unemployed mine workers had no alternative, but to go to work in coca production. This true story illustrates a general characteristic of the global financial cancer: The growth of the cancer is fed by a process of self-destruction or auto-cannibalization of the moral and physical substance of society.

The crash of October 1987, globalization, and shock therapy in Russia

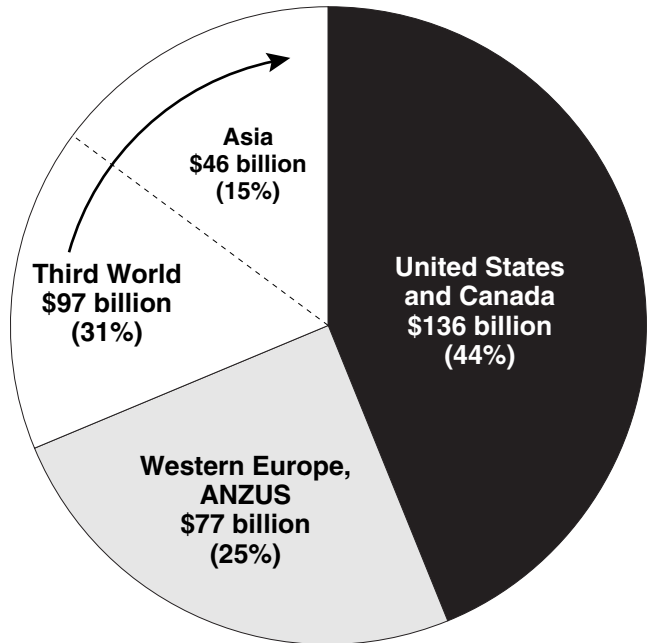
On Black Monday, Oct. 19, 1987, the Dow Jones Industrial Average collapsed by 508 points, the largest fall in history. This event should have been a signal, to reverse the policies which had led to the speculative bubble, to return to the pre-1966 emphasis on physical economy, and to carry out a global financial and monetary reform.

Unfortunately, no significant such actions were taken, and the financial cancer went into a new stage. On the one side, a new form of speculation, "financial derivatives," began to take a dominant position in world financial transactions. On the other side, the search for additional flows of income to feed the bubble became more and more desperate.

FIGURE 24

Where Japan put its money: foreign direct investment (FDI), 1951-90

(billions \$)



Cumulative global total = \$311 billion

Sources: Japan Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

Indeed, the fever pitch of looting of industrial assets in the United States and other countries through junk bonds and leveraged buy-outs, reflected the fact that the existing flows of monetary profits were no longer sufficient to sustain the speculative bubble. One sign of this was the collapse of the junk bond bubble in 1989, following the bankruptcy of the giant Campeau company. In spite of repeated attempts by the U.S. Federal Reserve to increase liquidity by lowering interest rates, the collapse process in the United States continued unabated. By 1990, some of the most famous American companies had gone bankrupt, including the Wall Street investment company Drexel Burnham Lambert; the airlines TWA, Pan Am, and Continental; and banks such as the New England Bank. Another aspect was the trend toward collapse of real estate prices in the United States and other countries, leading to a series of crises in the banking system as a whole.

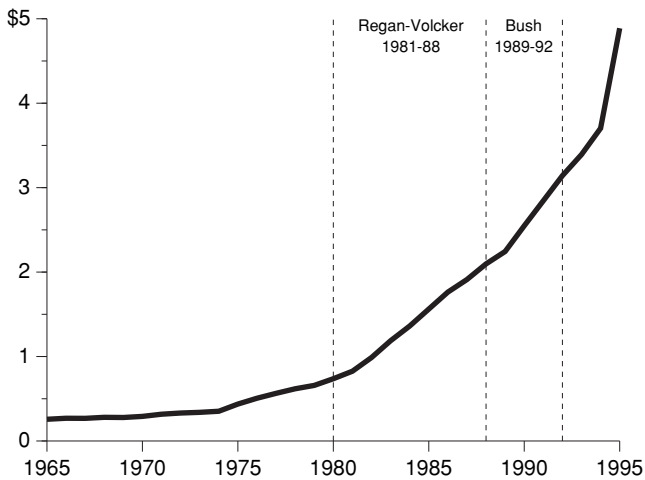
The pressure to open up new sources of income to feed the bubble, became more and more the determining factor in international policy.

1. Japan was pushed to pump more money into the U.S. financial markets. Following the October crash of 1987, the Japanese Central Bank continually lowered interest rates, encouraging money to flow into U.S. Treasury bonds and other

FIGURE 25

Don Regan and Paul Volcker create the U.S. national debt

(total U.S. national debt, trillions \$ at end of year)



Sources: IMF, U.S. Treasury.

U.S. investments. This contributed significantly to holding the dollar stable through the U.S. election year 1988.

2. Another reaction to growing pressure from the bubble, was to force through globalization of the world economy as fast as possible, including radical liberalization of currency, capital, and commodity markets, thereby removing all remaining barriers to the metastatic spread of the financial cancer. This was the reason for the rush to conclude the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT), and especially to force through a radical liberalization of world agriculture, thereby opening up the prospect of enormous additional income flows through the multinational companies that dominate world food trade.

3. An additional element was the policy of radical privatization of state-owned industries and infrastructure: This policy had been applied in Great Britain already at the beginning of the 1980s, by Prime Minister Thatcher. But the big breakthrough in privatization internationally came in Ibero-America ten years later: Revenues from the sale of state assets there soared from \$1.4 billion in 1989, to \$7.3 billion in 1990, to \$18 billion in 1991. Most of this came from Mexico; later, increasing amounts came from Argentina, Brazil, and others. Although the income from liquidation of state assets was small compared to the foreign debt of Mexico and the other countries, it helped to stabilize the debt bubble at a point where the real physical economy of the Ibero-American countries was sinking into depression.

A much larger potential source of income for the global financial bubble, however, was provided by the collapse of the Soviet Union and the opening up of the eastern European

markets. The decision as to what kind of economic policy would be applied in those countries, became a crucial issue of statecraft.

Speaking at a news conference in Berlin on Oct. 12, 1988, LaRouche forecast the collapse of the Soviet Union and the imminent reunification of Germany. He emphasized the decisive role that a reunified Germany should play in the economic reconstruction of eastern Europe. Over the following year, LaRouche and his collaborators drew up a comprehensive policy to launch an “economic miracle” in eastern Europe, based on large-scale investments in high-technology transport, energy, water, and communications infrastructure. According to this “Productive Triangle” program, East and West Europe would be integrated by a network of infrastructure corridors, centered on new, high-speed rail links. The key to realizing this policy, LaRouche emphasized, would be a reform of European banking and finance policy, along the lines he had originally proposed for the European Monetary System in 1978-79.

LaRouche warned: “Up to now, Europe and Japan have managed to shield themselves from the insanity, which has governed the financial policy of the U.S.A. and Great Britain for the past 25 years. But now the point is being reached, at which the collapse of the Anglo-American and international financial system, together with the crisis of the Soviet system, will produce an unavoidable depressive effect on Europe, Japan, and other regions. If the Europeans and Japan continue to hold onto the present form of banking and finance, then there will no longer be any island of stability. The general collapse into a global depression will be worse than anything this planet has experienced during the present century.”

In the crucial years 1989-91, there was considerable potential support for the “Productive Triangle” in both East and West Europe. LaRouche’s warning was echoed, in part, by Alfred Herrhausen, head of Germany’s largest bank, Deutsche Bank. Herrhausen was sharply critical of IMF policies and the idea of shock therapy for eastern Europe. Instead, he recommended that Germany’s state bank, the Kreditanstalt für Wiederaufbau, which played a crucial role in the reconstruction of West Germany after World War II, should be used as a model for the establishment of development banks for eastern Europe. Later, in a different way, part of the “Triangle” policy was adopted by the president of the European Commission, Jacques Delors, in his infrastructure plan for Europe.

However, there was also fierce resistance to this policy, especially from Great Britain. As LaRouche emphasized, a new, industrial development boom in Eurasia would mean a complete break with prevailing Anglo-American policies; it would not only interfere with the flow of capital into the financial bubble; just as important, the resulting economic alliance among Germany, Russia, and eastern Europe was seen as absolutely unacceptable to British strategic interests. This was repeatedly stated by Prime Minister Thatcher and other British spokesmen in 1989-90. The British applied all possible

means, including their strong influence with the Bush administration, to sabotage the “Triangle” policy and to impose globalization on eastern Europe and the former Soviet Union.

The main instrument to accomplish this was the IMF and its shock therapy policy, which was implemented in one form or another in Russia and practically all the nations of eastern Europe, starting with the famous “Polish model.”

For the former Soviet Union, especially, the shock therapy policy was practically equivalent to economic suicide. Starting in 1991, it led within a few years to 1) an explosion of hyperinflation, which eliminated virtually the entire savings of the population within a short time, and the subsequent, rapid “dollarization” of the economy; 2) flooding the domestic market with foreign goods, ruining domestic producers; 3) dependence on imports for over 60% of the food supply; 4) transfer of a large part of the nation’s assets into the hands of a small number of super-rich Russians and foreign interests, with a strong role played by organized crime; 5) drastic reduction of the level of education, scientific research, and health services, and the explosion of crime and of mortality due to diseases; 6) collapse of physical production and of investment to 30-40% of pre-reform levels, or less, depending on the production sector; 7) destruction of a large part of the technologically most advanced industries; 8) large-scale liquidation of stockpiles of physical assets (particularly raw materials and processed materials), and their sale on the world market at prices far below their real cost of production; and 9) a huge growth in Russia’s foreign debt.

The disastrous failure of the economic reforms in Russia and eastern Europe, from the standpoint of production and living standards, cannot be explained only on the basis of internal problems left over from the old system in those countries. Unfortunately, from the very beginning, the economic reform in these countries was dictated by the policy of the Thatcher and Bush governments and Anglo-American banking institutions, to feed the financial bubble at all costs. It is difficult to find reliable estimates, but there is no doubt, that the net transfer of wealth from the former Soviet Union to the West, amounts to over \$200 billion over the last seven years.

The German economic crisis, derivatives, and the metastasis of the financial cancer

As LaRouche had warned, the failure to realize the “Productive Triangle” policy ensured that the western European economies would plunge into a major economic crisis. In fact, Germany and France are now suffering from the worst economic crisis since the 1930s.

Relatively speaking, in 1989 West Germany was still a modern, efficient industrial economy — especially compared with the United States and Britain. Six years later, the situation changed dramatically. Between 1991 and 1995, industrial employment in the western part of Germany decreased by 20%. In the machine-tool sector, which was the traditional foundation of West Germany’s industrial strength, employ-

ment declined by 40%. During the same period, industrial employment in eastern Germany dropped by two-thirds; by early 1997, eastern Germany accounted for less than 5% of the industrial output of the whole country. Today, the official unemployment rate is 21% in the eastern part of Germany, and 10% in the western part (the real unemployment is much higher). This is the worst in the entire post-war history of Germany, higher than in the worst period of the 1930s Depression. Meanwhile, the financial situation of the German federal, state, and local governments has deteriorated rapidly. In the attempt to reduce expenditures, the state has greatly aggravated the crisis in the construction sector and other sectors which depend on public investment, thereby increasing unemployment and reducing the tax income even more.

The situation in France and most other European countries is equally serious, and in some respects worse, because of the lower average living standard. The unhealthy state of the French financial system became very clear with the de facto bankruptcy of the largest European bank, *Crédit Lyonnais*, at the beginning of the 1990s (it has been kept from official bankruptcy only by a long series of rescue packages from the French government).

Some people, some experts, have voiced the opinion, that the crisis in Germany is a result of the reunification of the East and West, particularly the high costs of rebuilding the economy of the eastern part. This explanation is not accurate. Under different international circumstances, the reunification would have led to a huge economic boom. The main causes of the crisis have been the following: 1) Most important, Britain decided to use all possible means to weaken Germany and to prevent a process of reconstruction and modernization of Europe in which Germany would have played the central role. 2) Under heavy pressure from the Anglo-American and French side, West Germany agreed to abandon its traditional methods of long-term industrial and infrastructure development, and instead to embrace radical free-trade policies and shock therapy for eastern Germany, eastern Europe, and the former Soviet Union. 3) Investment in eastern Europe and the former Soviet Union collapsed as a result of shock therapy, leading to a permanent drop in orders for German machinery. 4) Traditional markets for East German industry in eastern Europe and the Soviet Union were lost, as a result of the breakup of long-term trading agreements. 5) Germany agreed to abandon its tradition of industry-oriented banking, and to orient instead to the British model. This process was hastened by the assassination in November 1989 of Deutsche Bank’s Alfred Herrhausen, who had resisted pressures to involve Germany’s banking system in the global financial bubble.

With the rapid decline of Germany, together with the growing decay of Japan’s industrial structure under the influence of the bubble economy, the last two relatively healthy industrial economies in the world fell ill.

Meanwhile, thanks to the victories of globalization and the opening up of eastern Europe and the former Soviet Union,



Deutsche Bank's Alfred Herrhausen. His assassination in November 1989 led to the demolition of Germany's traditional industry-oriented banking, and its replacement with British monetarism.

the financial cancer entered a new phase of super-rapid, metastatic growth.

This new stage is characterized by: 1) the rapid growth of “metastases,” in the form of bubbles in the “emerging markets” throughout eastern Europe, the former Soviet Union, Ibero-America, and Southeast Asia; 2) as a result of radical globalization, liberalization, and privatization, a drastic weakening of the ability of most national governments to manage economic and financial processes inside their own countries; 3) the sharp increase in the pirate-like activity of hedge funds and other speculative financier interests, typified by those of George Soros, which have become powerful enough to challenge the governments of entire nations; 4) the growth of a qualitatively new type of speculation in the form of the financial derivatives market, whose size is now larger than the combined Gross Domestic Products (GDPs) of all the world's nations.

The increasingly open, aggressive behavior of the super-speculator George Soros, is one of the typical symptoms of the new phase of the global financial cancer.

Although Soros is often described as a “big American speculator,” he was born in Hungary and received his most important training at the London School of Economics, under the influence of Sir Karl Popper and the radical free-trade philosophy of Friedrich von Hayek. Recently, Soros even proposed reviving the British Empire, as a means to “restore

order” in the world. This is not surprising, given Soros's spiritual affinity to London, and his close association with the British bank N.M. Rothschild (which is also a key center of British intelligence), and the fact that his financial base of operations is the Anglo-Dutch offshore banking centers. Soros has also been a major financier of initiatives to legalize the sale of marijuana and other harmful drugs.

From the very beginning, Soros was one of the key figures setting up the apparatus which carried out shock therapy in the former Soviet Union and eastern Europe. Soros was a major sponsor of the groups of young, radical reformers in practically all those countries, arranging international connections and high-level support for them. He was already connected to Mikhail and Raisa Gorbachov in the late 1980s, and took the lead in promoting the “500 Days Program” of Stanislav Shatalin. Soros played a central role in organizing the international teams which directed the disastrous shock therapy in Russia and other countries.

Soros's activity in connection with shock therapy in Russia and eastern Europe, fits very well with his violent speculative attacks on the currencies of developing nations and even European currencies, and recently also the Hong Kong dollar. Soros is also quite open about using currency manipulation as a political weapon. So, for example, Soros has recently threatened to launch new attacks on the Indonesian currency, unless the government is changed to please him and his friends. He has also threatened China repeatedly.

It is obvious that Soros is not an independent figure. His “miraculous” financial strength—the fact that he is able to mobilize tens of billions of dollars behind his speculative attacks—and his ability to challenge and manipulate governments with impunity, reflect the fact that he is a high-level instrument of the financial oligarchy, and especially of the British side.

It is important to stress, that Soros is not himself the cause or source of the financial cancer. He is more like a virus which attacks a patient, after the patient's immune system has been weakened. In the case of the hedge funds involved in large-scale international currency speculation, the most important questions to ask, are: Who created the conditions under which these kinds of activities are allowed to destroy the economies of entire nations? Is there a relationship between the policy of radical liberalization and globalization of financial, currency, and commodity markets, and a policy to eliminate the independence and sovereignty of nations?

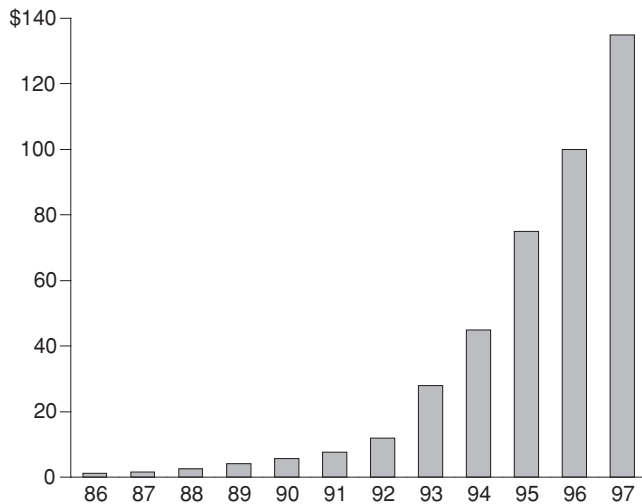
The growing frenzy of Soros, the various hedge funds, and other speculative groups is not merely due to love of power and money, and political motives. Behind it is a much bigger, much more dangerous process going on: the increasing instability of the financial derivatives market—the biggest speculative bubble in human history.

Derivatives contracts became widespread, initially, as a method of insuring against losses connected with fluctuations in currencies and interest rates. During the 1980s, and espe-

FIGURE 26

World derivatives growth: The cancer takes over

(trillions \$)



cially in the second half of the 1980s, derivatives contracts became prime speculative instruments themselves, completely unregulated and carried out mostly “off-balance-sheet.” As opposed to commonplace futures contracts, derivatives do not involve physical goods; they are purely financial contracts in which the two sides make an agreement to carry out a certain financial transaction at a certain future date. Depending on the nature of the derivative, the outcome of the transaction can depend on the value of the exchange rate on a specified date, or of a stock price index, or, in principle, any other parameter. A large part of derivatives contracts are connected with foreign exchange.

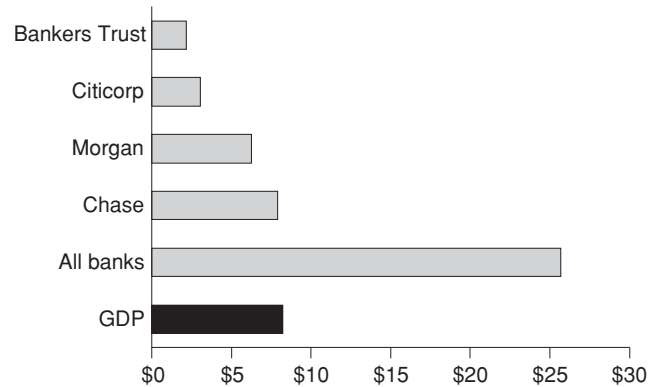
A derivative contract is basically a sophisticated form of gambling. Typically, a “player” will make a large number of derivatives contracts, in the effort to balance out the risks of speculative operations. For this purpose, complex computer programs were developed, permitting the number, scale, and complexity of derivatives contracts to develop in a way that would have been impossible in previous times.

Since 1987, the derivatives market has approximately doubled every two years. The unregulated derivatives market reached a scale which has no precedent in financial history. According to a survey of 67 banks and 12 securities firms in 11 countries, carried out by the Basel Bank for International Settlements, the total value of derivatives contracts held by those institutions at the end of 1995 was \$63.6 trillion. This is several times the combined GDPs of all the world’s nations! (See **Figures 26-27.**) derivatives bubble.] By early 1997, nominal value of derivatives contracts held by United States commercial banks alone, was \$25.7 trillion — more than three

FIGURE 27

U.S. bank derivatives compared to GDP

(trillions \$)



times the U.S. GDP! Many leading banks in the United States, Europe, and Japan have total derivatives contracts of the order of 5-10 times their total assets, and 100-500 times their equity.

Does this mean that the entire world financial system is already de facto bankrupt? Those who defend the use of derivatives often like to argue that the market is essentially a “zero-sum game,” where the total losses and gains among all the “players” balance out on a global level. This purely abstract argument — often used to defend speculation generally — ignores two very essential facts: 1) The gigantic size and rapid growth of the derivatives bubble is based on extremely high ratios of financial leveraging, where a given set of nominal assets becomes the basis of contracts involving many times larger sums of nominal assets; 2) the abstract “zero-sum” does not exist for the individual banks and other institutions participating in the market; as the bankruptcy of Barings Bank and many other cases show, these “players” can easily be driven into default by sudden losses many times larger than their total assets. As a result, even a relatively small disruption or dislocation within the whole, delicately balanced system of derivatives contracts, can trigger a chain reaction of defaults, which would rapidly reach such a huge dimension, that no nation or combination of nations could possibly bring the process under control. The entire world financial system would be destroyed within a very short time. This is why LaRouche has often compared the coming collapse of the derivatives bubble with the detonation of a hydrogen bomb.

LaRouche’s Ninth Forecast

By the middle of 1994, the global financial cancer had clearly grown to the point, where the present financial system was absolutely doomed. Nothing in the world could possibly

save it. The collapse of the physical economy of eastern Europe and the former Soviet Union, the rapid decay of Germany and Japan, and the continuing physical decline of nearly every other economy in the world—with the exception of China and a few other areas—all of this meant, that the possibility of squeezing out significant additional flows of income to support the financial bubble, was coming to an end. At the same time, the bubble itself had gone into a phase of hyperbolic growth, shooting upward toward infinity.

Looking at this reality, we can see how ridiculous it is, to imagine that a global financial collapse could be prevented by improved surveillance, improved regulations, “early warning,” or other “safety systems.”

In reality, only two possibilities remain. Either:

1. Some combination of nations, including a leading role of the United States, for obvious reasons, takes the initiative to reorganize the world financial system, by declaring it bankrupt, and establishing a new system in its place; or

2. An uncontrolled collapse of the existing system will occur, causing a complete destruction of the world economy, as well as virtually every national economy, and a descent into global chaos and war, worse than anything which has occurred in recent centuries.

This, essentially, is the alternative which Lyndon LaRouche put forward in his “Ninth Forecast,” published in *EIR* on June 24, 1994 (“The Coming Disintegration of Financial Markets”).

Since LaRouche’s Ninth Forecast, the world financial system has been hit by a series of “earthquakes” of increasing intensity. So far, the world’s governments have failed to take effective action. The consequences can be seen in the following, brief review of some important events from the time of the Ninth Forecast in June 1994, until the beginning of 1998.

On Dec. 6, 1994, the richest county in the United States, Orange County, California, went officially bankrupt as a result of a loss of approximately \$3 billion in financial derivatives speculation.

At the end of that year, the Mexican crisis broke out. The Mexican currency and financial system collapse, and a default on debt payments, were prevented only at the last moment, by an unprecedented rescue package of \$50 billion from the United States and the IMF.

Two months later, at the end of February 1995, the British bank Barings went bankrupt, as a result of losses in derivatives.

In May 1995, an “earthquake” occurred in the Japanese financial system. By the summer 1995 a secret agreement was reached between the U.S. Federal Reserve and the Japanese government, providing for \$500 billion of emergency assistance to the Japanese banking system, in case the collapse of Japanese banks would threaten to trigger a chain reaction in the international financial system. The \$500 billion guarantee was especially designed to reduce the danger that Japanese banks might begin to liquidate their holdings in U.S. Treasury

bonds, causing a financial panic inside the United States and possibly triggering a collapse of the entire world financial system. The existence of the U.S.-Japan emergency agreement was only reported much later in the press. A sudden, explosive crisis in the Japanese banking system was prevented, but the financial situation there continued to worsen, step-by-step. The total amount of bad loans in the Japanese banking system was estimated at \$1,000-1,200 billion.

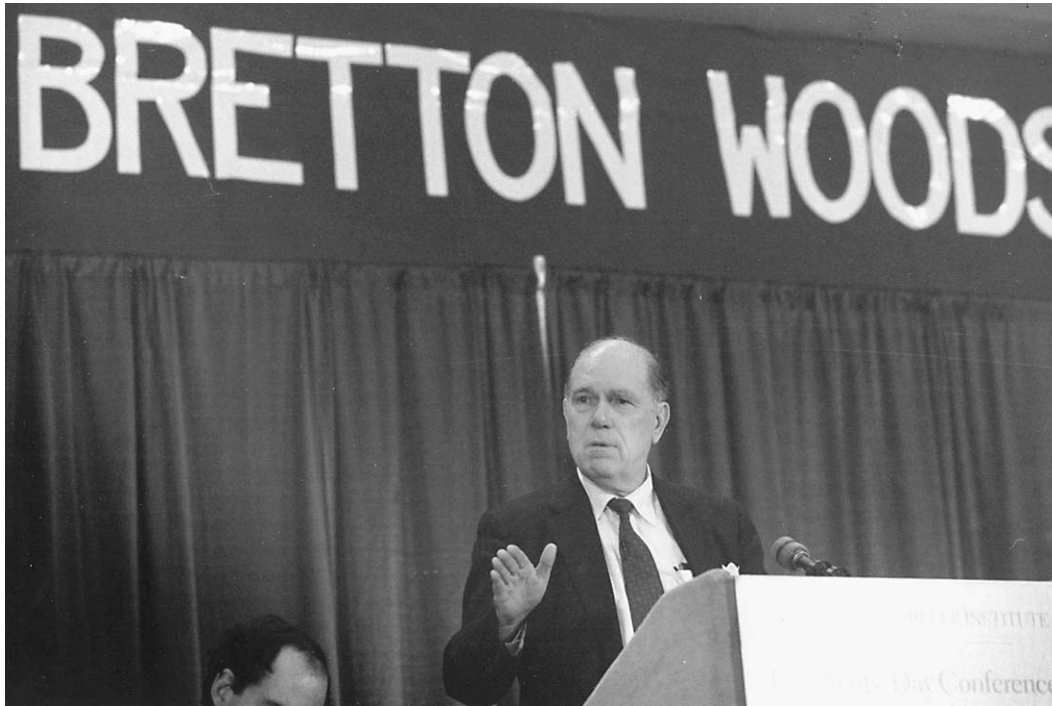
In June 1995, the danger of a systemic crisis of the world financial system was discussed at the economic summit meeting of the Group of Seven in Halifax, Canada. Instead of initiating a reorganization of the financial system, the decision was made to reflate: to inject large amounts of new liquidity into the markets, by lowering interest rates to extraordinarily low levels. In fact, from the summer of 1995 on, central bank interest rates reached historic lows. In Japan, the interest rate was lowered to 0.5%, and kept there throughout 1996 and 1997. In spite of this, the situation of the Japanese banks continued to deteriorate.

Meanwhile, however, the reflation policy led over the following two years to a spectacular growth of the values of stocks on most of the world’s markets. In the United States and some other countries, the stock market expansion created euphoria, encouraging millions of families to invest their savings into stocks and mutual funds, and even to take out large bank loans in order to invest into the stock market. At the same time, however, many indications showed that some well-informed investors, particularly connected with the British and continental European oligarchy, were quietly and gradually pulling their money out of stocks and financial paper. Instead, they were investing in “hard” commodities, such as precious metals and raw materials—anticipating a future collapse of the markets.

During this same period, euphoria was spread around the world concerning the “emerging markets,” and particularly the “Asian Tigers.” In late 1996, LaRouche warned against this euphoria, and pointed to the danger of a financial collapse in Southeast Asia. He directed his collaborators to assemble documentation of the real situation in those countries. Their report, which was published in *EIR* on Feb. 7, 1997, concluded that the physical economy of the “Asian Tigers” was weak, and their financial markets were being pumped up into a bubble. The report warned that a Mexico-style crisis could occur in Southeast Asia.

In May 1997, George Soros and other speculative fund operatives launched a series of attacks against the Thai baht. In June, LaRouche voiced the warning that a “very big crisis” was coming.

By summer 1997, the euphoric atmosphere began to evaporate fast. The currencies of Thailand and Indonesia were hit by severe speculative attacks, leading to major devaluations. During August, the Asian stock markets fell nearly continuously, while the New York Stock Exchange experienced wild oscillations.



Lyndon H. LaRouche, Jr.: Apart from vague statements by some other economists, only LaRouche has clearly defined what a "New Bretton Woods system" should be, and what must be done to save the world economy from catastrophe.

In September 1997, Lyndon LaRouche's wife, Helga Zepp-LaRouche, visited India and China. In presentations to several economic institutes, she forecast that a financial crisis of enormous dimensions was about to occur in Asia, which would have profound effects for the entire global situation. She pointed especially to four elements: 1) the likelihood that "Mexico-style" collapses would break out simultaneously in several Asian countries; 2) the high probability of a new phase of the Japanese banking crisis, and the impact of losses due to Japanese loans to other Asian countries; 3) the likelihood that large investment funds, caught by a currency crisis, might quickly pull out of Southeast Asian markets; and 4) the effect of forced liquidations of assets by investors in one market, in order to cover losses in another market. Mrs. LaRouche warned, that the interaction of these four elements would lead to a crisis of unprecedented dimensions, and that the crisis would come very soon, almost certainly in October.

A 'New Bretton Woods' is the only way out

The crisis which Mrs. LaRouche had warned about, actually did explode in late October. During the days following Oct. 20 ("Black Monday"), people everywhere got a little taste of what a sudden, global financial collapse could be like. A global chain reaction of market crashes was only avoided by massive intervention from the Federal Reserve and big U.S. corporations, to prop up the New York exchanges and prevent an uncontrollable panic. But the Southeast Asian countries became trapped in a vicious spiral of destruction of their currencies, financial systems, and national economies. That process has continued without interruption until now, in

spite of an unprecedented series of IMF "rescue packages": \$20 billion for Thailand, \$45 billion for Indonesia, and \$57 billion for South Korea.

Meanwhile, the Japanese banking crisis continued to deepen. In November 1997 came the bankruptcies of the Hokkaido Takashuho Bank and Yamaichi Securities. On the same day, Japanese Prime Minister Ryutaro Hashimoto announced the biggest official rescue package in banking history — \$500 billion. The purpose, he said, was to prevent the Japanese banking crisis from leading to a world depression. Since then, however, the crisis has not stopped. A bottomless "black hole" has appeared in the Japanese financial system, which swallows up all money put into it, without ever filling up.

But, is the Asian financial crisis just an Asian crisis? For those who have studied the 30-year history which we have reviewed above, the answer is clearly negative: This is a world crisis, whose symptoms happened to break out first in the Asian region. Remember, from the very beginning until today, the Japanese bubble economy has been intimately linked with the bubble in the U.S. financial system. So also was the policy of pumping up the world financial markets with credit at nearly zero interest rates, in which the Japanese central bank played a key role. The huge flood of short-term foreign investment into "emerging markets," which created most of the "miracle" of the "Asian tigers" in the years leading up to summer 1997, was not a healthy phenomenon; it was a manifestation of the metastatic phase of the global financial cancer.

In fact, it has become very clear, that the presently existing financial institutions, including the IMF and World Bank, can do nothing to stop the crisis from exploding again and again,

in ever more disastrous forms. The IMF policies, applied to the Southeast Asian countries, are destroying the economies of those nations and creating massive social instability; at the same time, the financial crisis has not been solved at all, but is actually developing toward a new explosion. This fact is broadly recognized among the leaders of Malaysia, Indonesia, and other countries.

Since the beginning of 1998, Lyndon LaRouche has repeatedly warned, that the policies being followed by the IMF, the U.S. Federal Reserve, and the Japanese government, to try to control or solve the crisis, threaten to unleash a process of hyperinflation in the world economy.

Speaking at a conference held on March 18 in Washington, D.C., LaRouche compared today's IMF policies to the Versailles Treaty after World War I, which led to the hyperinflationary crisis in Germany in 1921-23 and eventually to World War II. As LaRouche pointed out, at the time of the Versailles Treaty, the British economist John Maynard Keynes had predicted quite accurately what the effect would be. In spite of the warnings of Keynes and others, the Versailles policy was adopted, and the world was put on the track to disaster. LaRouche stated:

"Today, what is happening in Japan, and in the New York Federal Reserve System, is a piece of insanity, precisely like that against which Keynes warned in the Versailles Treaty. We are back to Versailles. The arbiter of the new Versailles, is a group of lunatics called the IMF bureaucracy. We have countries whose economies are collapsing. The IMF comes in and says, 'What you must do, is pay these creditors by shutting down your economy.' That was what they said in Korea, that is what they said in Indonesia, that is what they said in Malaysia, that is what they said in the Philippines, that is what they said in Thailand. That is what they said in Korea. Under these conditions, *none of these economies can ever recover*. None. *This is clinical insanity*. You can not find any basis under which financial reorganization of the type proposed by the IMF and accepted by most nations, can succeed. These kinds of proposals are simply the insanity of Versailles, re-enacted many times over. . . .

"And in the United States, we're pumping up a balloon, in terms of the financial markets, through hyperinflationary methods. The printing of money, to steer it into financial markets, where it is heavily financially leveraged, and thus results in an ascending balloon, in terms of the stock market prices. This creates the spectacle of a man clinging to a balloon, and without an oxygen flask, reaching the 60,000-foot level and going higher. He's going to suffocate and die, if the balloon doesn't explode. And, that's what we're doing."

Meanwhile, new crisis-spots are developing, in Russia, Brazil, and other some areas, which could become at least as dangerous as the Asian crisis of October 1997-January 1998.

More and more, people are realizing that the present financial system, including the IMF and related institutions, has come to an end. The voices are becoming louder, which

are calling for a fundamental reform, a "New Bretton Woods." Inside the U.S. government, for example, Treasury Secretary Robert Rubin speaks about a "new architecture" for the world financial system. Japan's Vice Finance Minister for International Affairs, Eisuke Sakakibara, has spoken directly about the need for a new international financial agreement along the lines of the original Bretton Woods System. In Europe, the same theme has been touched upon by several financial experts and political figures. Even George Soros has picked up this idea, and is trying to twist it around for his own evil purposes.

Apart from vague statements, only Lyndon LaRouche has defined clearly what a "New Bretton Woods" should be, and what must be done now to save the world economy from catastrophe in the coming period. In his March 18 speech in Washington, LaRouche said:

"There are three leading topics of interrelated financial, monetary, and economic policy-shaping, which must be considered as crucial for a true solution to the global, systemic crisis. . . .

"First, the fact that the present crisis is *global and systemic*, rather than *regional or cyclical*, must be acknowledged. . . . Those recent decades' institutionalized changes in policy, which are responsible for a three-decades build-up of the present crisis, especially since August 1971, must be identified, and entirely removed. That is, the changes made since approximately 1966-1967, in the policies of the U.S. government and the British government, the policies which became expressed by the 1967 collapse of the British pound sterling, the ensuing disorders in the dollar, the first step of collapse of the Bretton Woods System in March 1968, and then the collapse of the whole Bretton Woods System in August, mid-August 1971. . . . [Those policies] are the cause of what is today a global systemic crisis. It is not a cyclical crisis, it is not a business cycle crisis, nor is it regional. It is global. The entire system has destroyed itself; and the unravelling, which has taken over three decades, has now brought us to the end point, in which we either *eliminate* those policy changes which were popularized and institutionalized during the past three decades, or this world is not going to survive, in its present form. . . .

"Second, the present, fatally ill global financial and monetary system, must be radically reorganized. It can not be reformed, it must be reorganized. This must be done through the concerted actions of a key initiating group of governments. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority of sovereign governments, not of international institutions.

"The acceptable model for the reorganized international monetary and financial system, is the incontestably superior, successful functioning of the old Bretton Woods System of the 1950s up to 1958-1959, compared to anything existing since those axiomatic changes in direction of policy-shaping were introduced by the United Kingdom and the United States, during the period 1966-1972.

“The required measures include:

- “a) periodically fixed exchange values of national currencies;
- “b) limited convertibilities, as may be required;
- “c) exchange controls and capital controls;
- “d) fostering of necessary protectionist measures in tariffs and trade regulations; and
- “e) outlawing of the creation of markets which conduct financial speculation against targetted currencies.

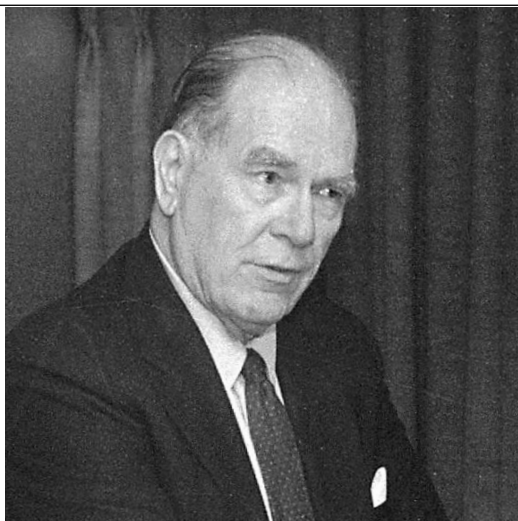
“Third, as measured in physical instead of the usual monetary terms, the world’s economy is presently functioning at levels of negative free energy, levels which are presently far below a breakeven point. The current levels of net physical output are insufficient to prevent the existing populations and economies from continuing to collapse into a spiral of accelerating general physical-economic contraction, and ultimate physical collapse.

“Unless this shortfall in per-capita physical output is reversed and soon eliminated, no financial and monetary system, however otherwise sound in design, could function. No mere medication could save a man who is being starved to death. There is no financial and monetary system which could possibly succeed, unless it were accompanied by a general program of forced physical-economic recovery, a program which must rapidly approach and reach the levels of sustain-

able, positive free-energy ratios. This means a recovery analogous in important respects to the Franklin Delano Roosevelt recovery in the United States, and on a global scale.”

LaRouche emphasized, that the key to a real recovery of the world economy, in terms of physical economy, is to realize large-scale infrastructure projects throughout the world. These projects provide a basis for expanding cooperation and trade between industrial and developing nations. They should employ the most modern technologies, and be used not only to provide the essential transport, energy, water, communications, and other infrastructure to underdeveloped areas, but also to stimulate the growth of modern, capital-goods industries and the development of new technologies in every country. The Eurasian Land-Bridge, with its connections throughout Europe and Asia, as well as Africa, would be a centerpiece of that effort. For that purpose, the policies and methods of the American System, which were pioneered under Abraham Lincoln and Henry Carey, to build up the U.S. infrastructure and industry in the second half of last century, are the best existing model for what must be done on a global scale today.

The crucial issue which LaRouche raised, however, is the question of leadership: Will the nations and governments of the world find the political will and determination, to make sure that the necessary measures will be realized? That is the challenge, which we now leave for our readers.



LaRouche ON RADIO

*Interviews with Lyndon LaRouche
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Clinton affirms America's partnership with Germany

by Rainer Apel

During his visit to Germany on May 13-14, President Bill Clinton revived his 1994 proposal, that Germany and the United States work most closely together, since "nothing is impossible" if they do so. With this, a monkey wrench has been thrown into the British policy for a "fortress Europe," at loggerheads with the United States.

Clinton's visit has succeeded in sweeping away political misunderstandings and economic tensions between the United States and Germany, before they could muddy the waters of transatlantic relations. The danger that the stubborn commitment on the part of some European elites, to turn the Maastricht Treaty-defined Europe into a euro bloc—as certain geopoliticians in the City of London hope to do, to undermine the dollar and America's leading role—has been eliminated, through the personal agreement between Chancellor Helmut Kohl and Clinton. "I am strictly opposed," Kohl said in a speech at the Berlin Schauspielhaus, "to lifting trade barriers within Europe, in order then to strengthen them on our external borders." He added unequivocally, "With us Germans, there will be no fortress Europe."

Clinton's visit was not in exactly the same spirit as July 1994, when he offered reunified Germany a new strategic partnership with America to develop eastern Europe and the states of the former Soviet Union—which the British media interpreted as Clinton in effect terminating the Anglo-American special relationship (see *Documentation*, p. 46). However, this visit did represent the closest point in the relationship between Washington and Bonn since that time. This is of great importance, because over the last few years, doubts have been raised and, from certain quarters, even deliberately spread, as to whether the postwar friendship of the Americans with the Germans would endure into the 21st century.

Clinton, unfortunately, has had to recognize in the four years since 1994, that Kohl and the German elites are not ready to let their own ties to London be damaged by their

relations with Washington. Kohl was not prepared to sacrifice Maastricht Europe, and he avoided making a clear decision in favor of the United States. However, following the recent debacle in Brussels (where, for example, a luncheon meeting to decide on the head of the European Central Bank broke down into an 11-hour fight), and his disappointment with British Prime Minister Tony Blair, Kohl has become more amenable to meeting Clinton halfway. Clinton, for his part, acknowledged the decision of the European Union and of Bonn, for the euro, and now has offered the Germans close collaboration in the context of a "new Euro-Atlantic cooperation." This is supposed to stress America's great interest in Germany, without, however, ruffling the other Europeans. In essence, it remains the case, that Washington will consider Berlin the first address in Europe.

A proud history

It is this context that one should understand the numerous references, in the speeches delivered during Clinton's visits to Berlin, Potsdam, and Eisenach, to the long history of German-American relations: from the first treaty of Prussia with the just-established American Republic more than 200 years ago, through the American recognition of the first republican parliament at the Frankfurt St. Paul's Church in 1848 (which was later defeated), to the Berlin air lift, and the several German-American institutions which have been established since the end of the war, and especially since reunification in 1990. The intervention of American industry in eastern Germany, about 15 billion deutschemarks (almost \$10 billion) worth, for starters, is considerable. And, on the other hand, one out of every 12 U.S. jobs depends on the growing German and other European investments in the United States, in recent years, as Clinton emphasized in his Berlin theater speech. Kohl also reiterated in Berlin that a substantial American military presence should remain stationed in Germany.



President Clinton speaks at the Berlin Schauspielhaus, May 13, 1998. His visit to Germany has created the foundation for closer U.S. strategic cooperation with Europe's most important power—to the dismay of British geopoliticians.

These historical, economic, and military ties are the pillars of the “German-American cooperation in the next century,” Clinton proclaimed in Berlin, Potsdam, and Eisenach. This is something to build on, perhaps not so rapidly as would have been the case had Kohl accepted Clinton’s 1994 offer instead of Maastricht, but nonetheless, it is a foundation for significantly closer strategic cooperation between Berlin, the old and new capital of Germany, and Washington, than has been possible to date. Clinton, in any case, views reunified Germany as the most important economic and military partner of the United States in Europe, and American diplomats, such as U.S. Ambassador John Kornblum, have repeatedly stressed recently, that it is in America’s interests for Germany to be politically and economically even stronger.

Despite the fact that this may create discomfort in other European capitals (especially London), and even in Bonn, Clinton holds to the conviction that Germany’s role in Europe and the world must become much stronger, if the United States is to successfully combat the numerous economic and political global crises—from the Balkans to eastern Europe to Asia. This was stated as such in Berlin. Without an economically powerful and politically stable Germany, there can be no stable Europe, East or West, and, ironically, Germany’s responsibility in an unstable Maastricht Europe will have to grow, in order for a catastrophe to be averted. It is to be hoped, that the German elites see it in this light, particularly since Clinton has thus encouraged them again.

In his Berlin theater speech, Clinton said that now it is a question of accomplishing the unfinished tasks of 1989, especially with reference to eastern Europe. “I call on our

nations to summon the energy and the will to finish the work we have started, to keep at it until every nation on the continent enjoys the security and democracy we do, and all men and women from Seattle to Paris, to Istanbul to St. Petersburg, are able to pursue their dreams in peace and build an even better life for their children. This is the opportunity of generations. Together, we must seize it. We must build a Europe like Germany itself; whole and free, prosperous and peaceful, increasingly integrated and always globally engaged,” Clinton said. He stressed that this task is to be fulfilled through Germany assuming a leading role.

Clinton said he was completely aware, that there were “obstacles” in the rest of Europe, because of the strength of the deutschemark and the German economy. But, if one compares Clinton’s statements with the malice expressed in the British press regarding the economic problems or other weaknesses in Germany, one sees how differently Washington and London view Germany.

Industrial cooperation

While economic issues were on the margins of the diplomatic events in Berlin and Potsdam, which were organized in celebration of the 50th anniversary of the Berlin air lift, they were at center stage when Clinton and Kohl visited Eisenach. Both emphasized the importance of the fact that the United States is the biggest industrial investor in the eastern part of Germany, thus securing 60,000 highly skilled jobs, and that the Opel factory in Eisenach is currently the most modern production unit of the parent firm, General Motors, in the world.

Clinton said that the decision to become engaged in West

Germany and Berlin at the end of the war, was the best decision the United States could have made, because thus, those who had been enemies were transformed into friends. Today, the Germans are the best friends of the Americans and vice versa, he said. Kohl picked up on this, recalling once again, that German reunification had been contested by other Western “partners” of Bonn, but that the Americans stood at the Germans’ side, making reunification possible.

The visit to Eisenach was in fact planned to underline the United States’ serious commitment to productive labor in eastern Germany. Kohl said that he had tried in vain to convince then-British Prime Minister Margaret Thatcher that it was worthwhile to invest in the eastern German labor force, because it, like the German labor force in the West, had been based on the experience of three or four generations of advanced skills. She simply rejected it, Kohl said. Clinton replied, that he had been interested since his tenure as Governor in Arkansas, in industrial concerns, and wanted to speak with the Opel factory workers in Eisenach, because he wanted to gain “a personal impression” of the work spirit and technology, which have been so successful there.

Clinton is very popular among the citizens of eastern Germany, more so, at the moment, than the German Chancellor. The simple fact that a crowd of 30,000 people gathered in the town square of Eisenach, the Marktplatz, in order to catch a glimpse of the American President, shows this. If one takes this, and the positive aspects of German-American relations over the past 200 years, one is reminded of Clinton’s famous words in 1994, at the Brandenburg Gate: that nothing is impossible if Germans and Americans work together forever. Looking at eastern Europe, Russia, Asia, and other parts of the world, whose economies must be built up, Germans and Americans should respond to the impetus given by Clinton, and engage jointly in industrial projects worldwide. This would channel massive amounts of capital into productive projects, and hem in speculation. What is possible in Eisenach, must also be possible elsewhere.

Documentation

Clinton speaks in Berlin on U.S.-German friendship

The following are excerpts from the President’s address at the Schauspielhaus in Berlin on May 13, as transcribed by Federal News Service.

... I am delighted to join all of you in the historic heart of free and unified Berlin. Fifty years ago, the United States and its allies made a commitment to the people of Berlin. It began

with the heroic airlift of 1948, continued through the showdown with Soviet tanks at Checkpoint Charlie in 1961 and includes nearly 100,000 American soldiers who defended this city over the course of 40 years and grew to love its people. It lasted until East Germans bravely reached out across the Wall and tore it down, thus freeing all of us to make real a Europe we had only dreamed of, an undivided continent of thriving democracies where states deal with each other not through domination by dialogue; where societies are governed not by repression but by the rule of law; where the only barriers people face are the limits of their own dreams. Today, Berlin is a symbol of what all Europe is striving to become. . . .

In 1994 I came to Europe to support your unity and to set forth a vision of partnership between America and a new Europe rooted in security cooperation, free markets, and vibrant democracies. I asked all our countries to adapt our institutions for the new time, to help the new market economies of Europe’s eastern half to thrive, to support the growth of freedom and the spread of peace, to bring to peoples of the Euro-Atlantic community more closely together.

On all fronts we have made remarkable progress. NATO is taking on new missions and new members, building practical ties with Russia and Ukraine, deepening cooperation among the 44 nations of the Partnership Council. The European Union is growing, and America and the EU are working together to tear down more trade barriers and strengthen new democracies. The OSCE, Europe’s standard bearer for human rights and freedoms, is now helping to make those standards real from supervising elections in Albania to monitoring arms reduction in Bosnia.

With support from America and the European Union and especially with Chancellor Kohl and Germany’s far-sighted leadership, new market economies are taking root all across this continent. Russia has privatized more property than any nation in this century. Poland and Estonia are among Europe’s fastest-growing economies. Since 1991 U.S. and EU investment in Central and Eastern Europe has quadrupled, and trade has doubled. . . .

With all this progress, as the Chancellor noted, many challenges still remain to our common vision: the ongoing struggles of newly freed nations to consolidate their reforms, the unfinished work of bringing Europe’s eastern half fully into our transatlantic community, the fear of those who lack the skills to succeed in the fast-changing global economy; the voices of hatred, intolerance and division, on both sides of the Atlantic, whether masked in patriotism, cloaked in religious fervor, or posing as ethnic pride; Bosnia’s fragile peace, Kosovo’s volatility, Cyprus’s stalemate; the dangers that all our nations face and cannot defeat alone; the spread of weapons of mass destruction, organized crime, environmental degradation.

And so, my friends, 1998, no less than 1989, demands our boldness, our will and our unity. Today, I call on our nations to summon the energy and the will to finish the work we have started, to keep at it until every nation on the Continent enjoys

the security and democracy we do, and all men and women from Seattle to Paris, to Istanbul to St. Petersburg, are able to pursue their dreams in peace and build an even better life for their children.

This is the opportunity of generations. Together, we must seize it. We must build a Europe like Germany itself; whole and free, prosperous and peaceful, increasingly integrated and always globally engaged.

If you will forgive me a personal observation, based on my service in the last five and a half years, I must note that this magic moment in history did not simply arrive; it was made, and made largely by the vision and determined leadership of Germany and its Chancellor for nine years.

Consider the historic changes you have wrought. You committed Germany again to lead in a united Europe, this time through cooperation, not conquest. You took the risk of pushing for the European Monetary Union, knowing there would be bumps along the way, especially with the strength of the deutschmark and the power of your own economy. You shouldered the enormous cost of your own reunification to make sure the East is not left behind and to ease as much as possible the unavoidable dislocation and pain that goes along with this process. And you have done this while also taking on the challenge that West Germany must face in making a difficult transition to a global economy, in which preserving opportunity for all and preserving the social contract is a challenge even for the wealthiest nations, as we see in America every day.

All this you have attempted to do, and largely achieved, in nine short years.

Though many German citizens may be uncertain of the outcome and may not yet feel the benefits of your farsighted, courageous course, you are clearly on the right side of history. America honors your vision and your achievements, and we are proud to march with you, shoulder to shoulder, into the new millennium. We thank you. . . .

Second, we must do more to promote prosperity throughout our community. Transatlantic commerce, as the Chancellor said, is already the largest economic relationship in the world, encompassing more than half a trillion U.S. dollars each year, supporting millions of jobs in both America and Europe. . . . Europe's investment in America has now created so many jobs that one of 12 U.S. factory workers is employed by a European-owned firm.

Still, we must face the stark fact that prosperity is not yet everyone's partner. Europe's new democracies confront the daunting challenge of transition to market economies in an age of globalization which, as I have already said, makes it more difficult to preserve a quality of opportunity, a strong social safety net, and a general sense of fairness. We must continue to help these struggling countries, even as those of us in wealthier nations confront our own challenges on these fronts.

America will continue to support Europe's march toward integration. We admire the determination that has made your

economic and monetary union possible, and we will work with you to make it a success. We will continue to encourage your steps to enlarge the EU, as well, eventually to embrace all Central Europe and Turkey.

Our third task is to strengthen the hand and extend the reach of democracy. One important tool is the OSCE. . . .

Now, the secure, the free, the prosperous Atlantic community we envision must include a successful democratic Russia. For most of this century, fear, tyranny, and isolation kept Russia from the European mainstream. But look at the future Russians are now building. And we have an enormous stake in their success.

Russia is literally re-creating itself, using the tools of openness and reform to strengthen new freedom and restrain those who abuse them, to ensure more competition, to collect taxes, fight crime, restructure the military, prevent the spread of sensitive technologies. We must support this Russian revolution.

We will redouble our efforts with Russia to reduce our nuclear arsenals, to lower the limits on conventional forces in Europe, to fight the spread of materials and technology for weapons of mass destruction, to build a partnership with NATO in practical ways that benefit all of us, to develop the ties between our people that are the best antidote to mistrust. And we must not forget Ukraine, for it, too, has the opportunity to reach both east and west and be a great force for Europe's peace, prosperity and stability. We should encourage reform and support it. The moment in Ukraine is historic, and it is not a moment to lose.

Our fourth and final task is strengthening our global cooperation. Let us make common cause of our common concerns: standing together against threats to our security from states that flout international norms to the conflict brewing in Kosovo, from deterring terrorists and organized criminals, to helping Asia restore financial stability, from helping Africa to join the global economy, to combatting global warming. In a world grown smaller, what happens beyond our borders touches our daily lives at home. America and Europe must work together to shape this world.

Now, as we pursue this agenda, there will be times when we disagree. But occasional lack of consensus must never result in lasting cracks in our cohesion, nor should the quest for consensus lure us into the easiest, lowest common denominator solution to difficult, high urgency problems. When the world needs principled, effective, strong leadership, we must rise to the responsibility.

These are our challenges. They are ambitious but attainable. They demand of nations constant unity of purpose and commitment. And they require the support and the courage of our citizens. For without the courage of ordinary people, the Wall would not have come down and the new Europe would not be unfolding. Now it falls to each of us to write the next chapter of this story: to build up from what has been taken down, to cement together what is no longer walled apart, to repair the breaches that still exist among our peoples, to

build a Europe that belongs together and grows together in freedom. Our success in this endeavor will make the new century the greatest that Germany, America, Europe and the world have ever known. This is an effort worthy of the rich legacy of Berlin, the visionary leadership of modern Germany and the enormous obligation we share for our children's future. Let us embrace it with gratitude, joy, and determination.

Clinton's trip in 1994: protests from London

When President Clinton visited Germany in July 1994, EIR reported on his formation of a "unique partnership" with Germany, and on the howls of protest from British commentators about what this signified: a break of the "special relationship" with Great Britain. Here are excerpts from our coverage, and from some British statements.

Edward Spannaus, "President Clinton Forms New Partnership with Germany," *EIR*, July 22, 1994:

President Clinton has formed a new partnership with Germany, oriented toward eastern Europe and Russia, and broken the "special relationship" with Great Britain which has dominated U.S. policy, with disastrous effects, for almost half a century. Clinton's formal announcement of the burying of the old special relationship came during the final leg of his European trip which took him from Riga to Warsaw, then to the Group of Seven (G-7) summit of industrial nations in Naples, and then to Bonn and Berlin.

"The relationship between Germany and America in the last several decades has been truly unique in history," Clinton told a press conference following his meeting with Chancellor Helmut Kohl on June 11. "The Chancellor and I both hold our offices at a moment of historic opportunity. The walls between nations are coming down, bridges between nations are coming up. The integration of Europe, strongly supported by the United States, is well under way." . . .

By allying with a reunified Germany, and his strong endorsement of the Delors Plan for infrastructure development, especially railroads reaching into central and eastern Europe, "Clinton is picking up the policy that *should have been* U.S. policy in 1989 [when the Berlin Wall dividing East and West fell in Germany], and he's trying to push it ahead," Lyndon LaRouche said in the radio interview "EIR Talks" on July 13. "And he pulled off, I must say, a glorious foreign policy success. *Nothing comparable to this has happened since Reagan announced the Strategic Defense Initiative on March 23, 1983; no comparable act.* The Presidency has been a disaster since that time until the present; and, suddenly, Clinton has emerged, as a President, as a major policymaking figure on a global scale. It's really a great day for the United States." . . .

Although the U.S. news media suppressed most of these momentous events, the British press was quick to react. A British reporter at Clinton's Bonn press conference told fellow reporters that Clinton had just "killed off the special relationship." The journalist said he expected there to be panic among geopolitical strategists in London, because Clinton had clearly communicated his desire to "break the umbilical cord with the mother country."

"U.S. Cuts British 'Special Link'; Clinton Turns His Eyes to Germany," was the next day's headline in the London *Guardian*. "Links with Britain No Longer So Important," blared the *Daily Express*. "Clinton Ends the Affair with Britain," said the *Glasgow Herald*. The *Guardian* captured the event quite aptly:

"President Clinton yesterday effectively ended the United States 'special relationship' with Britain, instead offering Germany a unique partnership with the world's leading power in forging a united Europe from the Atlantic to the Urals. . . . President Clinton, on the first day of a two-day official visit to Germany, reduced the U.S.'s special relationship with Britain to a mere sentimental tie with the Mother Country."

British journalist, in a discussion with *EIR*, July 11, 1994:

"Bill Clinton killed off the special relationship with Britain, during his appearance with Helmut Kohl in Bonn today; the special relationship has now formally come to an end," a left-liberal journalist complained to *EIR*. He said there would probably be "panic" among geopolitical strategists in London, and noted that the entire British press corps was preparing a series of "alarmed" articles about what happened in Bonn. "Watch the Tories, they'll be jumping up and down, now that Clinton has confirmed their worst fears, and certified what they see as German domination over Europe."

The journalist said that Clinton was communicating the idea that "we Americans have grown out of our relationship with Britain," and are now determined to "look toward the future," and to form a "special relationship with Germany in terms of Europe," vis-à-vis East and Central Europe and the complex of institutions such as the European Union, NATO, etc. He said: "Clinton was explicit about this 'unique relationship' with Germany, when he used this expression to talk about how the U.S. and Germany had 'more immediate and tangible concerns' concerning eastern Europe. What Clinton called for, in effect, was a 'joint *Ostpolitik* between the U.S. and Germany. . . . He was saying, in effect, 'Germany is taking over the leadership in Europe, and we Americans want to do business with you.'"

David Howell, chairman of the House of Commons Parliamentary Foreign Affairs Committee, Conservative Party, July 12, 1994:

"An American policy which gives undue weight to the obvious geographical fact of German size and dominance, is unhelpful, and shows no understanding of European history."

India joins the nuclear club

by Ramtanu Maitra and Susan B. Maitra

Three underground nuclear tests carried out at Pokhran, the site of India's only other nuclear explosion in 1974, within a span of five minutes on May 11, made India a member of the exclusive nuclear weapons "club." Two days later, two more underground nuclear explosions at the same site brought to an end the series of tests necessary for developing a wide range of nuclear weapons and missile warheads.

The explosions have evoked strong sentiments against India within the world community. The United States, bound by the 1994 Nuclear Proliferation Prevention Act, has already imposed economic sanctions against India, a non-signatory of the Comprehensive Test Ban Treaty (CTBT) and the nuclear Non-Proliferation Treaty (NPT). Similar actions have reportedly been taken by Tokyo and Bonn.

The strategic context

In view of the international excitement over India's nuclear test series, one is strongly advised to take a larger, strategic view at what happened on May 11 and 13 in the Rajasthan desert. India is a democratic country, which soon will have the largest population in the world, and which, like China, possesses a civilizational continuity of more than 3,000 years. Why, therefore, should India not have the sovereign right to develop all technologies—civilian, military, and so-called "dual-use"—which it deems necessary for its economic-social development and national security?

It is appropriate to look at the Indian government's decision to go ahead with the nuclear tests in the strategic context of the so-called Asian financial crisis. For years, India has been pressured by the International Monetary Fund (IMF), the World Bank, the World Trade Organization, and Western governments to "liberalize" its economy, its trade, and, in particular, its financial markets and monetary structures. Equally, India has been under constant and massive pressure to abandon its nuclear weapons program. Had India yielded to this pressure by the "international institutions," had India made its currency fully convertible, had it "radically deregulated" its economy and financial markets, then India today would be in a situation quite similar to that of Indonesia! This other large Asian country, with a population of 200 million, now stands at the brink of financial, economic, and political breakdown.

It should surprise no one, that India reserves the sovereign right to determine itself what is best for India. Therefore, the nuclear tests should not be seen as some sort of "impulsive act" of "nationalist adventurism." Quite the opposite, it seems that the decision for the nuclear test series was soberly considered and carefully calculated.

The French and Chinese precedent

The timing and the technical features of the nuclear tests indicate that India wants to insert itself into the nuclear "club" through a time-compressed series of nuclear tests, and *then* accept the CTBT regime. The simultaneous carrying out of three tests, followed by two further tests within 48 hours, which included a plutonium explosive, a thermonuclear explosive, and a low-yield explosive, indicates that New Delhi has chosen to collect the necessary data, which can come only from a "physical" experiment, within the shortest possible period of time. The data thus accumulated, provide the basis to proceed with computer simulations for manufacturing nuclear weapons and warheads. This approach in one go, instead of carrying out a series of tests over years, was similarly adapted by France and China in the 1995-96 period. The success of India's tests, particularly of the thermonuclear explosive on May 11 and two sub-kiloton tests which provide India the capability to miniaturize nuclear warheads, makes India a candidate to sign the CTBT, which has been signed by all five recognized nuclear-weapons states.

The test came as a surprise to most Indians, and it was widely welcomed across the land. The Bharatiya Janata Party (BJP), the leading party in the recently installed government in New Delhi, had stated in its election manifesto that once in power, it would keep alive India's nuclear option. India exploded a plutonium device at the same site in 1974, under the political leadership of the late Indira Gandhi.

India's objectives

The nuclear tests indicate that after years of deliberation, India has finally decided to put in place a nuclear arsenal to provide security to its population of almost 1 billion people. To the north of India, China has long been a nuclear-weapons nation and has built an impressive nuclear arsenal. To India's west, Pakistan has also developed a nuclear capability, although it has not tested any nuclear device yet, and only re-

cently carried out a number of missile tests with the purpose of developing a delivery system. India, at the same time, has developed a short-range surface-to-surface missile which is being updated now to carry low-yield nuclear warheads. India is also developing a medium-range missile capable of carrying a nuclear payload. These developments, and repeated statements made by various Indian security analysts and government officials, make clear that India has been in the process of developing a nuclear-weapons-based capability for its national security.

In addition to India's regional "threat perception" and national security considerations, most Indian analysts also argue that Delhi's decision to pursue the nuclear option reflects the conclusion that only by breaking the nuclear weapons monopoly of five nations, could India get itself counted as a major power. As of now, India is considered a regional power by most Western analysts, as opposed to China. These tests, and the subsequent development of nuclear weapons, will provide India the necessary muscle to eventually become a global power, not just in population and in economic-technical terms, in the 21st century.

International reactions

The international reaction to the tests is one of alarm and anger across the board. China, which has carried out more than 45 tests and has developed a large nuclear arsenal over the last three decades, officially expressed "serious concern about the nuclear tests carried out by India." Beijing charged that "India's conducting of nuclear tests runs against the international trend," which is to reduce nuclear weapons and ban all tests. It should be noted, however, that Beijing's reaction was basically *mildly negative*, and not altogether unexpected. India and China fought a war in 1962. The undemarcated border, which led to the dispute and border clashes, remains as it was, but China and India have mutually agreed to maintain peace and tranquility along it. The two large nations began economic cooperation in the early 1990s and are now involved in \$2 billion worth of bilateral trade annually. In recent weeks, following installation of the BJP-led government in New Delhi, the Indian Defense Minister has made accusations about China's allegedly continuing hostile posture toward India, even though these claims were toned down later.

In Washington, President Clinton imposed economic sanctions on India following the second string of tests. The 1994 Nuclear Proliferation Prevention Act forces the President to enact sweeping sanctions against non-nuclear-weapons nations which move to develop nuclear weapons. The law calls for cutting off all U.S. government assistance except humanitarian aid; preventing U.S. banks from issuing loans and giving credit guarantees or other financial assistance; prohibiting sale of defense articles or defense services; banning U.S. exports of specific goods and technology, excluding food

and agricultural commodities; and opposing the extension of any loan or financial or technical assistance to India by an international financial institution.

The initial American response following the May 11 tests was less harsh than expected. The statement made by National Security Adviser Sandy Berger is worth noting. When asked whether President Clinton's proposed visit to the subcontinent this fall is still on the agenda, he said: "Our plans remain unchanged. I think it remains important that we continue our dialogue with Pakistan, with India. There is an enormous amount—India, for example, and the U.S. are the two largest democracies in the world—of common interests that we have. But I think we have a better chance of de-escalating or at least showing these kinds of actions if we remain engaged than if we do not." However, the harshness in the American tone increased considerably following the May 13 tests, although the India-U.S. strategic dialogue may continue and President Clinton's proposed visit to India in November has not been called off yet.

In Europe, various nations responded with dismay. Germany froze all aid. Great Britain, despite strong criticism of New Delhi, has refused to go along with the United States in clamping down sanctions on India. International Institute for Strategic Studies chief Gerald Segal strongly condemned India's tests and asked Western nations to label India a "rogue state."

Moscow, on the other hand, assured India that the tests will not change Russo-Indian relations. President Boris Yeltsin expressed "disappointment," however, and has reportedly discussed the matter with the U.S. President.

The responses from Russia and France were, if not supportive of the Indian act, nonetheless highly encouraging for New Delhi. Moscow has even gone to the extent of stating that it would oppose any sanctions against India. France's negative reaction was lukewarm.

There is a pattern like that seen previously in West Asia, where the European countries castigate the United States for failing to remain a vigilant "nuclear policeman," and then, while the United States acts the enforcer, turn around to seize the opportunity to open up wider economic and financial linkages with the "rogue" state at the time of the latter's triumph and adversity.

Damage control

Besides words of assurance, and plain bravado, by India's BJP-led government and its advisers, there is some evidence of a plan of action on the international political plane. As a starter, Prime Minister Atal Behari Vajpayee sent letters to the Group of Eight heads of state, seeking their understanding of India's action. The gist of the letter, as reported in newspapers, is that, considering the dangerous environment, the Indian people need to be reassured and their security interests must be protected. The letter also expressed India's readiness

to consider adherence to “some of the undertakings of the CTBT.”

In the coming days, India will have to control the damage in diplomatic relations with major countries and neighbors, caused by the tests. There are reasons to believe that Washington was aware of New Delhi’s intent. Recently, a high-level U.S. delegation, led by Bill Richardson, U.S. ambassador to the UN, held wide-ranging talks on India’s security matters in New Delhi. Subsequently, Indian Foreign secretary K. Raghunath, was in Washington extending the strategic dialogue with high officials in the Clinton administration. Whether or not the United States was in the know, will remain a mystery, but it is certain that both sides still have enough maneuvering space to search for ways to keep the long-term relationship on the track of improvement. Sandy Berger’s statement is indicative of that.

What now in Pakistan?

Perhaps the most delicate part of the damage control operation involves Pakistan. Pakistan has stated repeatedly that it will sign the CTBT if India does. But, under present circumstances, the pressure on the Nawaz Sharif government to carry out a test, and lessen the nuclear gap with India before signing the CTBT, is mounting. Washington is deeply worried about the domino effect of the Indian tests on the Pakistani side, and can be expected to try its best to stop such a test from being carried out. However, following the May 13 tests, President Clinton claimed that after his talks with the Pakistani Prime Minister, he is no longer sure that Washington can stop Islamabad from carrying out its own nuclear tests.

Pakistan has already made clear that it will try to close the nuclear gap with India. Now that India has shown its capabilities to the full, although lab simulations will enable India to fine-tune the warheads and weapons significantly, Pakistan is expected to do selective tests which would provide it with a nuclear deterrent.

At the same time, it is widely acknowledged that China is Pakistan’s major arms supplier, and a close ally. Because of these equations, the action of New Delhi is bound to set off a whole range of delicate diplomatic activities in the coming weeks. One idea, floated already in New Delhi by security analysts, is based on international responses following the tests. They are urging the government to call Russia and China for a summit of the three major nuclear powers in Asia, and work out a no-first-strike arrangement. In fact, in 1988, India had proposed this to China, but the Chinese Foreign Minister argued at that time that since India was not officially a nuclear-weapons nation, such an arrangement was not possible. Now that this hurdle has been crossed, the concept of a three-nation summit has potential to succeed.

It is imperative that India follow up the nuclear explosions with a number of high-level diplomatic actions. In addition to the three-power summit, it must now sign the

CTBT and continue its strategic dialogue with the United States.

Further, the BJP-led coalition government, which has been mired in internal quibblings, has done next to nothing to alleviate India’s growing despondency in the economic sphere. The acute industrial recession continues, and from preliminary readings, it seems the coming budget will be a harsh one, with increased taxes and less money for development projects, to reduce fiscal deficits. If this is the kind of budget the Vajpayee government is preparing to present to Parliament, it may further accelerate industrial recession and worsen the condition of the physical economic infrastructure, but will please such international financial institutions as the IMF. Any further weakening of the economy, through trade sanctions, for instance, in addition to what the Finance Minister is planning, may quickly turn public opinion against the government.

It is in this light that New Delhi must couple its new-found power with large economic development programs. Immediate large-scale infrastructure investments, integrated with the Eurasian Land-Bridge project, would provide some help to the now-dilapidated physical infrastructure. India can also work toward breaking the sanctions by making offers to foreign investors to bring in improved technology and investment.

**“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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Threat to Pope's life increases after assassination of security chief

by Claudio Celani

On the evening of May 4, the head of the Pope's Swiss Guard security, Col. Alois Estermann, was found murdered in his apartment in Vatican City, together with his wife and a member of his corps, Vice Corporal Cedric Tournay. All three had been shot with a 38 mm "Sig 75" pistol. The three bodies were lying in positions such as to suggest that Tournay had first killed Estermann and his wife, and then shot himself. Such a reconstruction was later supported by the discovery of a letter written by Tournay a few hours before the murder, in which he pointed to an injustice which he allegedly suffered at the hand of Estermann. However, several elements of the evidence conflict with this reconstruction of the murders, indicating that the killer, or killers, could have been other than Tournay.

Estermann's death has created an added danger to the life of Pope John Paul II, in a situation in which there is already a serious threat. As one of Italy's most famous prosecutors, Rosario Priore, told the May 8 issue of *Corriere della Sera*, the Pope's life has often been in danger, but now this danger "is aggravated," especially because in the recent period a renewed threat to the Pope's life has been signalled from many sides. Indicative of the seriousness of the situation, is that CIA head George Tenet had paid a visit to the Vatican last December, to communicate information on that threat which his agency had collected.

Referring to Tenet's visit, Priore stated that it reminded him of "the mission carried out, before the May 13, 1981 attempt against the Pope, by emissaries of the head of the French secret services, who had received information about a possible attempt." Priore's words have to be taken very seriously. He conducted the investigation on the 1981 assassination attempt, when terrorist Mehmet Ali Agca shot the Pope in St. Peter's Square, seriously wounding him. On that occasion, Estermann was unable to prevent Agca from firing his weapon, but he was the first bodyguard to throw himself on the Pope, to protect him from further bullets. Since then, Estermann and Priore collaborated and came to know one another well.

"Estermann's role was essential," said Priore. "He was a person who had been beside the Pope for almost 20 years, he knew deeply his habits, his ways of moving, of acting. In

such cases, between the bodyguard and the protected person a relationship is established, of maximum trust on one side, and of maximum loyalty on the other."

Now, Priore said, "the level of protection, after the death of Colonel Estermann, has deteriorated. The weakening of the security structures providing protection to the Pope is serious. And this occurs exactly when signs of possible attempts are intensifying."

Priore mentioned three major attempts against the Pope's life which were discovered in the course of 12 months: a car-bomb in St. Peter's Square in Rome, at a site where the Pope was scheduled to drive by; a powerful bomb under a bridge in Sarajevo, which the Pope was supposed to drive over, during his visit to the Bosnian capital; the arrest of 14 Algerian terrorists in Bologna last summer, a few days before the Pope visited the city for the National Congress of the Italian Catholic Church. The danger, Priore warned, is going to increase as the celebrations for the 2000 Jubilee approach, which "offer myriad opportunities for a possible terrorist attempt."

To corroborate the picture, the Italian press published an Italian secret service report, warning about an increased threat to the Pope's life from "religious fundamentalist" groups, in the context of the Jubilee celebrations.

Furthermore, on the same day as Estermann's murder, a threat was phoned into the Vatican, claiming that there was a bomb in the dome of St. Peter's Basilica. A security search ascertained that it was a false alarm. Two days earlier, however, a similar threat to the Vatican Museum had forced authorities to evacuate the building, posing the danger that panic could have broken out and some of the visitors could have been injured.

Missing links

Whereas in the hours immediately after Estermann's murder, Tournay's "temporary insanity" seemed to be the motivation for the triple murder, one week later the Vatican "Single Judge," Luigi Marrone, admitted that "there are still obscure elements" in the case.

These elements include:

1. In Estermann's apartment, four glasses were found on

the table, suggesting that there was a fourth person with the Estermanns and Tournay.

2. Neighbors declared that they heard “loud noises,” but not exactly shots, suggesting that the pistol had a silencer. But why would Tournay have used a silencer? And why was it not found?

3. Tournay apparently resented Estermann because Estermann had allegedly “victimzied” him. Why, then, also kill his wife?

4. The scenario presumes that Tournay would have formed the decision to kill Estermann over many days. But one of Tournay’s Swiss friends produced a letter from him, inviting her to Rome during mid-May, for which he had already arranged a hotel room.

The murders in the Vatican resemble, in some aspects, the deaths of Princess Diana and Dodi Fayed. In both cases, an “easy” official explanation, supported by apparently strong evidence, conflicts with much contrary evidence and, above all, political consistency.

Especially suspect is a story circulated by a Berlin daily, and picked up by a Polish magazine, accusing Estermann of having been an agent of the Stasi, East Germany’s secret police. Such a story would even further obfuscate the truth, by providing Tournay with an ostensible moral justification. Above all, if this allegation were true, then the head of the CIA, Italian intelligence, and expert prosecutors like Priore would be totally wrong about their warnings of a threat to John Paul II, because a permanent threat to him had just been eliminated!

Instead, such rumors are reminiscent of the circumstances of the 1981 attempt against the Pope, when U.S. Sen. Alfonse D’Amato (R-N.Y.) flew to Rome and announced, at a press conference, that it was the KGB, and only the KGB, that was plotting to kill the Pope.

Who is threatening the Pope?

In reality, as *EIR* reported in 1981, the “KGB” networks which the evidence showed were accomplices of would-be assassin Agca, intersected a network of drug- and weapons-traffickers controlled by the P-2 freemasonic lodge: a “Western” operation. The center of the P-2 was in London, where most “Islamic” and other terrorists, including those making threats against the Pope’s life, are headquartered.

Why is the Pope’s life threatened? Why would London plot to eliminate the life of a great spiritual leader such as Pope John Paul II?

The answer lies in the character of the Pope’s ministry. Aside from the fact that many aspects of his ministry have a very high “political” profile, such as his ceaseless campaign for a just world economic order, and his attacks on free-market economics and neo-Malthusianism, the Pope has been one of the main forces in opposition to London’s strategy for a “Clash of Civilizations,” e.g., warfare between Christianity and Islam. The Pope has led a successful effort for dialogue among the three great monotheistic religions, Christianity, Judaism, and Islam, and among nations dominated by such religions. A further boost to the Pope’s strategy for reconciliation is the coming “Millennium” encyclical, a paper with which the Pope wants to give directions to Catholics at the beginning of the next millennium, selections of which have been leaked by some press. In the new encyclical, the Pope, according to his collaborators, will give “powerful encouragement to man’s reason,” and will promote the unity of religion and philosophy. There is no place for irrationalism in religion, says the Pope, thus inviting all other confessions to address the issue.

Whoever works to undermine John Paul II’s security, is aiming to destroy his work, and to undermine the continuity of his ministry under his successor.

Propaganda-2 head Gelli flees from house arrest

Licio Gelli, head of the infamous Propaganda-2 (P-2) secret freemasonic lodge, has been a fugitive from Italian justice since at least May 4, when police agents arrived at his house in Arezzo, to take him into custody. Gelli is to serve a jail term, since the appeal of his conviction was denied.

Gelli had been sentenced to an eight-year jail term for complicity in the Banco Ambrosiano failure. Gelli cannot be tried for other, more serious crimes, such as conspiracy, because of the conditions under which he was extradited

from Switzerland. Officially said to be suffering heart disease, Gelli nonetheless has been fully active and, according to sources, is still pulling some strings in the P-2 networks.

Gelli’s most visible initiative has been the launching of several “Lega Sud” (Southern League) projects, beginning no later than 1993, which apparently have not generated strong electoral support. The Southern League groupings, some of which include known Mafiosi, are all part of a British-controlled separatist scheme to break up Italy, which includes Umberto Bossi’s Northern League. One such Southern League formation is led by British-controlled convicted felon Giovanni Di Stefano, and, although connections to Gelli are not proven, Di Stefano’s group is openly financed by “Major Arkan,” the Serbian death squad leader who is currently deployed in Serbian dictator Slobodan Milosevic’s “ethnic cleansing” operations in Kosova.

The 'Armacost factor' in U.S.-Japanese ties

by Our Special Correspondent

An uproar is taking place in Japan following the publication of Edward Lincoln's article in the May/June 1998 issue of *Foreign Affairs*, the official journal of the New York Council on Foreign Relations (CFR). In "Japan's Financial Mess," Lincoln calls upon the United States government to break off consultative channels with Japan, because of Japan's evasiveness and indecisiveness over the direction of its economy. In every major Japanese newspaper, Lincoln's inane proposals have been given significant coverage. Why?

Fundamentally, the Japanese institutions believe that when the CFR speaks, the U.S. government simply follows its utterances.

In last week's *EIR*, we reported that the CFR is seeking a rupture in the U.S.-Japanese relationship. Lincoln's article is a signal piece for that policy outlook. Fortunately, the Clinton administration is not following these provocative ideas, because it is not an extension of the traditional Anglo-American establishment.

From the Japanese point of view, the idea that Clinton represents a break with past administrations is difficult to grasp. The Japanese sometimes find themselves riveted on the array of "blame Japan" statements emanating from the United States, which they view as one operation. The Japanese tendency to think in an undifferentiated manner stems, in part, from the legacy of the post-World War II occupation and the development of the "Cold War."

Historically, from the occupation onward, Japanese political and security institutions relied upon the United States for strategic policy guidance in the fight against the Soviet Union and the spread of Asian communism. With the ouster of Gen. Douglas MacArthur as Supreme Commander of Allied forces in Japan, the "imperial" Anglo-American apparatus ensclosed in the Truman and Eisenhower administrations promoted a political-psychological dependency on U.S. Cold War institutions.

This dependency also created a belief within the U.S. policymaking apparatus, that Japan should "simply follow orders." There was little sensitivity to what the Japanese thought, or whether those decisions represented Japanese interests. Lincoln's article is reflective of the "old imperial" ways, and is an intense reaction of this faction's current impotence in controlling Japanese thinking.

To further explain how this dynamic between Japan and the United States functioned, it is necessary to identify the role

of the Bush administration's ambassador to Japan, Michael Armacost. Armacost, a career foreign service officer, according to one high-level Japanese source who knows Armacost personally, is the main figure behind Lincoln's article. According to this source, Lincoln is overrated as a Japanese expert. "He's simply Armacost's mouthpiece," the source said. Moreover, he added, "Lincoln is firmly connected to Rep. Nancy Pelosi [D-Calif.] and U.S. Trade Representative Charlene Barshevsy."

The Bush legacy

During the four years he was posted in Japan (1988-92), Armacost played the role of the imperial faction's pro-counsel, and not only sought to transform Japan into an asset of the Bush administration's "new world order," but also constantly intruded into internal Japanese politics. His impact was significant, because he found an ally in the person of Ichiro Ozawa, the "shadow shogun" of that era.

During the Persian Gulf War, Ozawa brought Japan into the Bush-Thatcher global arrangements. Ozawa rammed a \$9 billion allocation through the Diet (Parliament), to help pay for the war. In exchange, Armacost arranged for Ozawa to become the "change-agent" in Japan, and bring Japan into conformity with the British "liberalization" model.

Most Japanese institutions were opposed to this shift, so Armacost orchestrated a series of political scandals designed to strengthen Ozawa. Ozawa broke with the ruling Liberal Democratic Party (LDP) and formed an opposition party aimed at promoting the liberalization model. Armacost met regularly with Ozawa, providing guidance on a variety of subjects.

Ultimately, Ozawa failed, and his parliamentary opposition party fell apart. The U.S. imperial faction no longer had a horse to ride, and, according to a well-informed U.S. source, "they are now out to topple the Hashimoto government." However, the Clinton administration does not want to engineer Prime Minister Ryutaro Hashimoto's ouster, and would prefer that Hashimoto carry out his fiscal stimulus and tax-cut reform package now. President Clinton plans to confer with Prime Minister Hashimoto at the G-7 meeting in Birmingham, England.

In contrast, Armacost is desperately trying to get his factional allies in Congress, and in the administration, to force a break with Japan. This State Department/CFR/Republican foreign policy establishment is hell-bent on getting its liberalization schemes implemented.

In the meantime, confusion reigns supreme within the LDP leadership. Koichi Kato, LDP secretary general, on his recent trip to the United States, met with former Secretary of State Henry Kissinger. According to one Japanese source, Kato is an old friend of David Rockefeller, and wants to get Kissinger and Rockefeller's support for Hashimoto's policies. Unwittingly, Kato is strengthening the very forces he despises.

Who will stop the impending holocaust in Burundi?

by Linda de Hoyos

Amidst all the recriminations tossed in the pages of the press for the alleged failure of United Nations Secretary General Kofi Annan to prevent the holocaust in Rwanda in spring-summer 1994, not a word has been said about the holocaust that is building *right now* in the neighboring country of Burundi. Multiple sources report that rumors are rife of a military intervention directed by Ugandan President Yoweri Museveni into Burundi in the near future—either through Rwanda or through Tanzania, which military deployment is expected to cause the same kind of mayhem in Burundi that resulted in the deaths of upwards of 1 million people in Rwanda in 1994.

In a press conference on March 30, U.S. Lt. Col. Nancy Burt stated that “the Defense Department has no firm plans for moving rapidly into Rwanda or Burundi should genocidal killings occur,” according to UPI. Burt noted that “Burundi is considered a tinderbox by many Africa observers.”

On the ground in the Great Lakes region, the forces and interests at play in Burundi, a tiny nation of 5 million people, are complicated and conflicting. But the route to stopping the holocaust is not: The United States must seek an effective and forceful peace process for Burundi, which finally recognizes the legitimacy of the National Council for the Defense of Democracy (CNDD), which is composed of survivors of the overthrown elected government of murdered President Melchior Ndayaye. Organized around the principles of a democracy rather than ethnicity, the CNDD is the most viable institution in Burundi if the country is to be brought to peace. Attempts to relegate the CNDD to the status of “Hutu rebels,” or to disrupt and destroy it, *can be guaranteed* to bring Burundi to a state of political seizure, causing many deaths.

The road taken to mayhem

It is the failure of the international community to uphold the results of the June 1993 national elections which has already hurled Burundi into civil war, and brought about the dire crisis now pending. Since the murder of Prince Louis Ragasore in 1962, Burundi has been ruled by a military junta composed exclusively of Tutsis who carried out slaughters of Hutus, particularly male children, at the slightest hint of rebellion.

In 1993, this pattern was broken by national elections—carried out with the aid of the United States—which brought

to the Presidency Melchior Ndadaye, the founding leader of the Burundi Democratic Front Party (Frodebu). The Frodebu had a large base in the Hutu population, but also included a minority of Tutsis who rejected the class-centered Tutsi military dictatorship.

In October 1993, when no U.S. ambassador was even posted to Burundi and when the U.S. deputy chief of mission was out of the country, the defeated candidate in the elections, former military dictator Pierre Buyoya, attempted a military coup against Ndadaye. In the ensuing melee, Ndadaye was brutally murdered, and the civilian elected government remaining came under the increasing threat from the Tutsi military. The event was a major contributing factor to the bloodletting to follow in Rwanda within the year.

Between October 1993 and July 26, 1996, when Buyoya officially seized power with a military coup, the Tutsi military carried out the ethnic cleansing of the capital city of Bujumbura, turning it into a “Tutsi” city; murdered half the provincial governors in the country; killed or forced into exile 16 cabinet ministers; and assassinated 10 members of the National Assembly. Especially targetted were Tutsis who were committed to democracy (see “British Complete Their Coup in Burundi,” *EIR*, March 8, 1996). Also, as reported by then-U.S. Ambassador to Burundi Robert Krueger, the military carried out systematic slaughters against Hutu civilians in the countryside.

In March 1994, Leonard Nyangoma, Interior Minister in the Ndayaye government and organizer of Frodebu’s 1993 election campaign, went into exile and organized the National Council for the Defense of Democracy, as the remaining Frodebu civilian government watched impotently while its power and ability to protect itself and the Burundian populace were snatched away.

Buyoya’s seizure of power in July 1996 was a precondition to the September invasion of eastern Zaire by a combined force directed by Ugandan President Museveni, composed of Ugandan, Rwandan, and Burundian troops. Buyoya’s Tutsi troops swept into Uvira and environs, gunning down the Frodebu-CNDD leadership there. (Many Frodebu parliamentarians went to the National Assembly in Bujumbura during the day, but kept their families in Uvira and returned there each night, for reasons of security.)

Meanwhile, within the country, civil war escalated with

the armed wing of the CNDD, the Forces for Democracy (FDD), making major inroads in the southern and western sections of the country. In response, the Buyoya regime launched a resettlement policy, placing 800,000 people in the equivalent of concentration camps. In 1997, the camps were hit by the biggest typhoid epidemic since World War II.

Efforts by the United States and the Saint Egidio order in Rome to begin negotiations between Buyoya and the CNDD failed, in light of the recalcitrance of Buyoya to even consider the CNDD as a partner.

Complicating matters

The mass violence now looming on the horizon in Burundi, however, stems from complicating factors, coming from Tanzania and Uganda. Both countries stand in opposition to Buyoya, and in opposition to the CNDD, while Buyoya has found some support in France.

Former Tanzanian President Julius Nyerere has intervened to assert his own ambitions over Burundi. In 1996, he was the central organizer of a proposed “peacekeeping force” of the Organization of African Unity to enter Burundi to restore peace — an option rejected by both Buyoya and his opponents. Nyerere stated point-blank that Burundi and Rwanda would find peace only if combined to form a “Greater Tanzania.” That proposal sparked the Buyoya coup in July 1996.

Meanwhile, Nyerere has asserted his role as the top mediator in the Burundi conflict, seeking to insinuate himself with the various opposition organizations to the Tutsi military, including the CNDD, the remaining Frodebu, and the ethnically based Palipehutu and Frolina. Tensions between Buyoya’s military and Tanzania on the borders where the Burundian refugee camps sit, have risen to the point of episodic military clashes.

Not to be outdone, Ugandan President Museveni, a progeny of Nyerere’s “kindergarten” at Dar es Salaam University, has also taken a position against Buyoya. In Museveni’s peculiar perceptions, the power in Burundi should not be in the hands of Buyoya, but in the hands of Buyoya’s cousin, Jean Baptiste Bagaza, whom Buyoya had overthrown in 1987.

Bagaza, who spent his exile until 1993 in Libya, is cut from the same Maoist cloth as Museveni. During his regime (1976-87), the Hutus, 85% of the population, faced a relentless campaign of cultural oppression led by Emile Mworoha, the general secretary of the Tutsi Uprona party. Schooled in France under anthropologist Jean-Pierre Chrétien, Mworoha put Burundi through de-schooling. First, the government eradicated French from all lower-grade schools, leaving that language only to the Tutsi elites (most of the Hutu elites had been killed in the massacre of 1972). Bagaza also went on a rampage against the Catholic Church, permitting it to operate only for one mass on Sundays. Catholic schools, the only place many poor Hutu children could obtain an education, were shut down.

Since his return in 1993, Bagaza has been a major orga-

nizer of the Tutsi youth militias who carried out the ethnic cleansing of Bujumbura.

But for Museveni, Bagaza’s main credentials are the alliance between them. Bagaza was a major contributor to Museveni’s campaign in the bush in the early 1980s to come to power in Uganda. Now Bagaza may be calling in his chits, but for Museveni the goal is to attach Rwanda (already achieved), and now Burundi, to a “Greater Uganda.”

On the ground, it might appear as if Nyerere and Museveni are operating on the basis of conflicting interests. However, at the higher levels of British intelligence — where the architects of the bloody geopolitics of the Great Lakes region reside — any differences that might exist between them are irrelevant. The objective is to crush the republican CNDD forces between the two — first politically, then physically.

That is the prescription for genocide now on the agenda.

How it will happen

Reports are now rife that soon an African invasion force will be entering Burundi. Its immediate goal will be the military destruction of the CNDD’s Forces for Democracy. The force is necessitated by the FDD’s encroachment on Bujumbura itself, beginning on Jan. 1 of this year, with a major FDD attack on the Bujumbura airport and neighboring Army barracks.

According to sources based in Tanzania, the force entering to put the Burundi house in order will come from Tanzania. Other sources report that it is more likely that Ugandan and Rwandan troops will do the job, coming through southern Uganda, passing through Tanzania into Burundi.

Either way, the invasion places all civilian populations at high risk.

In Rwanda in spring 1994, the bloodletting was triggered by two cataclysmic events: the shooting down of the plane carrying Rwandan President Juvenal Habyarimana on April 6, and the military blitzkrieg across Rwanda of the Museveni-backed Rwandan Patriotic Front within 24 hours of Habyarimana’s death.

Under conditions in which Hutu populations are already terrorized, and in which, according to State Department officials, the “fear level of the Tutsis in Bujumbura is rising,” any event with a major destabilizing impact on Burundi is likely to trigger mass slaughters and counter-slaughters, as the population goes into a general panic. This is precisely what occurred in Rwanda — as opposed to the RPF myths created about 1994.

As of this writing, this is the operation set to go in Burundi. The operation does not originate in the United States, but so far, the Clinton administration is not taking effective action to halt it. It is not difficult to freeze the plan, if the United States is willing to drop its British-designed geopolitical alliance with warlord Museveni, whose expansionist empire-building in East Africa at the behest of the British Commonwealth has already cost millions of lives since the Ugandan invasion of Rwanda in 1990.

Ugandan voters toss out Museveni's enforcers

by Linda de Hoyos

Although Ugandan President Yoweri Museveni is being built up as the commanding warlord for the entire East Africa region, in his home base of Uganda, he has been handed a loud rebuff. On April 19, in elections for the top posts of Museveni's own National Resistance Movement (NRM, the single institution permitted to carry out political activities in Uganda), those candidates supported by the heavyweights of Museveni's regime were removed from office by the voters. The most spectacular race was in the capital city itself, where longtime member of the Democratic Party Hajji Nasser Ssebagala took the Kampala mayoralty race with a 60,000-vote majority, leaving his Museveni-financed opponent, Christopher Iga, trailing third.

There should be no mistake, however, in thinking that the voting system in Uganda is democratic. Political parties are prohibited from all activities, even including holding their own conventions. This means that it is nearly impossible for any funding to be channeled to candidates who oppose Museveni. All polling for the local elections—that is, for the heads of local councils and local district councils—took place under the umbrella of Museveni's NRM, which all Ugandans are required to join. In the spring 1998 local elections, known opponents of Museveni were informally dubbed "multi-partyists," in reference to the Democratic Party and the Ugandan Peoples Congress (UPC), or ran as "independents."

In many cases, particularly in northern Uganda, where Museveni's prolonged internal wars have created an enduring climate of violence, there was a campaign of physical harassment and intimidation against those candidates known to oppose Museveni, carried out not by officials of the NRM, but by agents of the government's own Internal Security Organization. Furthermore, 470,000 people in northern Uganda, more than one-third of the population, are incarcerated in "protected villages," where they are under the constant supervision of Museveni's military—hardly the condition for free and fair elections, as pointed out by UPC leader Cecilia Ogwal. Although the UPC, which has its traditional stronghold in the north, was thereby derailed in Gulu and Kitgum, the winner in Gulu was an "independent" who campaigned on a call for peace—in opposition to Museveni's decision for the war to continue.

Despite these constraints inside the country, and although those opposing Museveni received no international backing or support, Museveni's favored candidates—most of them in-

cumbents—were given a sound beating. In almost all districts of the country, with the exceptions of Jinja and Mukono, all the incumbent chairmen of the District Councils lost elections.

The driving out of Museveni's chosen district council chairmen could have a major impact on elections to come. Generally, during the 1996 Presidential elections, these chairmen served as the coordinators for Museveni's Presidential campaign, and were the local enforcers on the scene at voting time. This machinery, which was capable of carrying out large-scale vote fraud in the 1996 elections, has been swept aside.

In several districts, such as Masindi, Kamuli, Kasese, Arua, Lira, Bushenyi, and Kabala, clear-cut victories went to the multi-partyists. In Museveni's own district of Bushenyi, the top brass of the NRM in the national cabinet, including Amana Mushega and Col. Kahinda Otafire, went into battle against the multi-partyist Makaanu Yowasi Rwamanyo—to no avail.

As the *Monitor* newspaper explained, the reason for the ousting was "performance. Increasing poverty in the districts, failure to deliver social services like health and education, collapsing physical infrastructure like roads, dispensaries, and schools, and, like in Kampala, uncollected garbage, potholes on the roads, etc., all played a key role in influencing voter behavior."

These results will propel Museveni to tighten his grip through dictatorship. In the year 2000, he will hold a "national referendum" on whether to simply ban all political parties—a vote on which the parties themselves will not be permitted to campaign. In addition, NRM bosses are saying that they will "screen" NRM candidates more carefully and only run one candidate per post—like "elections" in the former Soviet Union!

Voter riots in Museveni's home district

In this environment, even the NRM is beginning to fracture. In the Ntungamo district of Ankole, Museveni's birthplace, the government was forced by a growing political revolt of the Bairu ethnic majority in the district to send in the military to "keep law and order"—that is, enforce the vote for Museveni's chosen candidate, a Hima Tutsi like Museveni himself. This also failed, with the Bairu candidate, Patrick Buriiku, winning. But no sooner were those results announced, than Museveni deployed more troops to the scene, and by the end of the week, the local election commission reported that Museveni's candidate John Karazaarwe had won by a measly 0.6% of the vote.

The result of this ruse was rioting throughout the district. By April 29, Museveni himself was forced to intervene, calling Karazaarwe and all the candidates to his home. Winners of the lower posts all went to Buriiku's men, who had vowed not to work with Karazaarwe. The fight in the district, Museveni stated, was destroying the entire National Resistance Movement, which has its strongest base in Ankole. Although the violence has ended, the rift in the Movement has not abated.

Garang stands exposed as the saboteur of peace in Sudan

by Muriel Mirak-Weissbach

The peace process in Sudan is beginning to bear a striking resemblance to the phenomenon of the same name in the Middle East: As negotiations continue, the truth begins to emerge, as to what party is sabotaging peace. The “Netanyahu” of the Sudanese situation, is John Garang, leader of the remaining rebel forces known as the Sudanese People’s Liberation Movement and Sudanese People’s Liberation Army (SPLM-SPLA). Garang, who has consistently refused to attend any direct negotiation with the government of Sudan, has depended on the same so-called “Christian fundamentalist” forces in Great Britain and the United States who have been feeding into confrontation in the Middle East.

Since the current government of Sudan relaunched a peace initiative, Garang has balked, on grounds that his demands were not being met. When, in 1996 and 1997, the government signed peace agreements with a majority of rebel factions, the texts included those points that Garang had insisted on, among them, self-determination for Southern Sudan through a referendum which would include the option of secession.

Not only were the demands accepted by the government, but the peace treaty of April 1997 was incorporated, part and parcel, into the draft of the Constitution, which, following approval by Parliament and by President Gen. Omar al-Bashir, was submitted to a plebiscite which is now taking place throughout the country. Thus, the entire population, including the exile community abroad, is being called to the polls to vote, not only for or against the Constitution, but for or against peace, on Garang’s terms.

At the same time, peace talks were convened. During May 4-6, just as the referendum was beginning, representatives of the government and of the SPLM-SPLA met in Nairobi, Kenya, under the aegis of the Inter-Governmental Authority on Development (IGAD), a group of neighboring countries. The meeting was chaired by Ambassador Ahmed Issa Gabobeh, representing the IGAD, and Dr. Kinfe Abraham, head of IGAD Political and Humanitarian Affairs. The government of Sudan sent a delegation led by the Minister of Foreign Affairs, Dr. Mustafa Osman Ismail, and the SPLM-SPLA delegation was led by Commander Nhial Deng Nhial, Governor of Bahr al Ghazal.

Although spokesmen from Khartoum had cautioned that it would be too much to expect a breakthrough in such a

short period of time, significant progress seemed to have been made, as the final communiqué was released on May 6. It stated that the parties had agreed to the referendum on self-determination, as well as to the facilitation of humanitarian aid to the civilian population, and to a cease-fire, which would render this possible.

Humanitarian aid, but no cease-fire

But, before celebrating this as a breakthrough, one has to read the fine print. There, it becomes evident that Garang’s forces, using the same methodology of Israeli Prime Minister Benjamin Netanyahu, have “interpreted” the terms to their liking.

In a background paper, the government of Sudan presented its updated position on the negotiations, which said that it “pledged to respond positively [to appeals] and accept a cease-fire and an immediate cessation of hostilities if the other party will reciprocate.” In the talks, according to the communiqué released by the IGAD ministerial subcommittee, “Without prejudice to the commitment” to facilitate the free and unimpeded flow of humanitarian assistance to all areas affected by the famine in South Sudan, the government of Sudan “offered a cease-fire and immediate cessation of hostilities and expects the other party to reciprocate.” The SPLM-SPLA, however, “is of the opinion that unhindered relief assistance to the needy, should not be linked to a cease-fire and believes that a cease-fire, which it welcomes in principle, be negotiated separately as per the [Declaration of Principles].” In other words, the Garang forces reject a cease-fire but demand humanitarian aid be made available, essentially to supply the forces under their control.

On self-determination, the government of Sudan called for the federal system, which has been a demand of the Southern Sudanese since 1947, and has been institutionalized by this government, to be given an opportunity to be fully implemented in the South. Following an interim period, already agreed to by all the other rebel forces, during which the South can be reconstructed and rehabilitated, and displaced persons can be repatriated, the referendum should be held, “by the people of South Sudan to determine their political destiny on the two options of unity or secession.” The government of Sudan stated further that this referendum should take place in the south, “with the boundaries of the

south as recognized since the independence of Sudan as of Jan. 1, 1956.”

Garang's new ploy

The SPLM-SPLA, which has been pursuing the war explicitly on the basis of its claims that self-determination had been denied, faced with the new situation, came up with a new map of what Southern Sudan is. “The people of Southern Sudan, Abyel, Southern Kordofan and Southern Blue Nile, shall, before the end of the Interim Period, exercise the right of self-determination through an internationally supervised and monitored referendum,” and opt for remaining part of a “single united Sudan” or “statehood, i.e. becoming a separate and sovereign state.” The interim period, for the SPLM-SPLA is to be of two years.

The significance of the SPLM-SPLA's rather original interpretation, is that in one fell swoop, the rebels have redrawn the map of the country, adding entire federal states to what is South Sudan. Not coincidentally, the “Greater Southern Sudan” they would like to claim and eventually have secede, contains the most oil, other precious minerals, and water supplies, in the country.

Finally, on the issue of state and religion, there was not even verbal agreement. This is due to the SPLM-SPLA's insistence that the “legal system . . . in place in Sudan prior

to September 1983 . . . be reinstated by the immediate repeal of *Sharia*-based enactments.” The rebels demand that the Islamic legal code (*Sharia*) be abolished, whereas the government of Sudan has stipulated, and all other rebel groups have agreed, that “religion, custom and consensus of the nation shall be the sources of legislation.” This means, as is spelled out in detail in the Constitution, that Islamic law would prevail only where there is a Muslim majority, and that, in the South, law would be based on custom. It is no wonder, therefore, that the SPLM-SPLA also rejected the Constitution out of hand, demanding that “all the remaining formal measures for adoption of such a Constitution ought to be terminated.”

The talks ended, thus, with an agreement to certain principles, such as self-determination, but with opposing interpretations. Where the sides did not find any common ground, they agreed to meet again, in an effort to thrash out their differences.

As was the case in the recent attempts to bring the Palestinian Authority and Israeli government to a summit, one important feature of the Sudanese talks, was that the war party, Garang's, was put with its back to the wall, and was exposed as the saboteur of peace. If the referendum on the Constitution in Sudan, secures, as is expected, a majority in its favor, this will place added pressure on the Sudanese Netanyahu, to face reality and come to terms with peace.

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Italian ‘provocateurs’ invade Mexico

by Carlos Cota Meza

One hundred and twenty Italians, organized around the slogan “We Are All Indians of the World,” entered Mexico in early May to stage various provocations against the Mexican government’s policy toward the southeastern state of Chiapas.

They managed to gain entry to the country with official “observer” visa status, albeit under conditions delimited by the Mexican government, because there were four Italian Congressmen from center-left parties among the group, as well as a Roman Catholic priest and an undetermined number of “representatives” of the City Councils of Venice, Genoa, Padua, and other Italian cities. The remainder of the group, some 100, were a gang of unwashed, long-haired, far-left activists who belong to various Italian “autonomist” groupings whose goal back home is to bring about the disintegration of the Italian nation-state through promotion of separatism.

On paper, these foreigners had come to Mexico to deliver “humanitarian aid” to some townships in Chiapas, which included helping to build a small electricity generating plant in La Realidad, the town from which “Subcommander Marcos,” the leader of the Zapatista National Liberation Army (EZLN) insurgency, has organized several internationally backed propaganda shows.

Once in Chiapas, these “Indians of the world” decided to march toward the townships of Taniperlas and Amparo Agua Tinta (which violated their visa conditions), because these had originally been declared “autonomous” by the Zapatistas in Chiapas. (They have subsequently been recovered by state authorities, at the request of the townships’ inhabitants.)

When some of the Italian provocateurs entered Taniperlas, they were met with kicks and blows from an enraged crowd of local Indians. When things calmed down, the local Indian leader, Pedro Chulin, told them: “We don’t want the Zapatistas to keep establishing autonomous councils. That’s unilateral, and we’re not going to allow it.”

On the trek to Taniperlas, three Italian “Indians” fainted from the heat and stress. Presumably such physical strains increased considerably when the foreign “Indians” were met by blows from the Indians who live in the area.

Subsequently, the Mexican government expelled the group for visa violations.

The Italian autonomists were rejected and ridiculed by much of the Mexican public. Except for the São Paulo Forum-

linked Party of the Democratic Revolution (PRD), all other parties, business and religious groupings, and the citizenry in general, attacked the foreigners as “filthy,” “provocateurs,” “Italian scum,” and “criminals in our country.” Given the unwashed state of most of the group’s members, some observers suggested that some big soap company might have sponsored their trip.

Sponsored by whom?

Jokes aside, the question is valid: No one knows who paid for the group’s plane tickets from Italy, or how much daily spending allowance they were given. What is certain, is that someone sent them to Mexico, to openly challenge the Zedillo government and create an international scandal directed against Mexico.

For months now, desperate acts by the Zapatistas have been expected, as being the terrorists’ only way of stopping or slowing down the Mexican government’s new firm policy toward Chiapas. At the end of April, President Ernesto Zedillo made a surprise visit to the state, specifically to the municipalities where the so-called “conflict” has been centered. To the surprise of the Zapatistas and their international patrons, the local Indian leaders of the Zoque, Tzeltal, and Chole groups accepted the authority of the President of the Republic as any other Mexican would, without reservations or conditions.

In an extemporaneous speech in the municipality of Tumbala, whose mayor is a Chol Indian, President Zedillo remarked, “I want to say that after all these years, I seriously doubt that these people who say they want to help solve the problem, really want to do so.” The President demanded that the foreigners show some intellectual honesty, and say “what they really want in this conflict.” In an obvious reference to Samuel Ruiz, the real Zapatista commander who is also the bishop of San Cristóbal de las Casas in Chiapas, Zedillo said that “perhaps he is motivated by religion, but this has little to do with finding a solution to the human pain in the poverty, backwardness, and violence in Chiapas.”

Further evidence that Chiapans aren’t opposed to protecting territorial integrity, was seen in the fact that President Zedillo transmitted a message on radio station XEOCH in Ocosingo, which was then translated into several Indian dialects. This was the station the EZLN used on Jan. 1, 1994 to announce its “declaration of war” against the Armed Forces and the federal government of Mexico.

Mercenary Ruiz

As federal and state authorities proceed to reestablish the rule of law in Chiapas, more and more evidence is coming to light which proves this news service’s charges that Bishop Ruiz and his EZLN insurgents are nothing but mercenary forces of a foreign invasion which seeks to dismember Mexico.

For example, Javier Elorriaga, the head of the Zapatista

National Liberation Front (FZLN), the supposed “civilian arm of the EZLN,” told the daily *Folha de São Paulo* during a recent visit to Brazil that “the Zapatista communities” practice “organized anarchy. . . . We want the government to disappear, we want them to withdraw the Army, and to let us live in the autonomous townships.” Elorriaga added: “We want to show the government that we don’t need them.”

Elorriaga insisted that the autonomous communities are the de facto authorities in the area, and that they “register births, deaths, and marriages; they organize collective labor, provide education, health, and security.” What the anarchist Elorriaga failed to mention, is that these acts constitute the crime of usurpation of government functions, and that they are being carried out not only by the Indians, but by Bishop Ruiz as well, through his Fray Bartolomé de las Casas Human Rights Center, which has been issuing visas and “international observer” credentials to foreigners who come to his diocese in Chiapas!

The ‘Indian world’ doesn’t exist

As was clear in President Zedillo’s visit to Chiapas, this “Indian world” referenced by Elorriaga, doesn’t exist. The so-called autonomous townships aren’t run by Indians; they are an attempt to set up *foreign* enclaves under the command

of Samuel Ruiz, to then proceed with the strategy of breaking up the country into small pieces.

Prior to the incident with the Italian “Indians,” Enrique Ku Herrera, a Congressman from the ruling Revolutionary Institutional Party who is secretary of the Indian Affairs Commission of the lower House, had denounced the existence of an “international brigade” in Mexico, and specifically in Chiapas, whose purpose, he charged, was to carry out actions to destabilize and overthrow the federal government.

Of Indian descent himself, Ku Herrera produced a list of foreigners — 72 Spaniards, 40 Italians, 22 Greeks, 19 Frenchmen, 6 Canadians, 1 Dane, 1 German, and 1 Moroccan. All of them, Ku Herrera said, had participated in guerrilla movements in Guatemala, Nicaragua, and El Salvador. All had registered as members of the International Commission for the Observation of Human Rights, and were able to enter the country by obtaining visas at Mexican embassies and consulates in Madrid, Seville, and Barcelona, Spain; Copenhagen, Denmark; Athens, Greece; Rome and Milan, Italy; Montreal, Canada; Paris, France; and Managua, Nicaragua.

Press sources report that the “foreign legion” isn’t limited to the numbers denounced by Ku Herrera, but includes another 4,500 foreigners identified by Mexico’s immigration authorities. Beginning in 1994, these foreigners have entered Mexico under many disguises.

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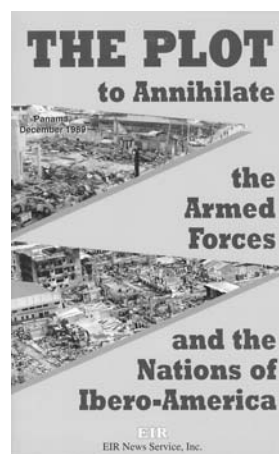
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—James Zackrisson, *Defense Force Quarterly*

Cardoso's government crumbles, as civil war threatens Brazil

by Silvia Palacios and Lorenzo Carrasco

The threat of starvation of 10 million Brazilians, due to the El Niño-caused drought in Brazil's northeast, could prove the last straw in unleashing growing nationwide fury against the government of President Fernando Henrique Cardoso.

The underlying cause is not the cyclical climatic conditions, but rather the calloused attitude of the government, which chose to ignore the alarming reports of scientists from the National Institute of Space Research and from the Brazilian Agricultural Research Company, which eight months ago warned the government and national Congress of the coming crisis, at a time when it would still have been possible to take emergency preparedness measures.

This has revealed the immoral and perverse nature of the Cardoso government, whose sole concern has been to meet — and surpass — the demands of the international financial oligarchy and speculators, to maintain a constant flow of hot money into the country, and thereby avoid the appearance of economic collapse and national financial bankruptcy. And to what purpose? The re-election of President Cardoso in October, which until recently was virtually unanimously considered a “done deal.”

The world financial crisis which erupted last October was the first arrow in the heart of this re-election project, which showed the vulnerability of the regime and of its monetary program. The cost of recovering so-called international credibility and of reestablishing a flow of capital, has been gigantic, because of the rapid rise in interest rates, which is causing ever higher rates of bankruptcy and the highest unemployment ever.

Since then, the President's popularity — measured in gold, because \$500 million is the government's annual budget for propaganda — has fallen more than 10 points, to less than 30%. The result is that the election will not be decided on a first round of voting.

In addition, the government is worried that the Workers Party (PT), the loyal opposition which, along with the Cuban Communist Party, created the São Paulo Forum (a continent-wide narco-terrorist apparatus), is bogged down with internal problems, which has caused it to fall in the polls to approximately 18% of the vote. This is making it harder for the PT to fulfill its established, agreed-upon role as the “sparring partner” for the government, and is threatening to shatter political control over the country.

In contrast, the only Presidential candidacy which is growing is that of the nationalist Dr. Eneas Carneiro, which, despite the lack of a political machine, is already attracting 12% of the Presidential vote, according to pollsters. What terrorizes the Presidential palace at Planalto, is that the growing discontent in the country could lead to a dramatic growth of support for Dr. Eneas's candidacy. (See *EIR*, May 1, 1998, p. 22, for a report on Eneas's endorsement of Lyndon LaRouche's proposal for a New Bretton Woods system.)

The unpredictability of the electoral situation opens up a range of previously unimagined possibilities, such as the oligarchy's attempts to resurrect former President Fernando Collor de Mello from the political trash heap. Collor is currently prevented by the Federal Supreme Court from participating in the election. Others have suggested that the Brazilian Democracy Movement Party revise its plan to support Cardoso's re-election, and instead launch its own candidate in next June's convention.

'Low-intensity civil war'

But, the deterioration of the socio-economic situation in the country goes far beyond the electoral arena. The destruction of industry and agriculture, and direct and indirect unemployment, which have left more than half of the working-age population of the country with incomes below subsistence levels and 80% of the other half either saddled with overdue debts or in outright bankruptcy, have created a situation of social decay that could, in the short term, lead Brazil into chaos and disintegration.

This degree of crisis has been reached not only because of Cardoso's neo-liberal (free-trade) economic policies, but also because, from the viewpoint of the “fascism with a democratic face” strategy preferred by the Cardoso administration, it has proven “cheaper,” as a social policy, to support terrorist organizations such as the Landless Movement (MST) and the network of non-governmental organizations (NGOs) that surround it, than to invest in creating decent jobs through development of economic infrastructure, education, and public health. This has created a Frankenstein's monster of insurrectionist forces which today threaten the entire structure of the nation-state. While the President and of his wife, Ruth Cardoso, are distributing emergency food baskets to the MST, and permitting land invasions and the proliferation of NGO

Brazil's Figueiredo writes to Argentina's Seineldín

In December 1997, Army General (ret.) and former President of Brazil João Baptista de Oliveira Figueiredo wrote an open letter to Argentine President Carlos Menem, calling on him to pardon and release from jail former Argentine Col. Mohamed Alí Seineldín, who is currently serving a life term for his resistance to the destruction of the Argentine Armed Forces. Below we publish the letter which General Figueiredo recently wrote to Colonel Seineldín.

Rio de Janeiro, April 3, 1998

Col. Mohamed Alí Seineldín
Campo de Mayo, Buenos Aires, Argentina

Dear Colonel Seineldín:

It was with great happiness that I received the diploma from your brave comrades in arms. At this time, I would

like to reiterate that your ideals and motives are also my own. Throughout my long military career, in which I had the good fortune to rise through every rank in my branch, I never saw any essential contradiction between the fundamental interests of our nations. Rather to the contrary, as history has proven, the occasional divergences between them, mutually prejudicial, have been slyly fomented by strange interests, the same which today hide in the wings of defamation campaigns against our nations.

At this grave moment of world crisis, the unity of our nations and of our Armed Forces is a necessary and indispensable element for security and for real perspectives of development, not only of both nations, but of all the nations of Ibero-America. United, we will be in a position to undertake a policy of hemispheric security based on respect for national sovereignties, for the inalienable rights of the individual, and for human dignity, in substitution for the old TIAR [Inter-American Reciprocal Treaty, governing defense matters], buried during the Malvinas War. Only on this basis will it be possible to build a future in which our nations can contribute to the evolution of civilization.

Please accept, and pass on to all of your comrades in arms, an affectionate embrace from this comrade.

networks controlled by London, these same insurgent networks are endangering the very existence of the nation.

Gilmar Mauro, one of the main MST leaders, acknowledged this weeks before organized looting began in Brazil's northeast, in the aftermath of the drought there. He announced that we are in a "low-intensity civil war." In this regard, the logistical infrastructure of the Theology of Liberation networks enters into the picture. Together with London's NGO spawn, the Theology of Liberation networks are forming indigenous combat movements in various areas of the strategically important Amazon region of Brazil, which are targeting infrastructure projects, such as bridges and dams, for destruction. The most critical situation is in the state of Amapa, on the northern border with the Guyanas, where a separatist movement is being formed.

This threat to Brazil's territorial integrity was described by Oliveiros Ferreira, the editor-in-chief of the newspaper *O Estado de São Paulo*, as an "internal hemorrhage." Ferreira emphasized the key role the Armed Forces must play, noting in the daily's April 29 edition: "What distinguishes the current crisis from earlier ones is that today's has all the characteristics of an internal hemorrhage, whose external signs are small and not very frequent. Civil society—or political society, if you prefer—and the state itself, lack sufficiently solid institutions to absorb, without recourse to the Armed Forces, the changes and the crises. Given this, whether we like it or not, whether they like it or not, the Armed Forces stand out, as the

Constitution says, as the only permanent national institutions. As Lassalle stated, they are the main, if not the only real factor of power in the country."

A cloud of madness

As national disaster looms, symptoms of President Cardoso's emotional imbalance are coming to the fore, only partially as a result of the sudden deaths of two of his political coordinators, Communications Minister Sergio Motta and government leader in the House of Deputies Luiz Eduardo Magalhaes. Even before those tragic events, President Cardoso showed his Hobbesian face, when during an April 8 speech, he stated that "in politics, whoever states what they want, loses. . . . Does this mean that in the ethics of politics, ambiguity and lies are necessary parts? No. Perhaps ambiguity, but not lies."

However, for the President, there exist two kinds of ethics, one based on absolute principles, which is what determines the truth, but "that is not the position of the practical man, of the politician, of the man of government, nor of the statesman. The politician should not at every instant be in the pulpit proclaiming the truth," declared Cardoso. This Presidential ethic could be observed in practice in his dealing with the northeastern drought, when the President called for a 15-day delay in beginning the distribution of food, and even stated that such solidarity in this case was too expensive, because it meant that Air Force planes had to transport the food.

International Intelligence

New Zealand pro-dopers push legalized cannabis

A battle is brewing in New Zealand over the push by the British Empire to legalize marijuana and hemp. Citing recent moves in Australia and Britain to decriminalize marijuana, the Drug Policy Forum Trust released a report recommending that the New Zealand government regulate and tax cannabis, putting it on the same footing as alcohol and tobacco. This, they lie, would protect public health by minimizing cannabis abuse and eliminating the black market.

Another report, covered in the *New Zealand Herald*, promoted the ravings of Anita Roddick, the founder of The Body Shop and an associate of Prince Philip's World Wildlife Fund, who had written a letter to Prime Minister Jenny Shipley suggesting that New Zealand follow Europe and grow hemp for fiber production, and especially for the hemp seed oil, which supposedly is good for skin care.

There has been strong opposition to this push by several prominent Maori elders, who have attacked the call by the Maori Council chairman, Sir Graham Latimer, for the government to decriminalize cannabis. Most outspoken was the Minister of Maori Affairs, Tau Henare, who said that the idea was "bloody ludicrous." "For a supposed knight of the British realm . . . to say these sorts of things worries me. I think he has lost the plot," Henare said.

EIR, Schiller Institute invited back to Poland

Following a conference in Warsaw and intense private discussions in early April, representatives of *EIR* and the Schiller Institute were invited back for further interviews and meetings. On May 8, Anno Hellenbroich, European representative of *EIR*, was invited by some Polish parliamentarians to brief them on the global financial crash and the necessary alternative of Lyndon LaRouche's New Bretton Woods proposal.

The meeting was pulled together by members of the opposition party PSL,

which has the largest party membership in the country, with a mainly agricultural base. Seven parliamentarians engaged in a two-hour dialogue with Hellenbroich and the chairman of the Polish Schiller Institute, Anna Kaczor Wei. One deputy, a former prime minister and treasury minister, grilled Hellenbroich on the \$140 trillion global derivatives bubble, asking whether he understood aright that this bubble of fictitious value would have to be cancelled in order to effect an orderly financial and monetary reorganization.

On May 11, the new Polish Catholic daily *Nasz Dziennik* published an interview with Mrs. Wei, who outlined LaRouche's analysis of the strategic and cultural paradigm shift over the last three decades, from the Cuban missile crisis, through the decision of the financial oligarchy to abandon scientific and technological progress, and finally the oligarchy's determination to reduce 95% of the world's population to serfdom, as espoused by British geopolitical scribbler Lord William Rees-Mogg. She also focussed on the necessity for nations to return to systems of national banking, which would allow Poland, for instance, to rebuild its industrial economy.

The appearance of the interview breaks a long, dark night of "self-censorship" by the Polish mass media, dominated by foreign influence, including that of George Soros. *Nasz Dziennik* is said to be widely read by Polish Americans.

Economic aid to support Northern Ireland peace

"Economic growth and job creation" are the "solvent to most social problems," former U.S. Sen. George Mitchell told a press conference in Washington, D.C. on May 13, as he described the 22 months of talks which culminated in the "Good Friday" Northern Ireland peace agreement. Mitchell, who was President Clinton's emissary to the peace process and who ultimately chaired the talks, made an impassioned plea for Americans to support the agreement, which will be voted on in all of Ireland, north and south, on May 22.

President Clinton announced on May 7

that, in order to "bolster the foundations of peace," he is sending a high-level U.S. business delegation to Northern Ireland, in June, led by U.S. Commerce Secretary William Daley, to promote direct investment.

Mitchell emphasized the need for investment, telling of his first trip to Belfast in 1995, when community leaders told him, "There is a direct correlation between unemployment and violence." He said the "figures are shocking" on those "who've grown up, lived . . . and died in Northern Ireland, without ever having held a job. That has to change."

The climate for a "yes" vote on the accord was enhanced on May 10, when a majority of Sinn Fein party members endorsed the peace agreement, including a change to the party constitution allowing for Sinn Fein representatives to take seats in a new Northern Ireland assembly which will be created if the accord is voted up.

Neo-con Anglophiles hold conference in Turkey

The New Atlantic Initiative (NAI), which sports Baroness Margaret Thatcher and self-professed British agent Henry Kissinger among its leadership, held a strategy conference in Istanbul on April 30-May 4. The choice of Turkey was not without its irony: Among the discussion topics was the European Monetary Union, which is a sensitive issue with the Ankara government, whose membership in the European Union was finally rejected after its application was pending for 10 years.

Other topics of the event included:

- A panel entitled "From the Balkans to the Middle East: Turkey's Role in Regional Stability and Security," whose participants included former U.S. Rep. Steven Solarz (D-N.Y.), who has built up a reputation as an Asian affairs expert. During his tenure in Congress, he played a role in destabilizing U.S. allies, just as Frank Wolf (R-Va.) and Chris Smith (R-N.J.) do today.

- A seminar on "Broadening the Atlantic Perspective: The Politics of Oil, Water, and Pipelines," chaired by neo-conservative Joshua Muravchik, of the American Enter-

ROLAND DUMAS, president of the French Constitutional Court, was officially informed that he is under investigation on charges of corruption, and restrictions have been placed on his travel. Many political figures are urging that he resign from the country's highest court. It was under Dumas, that the court made the unprecedented decision that the government would not reimburse LaRouche ally Jacques Cheminade for his Presidential campaign expenses.

JAPAN'S Emperor Akihito will pay a state visit to Great Britain on May 26-29, where he will be awarded the Order of the Garter, Britain's oldest and highest chivalric honor, by Queen Elizabeth II.

GEORGIAN security chief Vakh-tang Kutateladze ordered security measures in Tbilisi to be intensified, to counter a possible third assassination attempt against President Eduard Shevardnadze, Interfax reported on May 5. Deputy Interior Minister Demuri Mikadze and several others were fired that same week, for incompetence in reacting to and investigating the Feb. 9 mortar attack on Shevardnadze's motorcade.

PAPUA NEW GUINEA National Narcotics Bureau director, Father William Liebert, announced on May 1 that a UN study found at least 23 out of every 100 Papuans were addicted to marijuana. The study also found that P.N.G. cannabis was among the most potent in the world and readily available on the international market. Father Liebert also said that "dirty money" from drugs sales was being laundered through financial institutions.

ISRAELI hard-liner Maj. Gen. Shaul Mofaz was named as the new Chief of Staff of the Israeli Defense Forces, after a lengthy factional struggle. The other leading candidate, General Vilnai, who had been the choice of the outgoing Chief of Staff, Gen. Lipkin Shahak, is expected to leave Netanyahu's Likud, to join the Labor Party.

prise Institute and the NAI's NATO Working Group.

- A panel called "Clinton, Blair, Schroeder: What's the Big Idea?" chaired by neo-con *wunderkind* John Podhoretz, an editorial staffer with Rupert Murdoch's *New York Post*. Podhoretz founded Murdoch's news weekly the *Weekly Standard*, a smear-sheet against Clinton.

- A panel entitled "Democracy and Islam" was co-chaired by Michael Ledeen, a former State Department official. Since the early 1980s, he has been a puppet-master behind the "Temple Mount" fanatics in Israel and their "Christian" Armageddonist backers in the United States. Ahmad Chalabi of the Iraqi National Congress, an anti-Saddam British front also spoke.

Flamigni releases book on Moro assassination

Italian Sen. Sergio Flamigni released his new book, *Parallel Convergences*, on the 20th anniversary of the murder of Christian Democratic leader Aldo Moro, who was kidnapped in March 1978 by the Red Brigades terrorists, and assassinated on May 8 of that year. Flamigni's book expands on the exposé he provided for *EIR* (April 3, 1998), proving the complicity of Italian law enforcement agencies in not freeing Moro, while the country was gripped for months by the terrorists' "strategy of tension."

The book includes new revelations, including that the Red Brigades were infiltrated by secret service agents, well before the kidnapping. *Parallel Convergences* reveals that the secret service owned 20 apartments in the same building on Via Gradoli, where the Red Brigades had a major hideout. Despite this, police authorities rebuffed all attempts to have the building searched, even claiming the street did not exist.

In addition, secret service agent Francesco Marra has released a witness statement declaring that he had infiltrated the Red Brigades as a commando. Flamigni has received a report from one of Marra's superiors, former intelligence officer Antonio La Bruna, who indicated that Marra had been deployed by Carabinieri Gen. Francesco Delfino, who himself was arrested only a month

ago, for complicity in a recent kidnapping operation. It appears that Delfino was in charge of a network of both terrorist and Mafia-Camorra "informants," whom he used as go-betweens in his own dirty activities with these circles.

The book has provoked an outburst from former President Francesco Cossiga, who was Interior Minister during the March-May 1978 terror wave. When current Vice Premier Walter Veltroni remarked that "many people are in the know, but they are not talking," Cossiga accused him of being a "conspiracy theorist." Flamigni pointed out to the daily *La Repubblica*, however: "I think that Cossiga betrays himself. He was the one who brought certain people to the leadership of security forces," referring to the security and police department heads who were members of the secret Propaganda-2 masonic lodge.

EC bureaucracy ignores N. Korea plea for help

If you are starving, don't bother asking the European Union Commission bureaucracy in Brussels for help, points out the *Süddeutsche Zeitung* of May 4: In May 1997, the government of North Korea asked the European Commission to deliver 50,000 tons of beef for its starving population. The request was put into the waste basket, because Brussels has no diplomatic relations with Pyongyang. Five weeks later, Brussels advised Pyongyang through back channels to direct their request to UN World Food Program (as though the WFP's Catherine Bertini had not regularly pleaded to the world's nations for food for North Korea).

In June, a North Korean official approached European Parliamentarian Erich Riedl (CSU), who intervened in Brussels, and also asked his government in Bonn to put pressure on the EC. No matter. In February, Brussels rejected the pleas, although European beef stocks have been rising steadily since the scare over Mad Cow disease and an overall drop in beef consumption. Stocks are far above the 50,000 tons that North Korea has asked for, and much of it will have to be destroyed as its storage time limit is passed.

Bipartisan demand grows for curb on DOJ abuses

by Debra Hanania-Freeman

At press time, 125 members of the 105th Congress, representing a broad cross-section of both parties, had signed on as co-sponsors of the Citizens Protection Act of 1998, H.R. 3396. The bill, which was first introduced on March 5 by Rep. Joseph McDade (R-Pa.) and Rep. John Murtha (D-Pa.), seeks to ensure that the standard American Bar Association rules of ethics and standards of conduct that are applied to all practicing attorneys in the United States, also be applied to attorneys working under the auspices of the Department of Justice (DOJ). In addition, the bill also defines punishable conduct and penalties, and creates an independent review board to monitor compliance with those standards.

The bipartisan support for the legislation, which crosses over virtually every faction in both parties, is unprecedented in the highly partisan environment that has characterized the Gingrich era, and is a clear measure of the growing popular outrage at what Americans view as a reign of terror by the DOJ. The bill represents Congress's most direct frontal assault on an out-of-control permanent prosecutorial bureaucracy inside the DOJ, which has operated with impunity, framing up elected officials, as well as civil rights and political leaders. Assuming the House follows normal procedures, and allows a full public hearing on the bill, it could mean the end of what Lyndon LaRouche described as the "political assassination bureau operating inside our Justice Department," which has been documented as being responsible for the judicial railroad of LaRouche and his associates, and for the prosecution of hundreds of African-American elected officials under the auspices of the FBI's "Operation Fruehmenschien."

One of the bill's initial co-sponsors, Representative McDade, was himself a victim of prosecutorial abuse at the hands of this apparatus. McDade and fellow Pennsylvanian John Murtha, the bill's other principal sponsor, held the top seats on the House Appropriations Defense Subcommittee, and always worked well with members of both parties to "bring

home the bacon." McDade's problems began in December 1988, when the *Wall Street Journal* launched a scurrilous attack on McDade, in which the *Journal* accused him of accepting illegal campaign contributions from a defense contractor. The Department of Justice used the article as the basis to open what became a four-year investigation. In May 1992, McDade was indicted on charges of accepting bribes and illegal gratuities. McDade accused the prosecutor, a protégé of Sen. Arlen Specter (R-Pa.), of being politically biased; he attacked the Racketeering Influenced and Corrupt Organizations (RICO) law under which he was indicted, and he reimbursed donors for any expenditures that could be even remotely considered questionable.

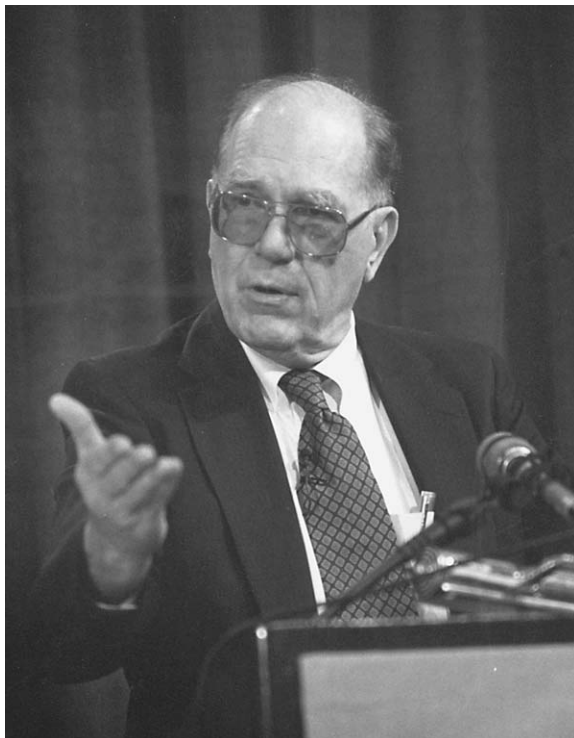
House Republicans (unlike the Democrats) had no rule forcing McDade to step down from his ranking position on Appropriations or its Defense Subcommittee after his indictment. But, after the 1994 "Conservative Revolution," House Speaker Newt Gingrich (R-Ga.) and his hooligans moved to change the party's rules so that McDade could not become chairman of the Appropriations Committee, arguably the most powerful seat in the House outside of the Speaker's post. Instead, the chairmanship went to Bob Livingston of Louisiana, whose politics and temperament were far more acceptable to the Gingrich crowd. McDade was eventually cleared of all charges, but was permanently deprived of the post.

McDade, currently in his 18th term, is retiring at the end of the session, and has made clear that he considers passage of H.R. 3396 to be his final "mission." He has also made clear that his motive is not to vindicate himself; he has already cleared his good name. But, his staff says he is driven to guarantee that what happened to him, never happens to anyone else.

The fight for hearings

As members from both parties stampede to sign on as co-sponsors, Gingrich is scrambling to try to keep a lid on the

Clockwise from left: Lyndon LaRouche, Jr. and his attorneys, former U.S. Attorney General Ramsey Clark and Odin Anderson. If the McDade-Murtha bill is enacted by Congress, it will be virtually impossible to prevent testimony on the LaRouche case, the most outrageous of all the recent political railroad trials conducted by the Department of Justice.



explosive potential of public hearings on the legislation. The bill specifies as criminally punishable misconduct: selective prosecution, vindictive prosecution, abuse of the grand jury process (actions which improperly influence or mislead the grand jury, leaking to the press, improper use of grand jury materials), interference with the attorney-client relationship, prosecutorial conflict of interest, inflammatory remarks at trial, improper characterization of defense witnesses or evidence, and reliance on perjury or deception at trial. The list reads like the table of contents of the well-documented abuses committed by the "Get LaRouche" task force which railroaded Lyndon LaRouche to prison. As such, it will be virtually impossible to exclude LaRouche's attorneys, Odin Anderson and former U.S. Attorney General Ramsey Clark, from testifying, if such hearings occur, thereby finally winning LaRouche's long-overdue exoneration.

Adding to Gingrich's nightmares, if the legislation is enacted, it is quite conceivable that long-standing members of the Department of Justice hit squad, including John Keeney, Mark Richard, Kenneth Starr, and Hickman Ewing, could face criminal prosecution.

But, as increasing numbers of Congressmen get the message that their constituents want to see the criminal conduct of the Department of Justice, the Internal Revenue Service, and other parts of the vast Federal prosecutorial machinery brought to a halt, the momentum will be hard to stop.

Another complaint against the IRS

In related developments, Rep. Harold Ford, Jr. (D-Tenn.), whose father was a well-known victim of Operation Frueh-

mensen, has initiated a General Accounting Office complaint against the IRS. In a letter to the GAO Comptroller General, Ford and Rep. Henry Waxman (D-Calif.) have requested an investigation into allegations that the IRS disproportionately audits and prosecutes taxpayers from the South, particularly Tennessee.

The two have also sent a letter, dated May 5, to Attorney General Janet Reno, requesting that Reno investigate the allegations. (These charges originally came to light during Congressional hearings on the IRS, when a study by the Transactional Records Access Clearinghouse was entered into evidence.) The letter cites testimony concerning the targetting of former White House Chief of Staff and former Sen. Howard Baker (R-Tenn.), as lending credence to charges that the power of the IRS remains unchecked. Ford and Waxman assert that the findings from the hearings, and the cited study, warrant an investigation into IRS practices by the Justice Department.

On May 4, Sen. Dale Bumpers (D-Ark.) introduced the Grand Jury Due Process Act, designed to curb abuse of the Grand Jury, and on May 12, State Rep. Harold James (D-Phila.), who chairs the Pennsylvania Legislative Black Caucus, told a Philadelphia press conference that, in the first week of June, he will introduce a bill in the Pennsylvania State Legislature, modeled on the Federal McDade-Murtha legislation. It is expected that similar legislation will be introduced in state legislatures across the nation. James, a former Philadelphia police officer and a leader of the National Black Caucus of State Legislators, has campaigned nationally to expose and shut down Operation Fruehmenschen, and has also been an outspoken advocate of exoneration for Lyndon LaRouche.

Spannaus for Congress mobilizes 30-40% of Democratic 'outsiders'

by EIR Staff

The turnout of Democratic voters on behalf of LaRouche Democrat Nancy Spannaus in the Loudoun and Prince William county caucuses held in Virginia's 10th Congressional District, May 9 and May 14, has put a shot across the bow of those in the Republican and Democratic parties who have sought to destroy the United States through political witch-hunts. In the area where Lyndon LaRouche has made his home, which is the most saturated with venomous propaganda and terror tactics against him, Spannaus polled between 30 and 48.5% officially against Washington lawyer Cornell Brooks, who has the endorsement of most of the local party leadership. The fact that Spannaus lost by only 10 votes in her home county of Loudoun, the scene of new scurrilous attacks on her by the official party and of some irregularities in the vote-counting procedures, is going to produce shock-waves far beyond the area.

It is now clear once again—as it was during Sen. Chuck Robb's campaign against Ollie North in 1994—that the LaRouche wing of the party is addressing the concerns of those who have turned their backs on politics in disgust, and that collaboration with the LaRouche wing is essential for Democrats who actually wish to defeat Republicans in this turbulent period. Brooks has formally won enough delegates now to win the 10th CD nomination, but a crowning by party insiders means nothing for winning the election. If the party leadership rejects the new blood represented by the LaRouche-Spannaus voters, it will continue down the path to becoming the "losers' party" permanently, with devastating consequences for the nation.

The Loudoun vote

The Loudoun County vote is a crucial example of both the paradigm shift, and the potential, of the current political situation. On the one hand, the lunatic fringe of the local party, which holds all the leading offices, and supports Brooks, was unable to run a successful fear campaign to bring out an "anti-LaRouche" vote. While the crew did circulate scurrilous attacks on LaRouche, mostly taken from the Anti-Defamation League's 1986 tract, at the caucus doors, this was so unsuccessful that they finally shut down their operation altogether. The officials only brought out 176 voters, as compared to 471

in the 1996 caucus showdown between LaRouche and Clinton.

On the other hand, Spannaus campaign volunteers had mounted a broad mobilization through radio ads, street organizing, mail, and phone banks in order to rouse inert and uninformed citizens to understand the stakes in the vote. This brought out dozens of voters who otherwise would never have heard of the caucus election. (The local party's determination to protect itself as a "private club" is shown by the caucus system itself: Rather than hold a primary to let voters decide who will run, the party held caucuses, unadvertised and unannounced, in each local jurisdiction.) Spannaus campaign workers discovered that an increasing number of Loudouners are revolted by the smear tactics against LaRouche. Equally important is the fact that voters see LaRouche Democrats as the only ones committed to defeating 18-year incumbent Frank Wolf (R), and to addressing the realities of the financial/economic crisis, and the treasonous assault on the Presidency.

One African-American voter, who brought several of her friends with her, expressed outrage at the way the Brooks supporters concentrated on attacking LaRouche, and on treating her and her friends as if they didn't know what they were doing in voting for Spannaus. The Spannaus campaign also drew significant support from Arab-American voters, who saw her stand up against the vicious anti-Islamic campaign of Frank Wolf's supporters in the "Christian fundamentalist" community.

Spannaus had sent out a mass mailing to 10,000 voters in the Loudoun County seat of Leesburg, as well as 10,000 voters in neighboring Fairfax County, where the caucus took place on May 16. While this did not bring many people to the polls, it helped create a positive environment for the core of the Spannaus vote to come out.

While the Loudoun party officials made a big show of fairness, the caucus result was marred by at least two irregularities. First, the officials never showed Spannaus representatives the empty ballot box before it was used—meaning that its emptiness was not verified. Second, the vote counters did not check the number of ballots against the declarations that all voters must fill out at the time of compilation. A subsequent check has turned up no evidence of fraud.

Prince William County pressures

The Spannaus campaign has also filed a formal complaint with the Virginia voting rights division of the U.S. Justice Department, on the caucus procedures in Prince William County, one of the three most populous jurisdictions in the district. Before the caucus occurred, Spannaus objected to the fact that it was being held outside the 10th CD, without having justified this before the Justice Department. The caucus turnout itself underscored the validity of her concern, since 17 people came from 11th CD, where the caucus was being held, and obviously were unable to vote. Prince William voters who *were* from the 10th CD had to travel up to 25 miles in order to find the obscure, unmarked party headquarters.

The Justice Department says it is still investigating. Were the caucus shown to be unlawful, it would have to be rerun.

Despite these problems, Nancy Spannaus received 24 official votes, to 49 for Brooks. Another Spannaus voter arrived two minutes after the doors were closed. Counting the 17 voters from the wrong CD, Spannaus turned out 42 people—in Brooks's home district! This, too, must have put quite a scare into the local party officialdom.

The Prince William officials acted like an in-group determined to lose the general election. Those arriving to vote were forced to run a gauntlet of Brooks supporters outside the caucus, telling them that Spannaus was not a "mainstream" Democrat. When they got inside, they were confronted with a ballot that never listed the name "Spannaus," only the designation "S" to indicate the delegate-candidates pledged to her. The Spannaus campaign was not allowed to have an observer in the voting room, and the ballot counting was conducted in such a fashion as to make it impossible for the sole Spannaus observer to determine the accuracy of the tally.

African-American supporters of Spannaus were most outraged at the tactics of the campaign of African-American Brooks. One woman said that she was first confronted by Brooks, who tried to convince her that Spannaus "is not in the mainstream"; then came an official of the National Association for the Advancement of Colored People; then, two more people. "Then," she said, "I went and voted for the Nancy Spannaus delegates! I've never been through anything like that before. Usually, when you go to vote, people just let you vote. This time, it was unbelievable. I had to run the gauntlet."

Another reflection of the insane attitude of the local Democratic "club" came in one man's comment to Spannaus. You're carrying out dirty tactics, he told her. What do you mean? asked Spannaus. "You're recruiting people at the motor vehicles bureau three days before the election!" As if recruiting Democrats were a threat to the party!

The issues at stake

During the last two weeks of the campaign, the campaign circulated 10,000 copies of a leaflet which posed the issues

most sharply. "Are You a Citizen, or a Slave?" Spannaus's leaflet asks. "About one year ago, I went to the citizens of the 10th Congressional District of Virginia with an emergency message. Genocide on a scale not seen since Adolf Hitler was going on under the boot of Uganda's Museveni, in Central Africa. Hundreds of thousands of black Africans in Zaire were being 'ethnically cleansed,' and many shipped in boxcars back to Rwanda for extermination. I challenged your Congressman, Frank Wolf, who backs Museveni, to take action *to stop the holocaust!*

"The rallying cry was, 'Never Again!'

"Frank Wolf not only did nothing to stop the slaughter. . . .

"But what did *you*, the citizen of the 10th Congressional District, do about this genocide, which is still going on under Museveni puppets Kabila (Congo/Zaire) and Kagame (Rwanda)?

"Many of you also did nothing. . . .

"Your best way to act is to join the LaRouche political movement, and specifically, my campaign for Congress. Some of you have done so, to the great consternation of the Hunt Country oligarchy which owns Frank Wolf, and some of the nominal Democrats in the 10th CD.

"In the meantime, the threat which the IMF and British-backed forces represent to life itself in Central Africa, has dramatically expanded to the rest of the world. The systemic financial crisis which is gripping the world by the throat, and which Lyndon LaRouche uniquely warned about, has grown much worse. The bankers who have created this crisis through usury and looting, are demanding to be bailed out at the expense of millions, if not billions, of lives. You see the direction we're headed by looking at Southeast Asia, until last year a set of economies which were actually improving the living of their populations. Today, after looting by the global hedge funds, and by conditions imposed by the IMF, these nations are starving to death, and on the verge of social disintegration.

"That is the very same future that awaits us here in the United States, when the speculative bubble pops. . . .

"But here in the 10th CD, many of you are not true citizens, free and willing to think through the best policies and act on their behalf. Instead, you are *slaves*, . . . slaves of 'public opinion' and prejudice.

"You can't imagine fighting genocide, the way our forefathers did in World War II, or our ancestors did in the Revolutionary War. That would disrupt your life, get you in trouble with the authorities, interfere with the virtual reality that you have created to protect you from the realization that we've been going down the tubes over the past 30 years of post-industrial disintegration. . . .

The fact is, however, that your cowardice is literally killing people. . . .

"The question comes down to your courage: Will you be a slave, or a citizen? It is the answer to that question, which will determine the fate of the entire human race."

Senators call for opening to Iran

On May 6, three Republican senators who were part of a congressional delegation that visited Kuwait, Saudi Arabia, Bosnia, and Brussels, called for a new opening to Iran. Pat Roberts (R-Kan.), speaking about the U.S. military deployment in the region, said, "It seems to me there's an opportunity here in the Mideast for a delegation to visit Iran. . . . I think we should study the possibility of using agriculture as a tool for peace. . . . I think that would benefit both the United States and that part of the world," and "it would send a very strong and unique signal to Saddam Hussein."

Roberts's statement was endorsed by Conrad Burns (R-Mont.) and Kay Bailey Hutchison (R-Tex.). Burns reported that, shortly after Christmas, he and his wife were told by the Prime Minister of Greece, that what the Iranians "wanted to see was more visitors from the United States." He said that the people the delegation had met with in Saudi Arabia and Kuwait had indicated "that such a re-opening of dialogue with Iran would be acceptable to the people in that area."

Hutchison said, "We have a President of Iran who has openly said he would like to have better relations with the West, and I think if we can be moving in a direction of showing that that is a positive thing from his standpoint, then perhaps he will become more strengthened in his country if they can see good effects from a better relationship with the West, because he still has his own political minority."

The three were speaking at a press conference that included Budget Committee Chairman Pete Domenici (R-N.M.), Daniel Inouye (D-Hi.), and Bill Frist (R-Tenn.). The senators also called for a reduction of U.S. military

forces in the Middle East and in Bosnia, citing problems in logistics, readiness, and morale as a result of overdeployment of forces.

IRS reform bill clears the Senate

In a unanimous vote following four days of dramatic hearings in the Senate Finance Committee which exposed abusive tactics by the IRS's Criminal Investigative Division (see last week's *EIR*), the Senate passed a bill reforming the Internal Revenue Service. The vote followed four days of debate, in which no one was prepared to openly oppose IRS reform.

The bill requires a substantial IRS reorganization, which includes abolishing the district-regional-national tier structure, establishing units within the IRS to serve groups of taxpayers with similar needs, and establishing an independent appeals process within the IRS. The bill also establishes a nine-member outside IRS oversight board with responsibilities to include review and approval of IRS strategic and operational plans, recommendation of candidates for appointment as Commissioner, and to ensure proper treatment of taxpayers. The bill also revises tax law with respect to burden of proof, taxpayer rights, and due process in tax-collection cases.

The only issue of contention came up with respect to the makeup of the IRS oversight board. Republicans objected to requiring one of the members of the board to be a representative of a union representing IRS employees. Lauch Faircloth (R-N.C.) said, "The reason for establishing the oversight board was that the union was out of control." He contended that it is the union that is endorsing abusive prac-

tices by IRS employees, and therefore would object to changes proposed by the board. However, his amendment to remove union representation, and another sponsored by Fred Thompson (R-Tenn.) to substantially alter the ethics provisions with respect to the union member, were both defeated.

Free trade attacked in North Dakota disaster

Kent Conrad (D-N.D.) highlighted the disaster that has hit the state of North Dakota, at a Senate Agriculture Committee hearing on trade on May 7. Conrad told Agriculture Secretary Dan Glickman, "We are having a disaster there of really unparalleled proportion. Last year, all of the country knows that North Dakota faced an extraordinary set of disasters with flooding and fires and horrendous winter storms. But this year we are having a stealth disaster, one that very few people hear about, one that is not very visible. . . . But . . . it is a disaster nonetheless."

Conrad prepared a chart which showed that "farm income declined 98% in the state of North Dakota, from \$764 million down to \$15 million. Fifteen million dollars of farm income in a state with 30,000 farmers. That means the average farmer had a farm income of \$500," he said.

Conrad pointed to wrong trade policy and unfair competition from the European Union, thanks to global free-trade policies, as factors in the disaster. He pointed to increased European exports in wheat, while the United States has lost ground in wheat exports, as well as the fact that the United States is now becoming a net importer of barley.

As for fast track trade legislation,

Conrad said, "I'd say to our friends who say, 'Well, the answer is fast track': That's not the answer. We've got the Canadian Free Trade Agreement. It's part of the problem. I think there's a loophole in there that allows them to sell below their cost into our market, and it's devastating to our state."

Conrad was seconded by Max Baucus (D-Mont.), who said that the "free market economy, I think, does not help producers, unless there are certain provisions in that, that are going to help protect them in some reasonable way." This is why, he said, there was a farm bill "to add a little stabilization and income for producers." Baucus suggested that if things don't improve, "we may have to" reopen the free-trade dominated 1995 Freedom to Farm bill.

Smith calls for larger U.S. role in Kosova

Gordon Smith (R-Ore.), the chairman of the European Affairs subcommittee of the Senate Foreign Relations Committee, said in a hearing on May 6 that if the efforts of the Contact Group on former Yugoslavia should prove to be unsuccessful in dealing with the situation in Kosova, "then the United States must pursue an appropriate policy unilaterally." He added that while Secretary of State Madeleine Albright has used "strong words of warning" to Serbian President Slobodan Milosevic, "I must say the direction of U.S. policy on this issue is, unfortunately, unclear."

Robert Gelbard, President Clinton's special representative for the implementation of the Dayton Peace Accord, briefly summarized the history of the crisis, and said that the U.S. op-

poses the independence of Kosova because "further atomization will not contribute to regional peace and security." On the other hand, he said, "neither can we accept the status quo" in which "Kosovar Albanians are denied the basic human rights and political freedoms that are the foundations of a stable democracy." Gelbard suggested, however, that in between these two extremes are a "wide range of possibilities," including an enhanced political status for Kosova "that would provide for a meaningful self-administration." The role of the international community in this, he said, is to bring the two sides together so they can discuss how this might occur.

Smith referred to a so-called "Christmas warning" delivered by President George Bush to Milosevic in 1992, and repeated by President Clinton in 1993. Gelbard refused to address the content of that warning in an open hearing. All he would say, is that "the United States continues to work on all possible options that are available regarding . . . our desire to find a peaceful solution in Kosova."

Budget battle shows splits in GOP ranks

A battle is shaping up between House Budget Committee Chairman John Kasich (R-Ohio) and Appropriations Committee Chairman Bob Livingston (R-La.) over the budget resolution. Kasich is reported to be working on a very conservative resolution which would cut President Clinton's budget request by some \$100-150 billion by, in part, eliminating the Department of Commerce and using the funds to pay for tax cuts. Livingston, joined by many other Republicans, is balking at such reductions, because he is more

concerned about getting the 13 spending bills through Congress, which requires a certain degree of cooperation with Democrats.

Also behind the disagreement are the ambitions of both men. Kasich is said to be considering a run for the GOP Presidential nomination in 2000, and Livingston has been campaigning vigorously to become the next Speaker of the House.

According to columnist Robert Novak, the battle erupted on May 6 at a Republican conference meeting where Kasich presented his budget plan. Livingston, supported by other members of his committee, said that he has no choice but to appropriate money for programs authorized by Congress. According to Novak, conservatives were "stunned" that Majority Leader Dick Armey (R-Tex.) and Majority Whip Tom Delay (R-Tex.) did not rise to support Kasich and the other budget conservatives. Even more shocking, perhaps, is that House Speaker Newt Gingrich (R-Ga.) lashed out at the budget ideologues, though not Kasich specifically, demanding "less rhetoric" and arguing that "there is no use in embarking on quixotic ventures such as eliminating the Department of Energy" (which Kasich did drop from his bill, but not the elimination of the Department of Commerce), and agreeing with Livingston that "there is no point in denying funds for programs already authorized."

Kasich's budget plan has also upset those who are seeking more funds for military spending and are worried about agricultural provisions said to be included in the bill. For Democrats, the bill is a nonstarter. On April 30, Senate Minority Leader Tom Daschle (D-S.D.) said, "There is more of a chance the Speaker will become President than that budget will ever become law."

National News

Working poor can't find rental housing

A lack of affordable rental units and a freeze in Federal housing subsidies have created a housing crisis for working poor families. The Department of Housing and Urban Development (HUD) reports that 5.3 million families—about 14% of U.S. renters—pay at least half their income to keep a roof over their head. Among these families, tens of thousands of heads of households were forced off welfare and into low-paying jobs, and now can't find housing.

Caty Royce, director of the Community Stabilization Project, a low-income-tenant advocacy group in St. Paul, Minnesota, pointed to the thin margin of survival many poor families must live with: "I have literally had parents say that because they paid for a field trip, or had to get diapers, or bought some shoes that their kids wanted, that they didn't have enough money for rent. And these are not people on welfare, or drug addicts. These are working families." Typical is the case of Rigoberto and Alba Murcia-Andrade: Along with their two-year-old son, they share two bedrooms with a relative. All three adults work, earning about \$1,000 a month. Their rent is \$480.

According to the Pennsylvania Low-Income Housing Coalition, Pennsylvanians who earn the minimum wage would have to work 86 hours per week, just to afford rent on a two-bedroom apartment.

Louisiana considers securities sales tax

On May 5, a bill that would impose a 1% tax on the sale or transfer of securities was introduced into the Louisiana House of Representatives by Rep. Charles Hudson of Opelousas. The bill has three co-sponsors, Arthur Morrell (New Orleans), Willie Hunter Jr. (Monroe), and Ernest Baylor, Jr. (Shreveport); all four representatives are signers on the open letter to President Clinton, calling for the exoneration of Lyndon LaRouche, are Democrats, and are members

of the Legislative Black Caucus. LaRouche was the first to propose the idea for levying the minuscule tax on securities transfers in 1993, when he commissioned *EIR* to investigate the explosion of off-balance-sheet financial derivatives.

The "Louisiana Securities Transfer Tax Act," House Bill 262, is identical to a bill introduced in Pennsylvania last year by Rep. Harold James, except it levies a higher tax. Similar legislation in New Hampshire was prompted by a December 1997 State Supreme Court decision ruling that the state's property tax unfairly burdened property-poor school districts. The sponsor for New Hampshire's 1% tax, Rep. Bill McCann, estimated that a transfer tax on all securities—stocks, bonds, and off-balance-sheet speculative instruments—would yield revenues of \$5 billion over four years.

Louisiana's proposed bill reads: "It is the legislature's intent to provide a disincentive to financial speculative activity destructive to the economic well-being of this state and its citizens; to encourage stable investments and job creation; and to enhance state revenues without harm to the lives and health of the people."

Chiquita ships found carrying illegal drugs

Belgian authorities have found over a ton of cocaine in seven seizures in 1997, on ships carrying Chiquita brand fruit, according to a May 3 article in the *Cincinnati Enquirer*. Chiquita's CEO is the Cincinnati-based Carl Lindner, who succeeded organized-crime figure Max Fisher as chairman of United Fruit, which was later renamed Chiquita Brands International. According to the *Enquirer*, the most recent seizure was on Oct. 31, when more than 500 kilos of cocaine were discovered on a ship belonging to Chiquita Brands, in a large container packed with boxes of fruit.

A companion article focusses on Lindner's good relations with both Democrats and Republicans, under the headline "Contributions Buy Influence."

In the 1970s, insurance magnate Lindner was involved in the takeover and restructuring of organized crime's United Brands,

which was renamed United Fruit. He was a central figure in organized crime's involvement in the junk bond/takeover operation run under Drexel Burnham's Michael Milken in the early 1980s, through his operations in insurance and S&Ls.

Defense motions denied in Houston FBI sting

The judge in an FBI bribery sting against three minority Houston city councilmen rejected a defense motion to dismiss the case, but dropped all four counts against the one white defendant, lobbyist Ross Allyn, on April 27. The sting involved alleged bribery by a dummy contractor for a construction project, whose bid the councilmen had already approved.

The case follows the pattern of the FBI's "Operation Fruehmenschien," which targeted African-American office-holders for prosecution.

The defendants pointed out that they had announced their support for the otherwise legitimate construction bid, before the FBI front man had made his contribution, now alleged to be a bribe, to them.

In the latest blow to the prosecution's case, defendant Ben Reyes, a former City Councilman who was the main target of the sting, testified that he never delivered the alleged bribes to the other Councilmen. Reyes's attorney provided evidence that Reyes used the bribe money to buy property, which Reyes said he did so that he could develop it, using minority contractors to create minority jobs.

Private toll road is failing fast

With less than 90 days left before it must come up with a plan to refinance its massive debt load, time is running out for the Dulles Greenway, the country's first private toll road, which runs from Washington's Dulles airport west to suburban Leesburg, Virginia. Various financial sources say that the Greenway, touted as a model private infrastructure

ABE FOXMAN, chairman of the Anti-Defamation League, came out swinging in defense of "Get Clinton" prosecutors Kenneth Starr and Hickman Ewing, in an interview with the May 7 *New York Post*. Foxman's Irish was got up by White House aide Sidney Blumenthal, who had referred to Ewing and Starr as religious fanatics, and described their operation as a "perverse episode" and a "reign of witches" (a phrase borrowed from Thomas Jefferson). Foxman, stuck with a target he couldn't tar as anti-Semitic, bristled, "There's no room for introducing a religious component or factor into this debate."

THE PEW CHARITABLE Trust announced on May 7 that it will provide \$5.2 million to create the Pew Center on Global Climate Change, to help shape the debate on the Malthusian dogma of global warming. Sunoco, British Petroleum, Boeing, and Toyota have endorsed the center and will let it use their corporate logos in its literature.

A MIDEAST EXPERT who has written several books on the Israeli Labor Party, remarked, in a May 7 discussion with *EIR*, on the coincidence that "it's all one crowd going after Clinton," referring to the fact that the same crew trying to bring down the President (Jerry Falwell, Pat Robertson and the Newt Gingrich crowd) is also opposed to his Middle East peace effort.

THE POSTAL Workers Union plans to hold informational picket lines nationally on May 27 to protest privatization and contracting out schemes by the U.S. Postal Service. The union is also planning a national radio ad campaign to warn against future privatization plans.

JOHN SWEENEY, AFL-CIO president, told the Economic Strategy Institute on May 5, "An untrammelled global economy is morally—and ultimately politically—undefensible." However, he made no mention of the need for a New Bretton Woods monetary system.

project when it opened, years behind schedule, in 1995, has less than a 50% chance of averting bankruptcy; if bankruptcy should occur, a state takeover of the road might occur.

The Greenway must have some refinancing deal in place by July 31, when the latest extension on its debt service from its creditors, including the state, expires. The Greenway's investors, who include Hunt Country millionaire Magalen Ohrstrom Bryant, have yet to make even one debt service payment, which is supposed to be \$7 million quarterly.

As *EIR*'s local subsidiary, *News for Loudoun County*, first reported, desperate Greenway officials had approached Loudoun County with the scheme to establish a tax-exempt shell corporation, with participation from the county and a group of the Greenway's investors, which would take over "ownership" of the road and seek a tax-exempt, low-interest refinancing of the debt, estimated at more than \$325 million. Sources say that Greenway's creditors have demanded the involvement of the county or some other "fresh blood" in the arrangement, because they are unconvinced that either the road or its current investors could ever pay off the debt.

One in 50 Americans are in 'corrections' system

In a devastating front-page article in the May 12 *Richmond Times-Dispatch*, criminal justice writer Frank Green documents the degree to which the United States has been turned into a gulag culture: In 1997, one in every fifty Americans was behind bars, on parole, or on probation. About 1.7 million people—more than the total number of people in the U.S. Armed Forces—were in state or Federal prisons or local jails. From 1987 to 1997, the number of prison inmates doubled, while the population rose only by 11%.

What he called the "correctional-industrial complex" cost at least \$33.4 billion last year—equal to almost 15% of the U.S. defense budget. Corrections has eclipsed Medicaid as the fastest-growing budget item for many state governments. Seven states had prison budgets of more than \$1 billion—California, New York, Michigan, Florida,

Ohio, Pennsylvania, and Texas.

According to the Justice Policy Institute of Washington, D.C., 1995 was the first year in which more money was spent on prison construction than on college and university construction. In Virginia, it costs an average of \$16,317 a year to keep an inmate imprisoned. By comparison, the state allocated \$4,219 per higher-education student, and public schools spent \$5-7,000 a year per student.

Israel admits Pollard was their spy

The Israeli government has finally officially admitted that Jonathan Pollard, a former U.S. Naval Intelligence employee who was convicted of spying for Israel in 1985 and has been serving a life sentence in a Federal prison since then, was working for the state of Israel as a spy. The official statement reads: "Jonathan Pollard was an Israeli agent handled by high-ranking Israeli officials in an Israeli authorized bureau, Lakam. In light of this fact, the State of Israel acknowledges its obligation to Mr. Pollard and is ready to assume full responsibility accordingly."

The admission, demanded by Pollard, in order for him to be released to Israeli authorities, was the subject of a case before the Israeli High Court, which has now been withdrawn. His attorney, Larry Dub, told the May 12 issue of *Ha'aretz*, "Unless Israel comes clean, there is no opportunity to have him released." The agreement to make this admission was worked out between Dub and the office of Prime Minister Benjamin Netanyahu and was written by the Prime Minister's legal adviser. Left unsaid by the Israeli government is the fact that Pollard was deployed under then-Prime Minister Yitzhak Shamir, of the Likud party, and that his handler was Ariel Sharon's protégé, Rafi Eytan.

The admission occurs on the eve of Netanyahu's trip to the United States, where he will brainstorm against Clinton, with the old Pollard support apparatus including such Congressional Republicans as Sen. Jesse Helms (R-N.C.), "strategist" Richard Perle, and the "Christian" right around Jerry Falwell.

A vision for the 21st century

On June 23, President Clinton will arrive in China for a visit full of promise for the future, provided he and his interlocutors proceed with the boldness and vision that the world strategic crisis demands.

The economies of most of China's neighbors have been badly battered since President Jiang Zemin last met with President Clinton, in the United States in October 1997. The governments of the West, while trying to pretend that all is well, are desperately trying to come up with a way to stave off a catastrophic collapse of the financial bubble. Some leading policymakers are timidly (and mostly in private) discussing Lyndon LaRouche's policy for a New Bretton Woods System—a bankruptcy reorganization of the global financial system, imposition of fixed exchange rates, and allocation of credit for priority projects in infrastructure and industry. But decisive moves have not been taken, and so, we continue to lurch from one crisis to the next.

Helga Zepp-LaRouche, who is known as “the Silk Road Lady,” for her advocacy of Eurasian development along the ancient Silk Road, addressed a conference in Rome on April 2, and emphasized that the only government that has drawn the appropriate conclusion from the financial crisis, is the government of China. She reported that she was in Beijing last September, briefing people on Lyndon LaRouche's forecast that a systemic crisis would hit in October, and would overshadow the summit between President Jiang Zemin and President Clinton. “I don't think that people believed this,” she said. “They were very politely listening, and they said, ‘You are very bold, you are very courageous to make such an analysis. And if it happens to be true, you will have done a great service to mankind.’ ”

But then, on Oct. 27, the crisis hit. Since that time, there has been one conference after another in China, discussing the implications of the global crisis for China. “Mr. LaRouche obviously is a great prophet,” people said.

The Chinese government swiftly made some policy changes, Mrs. LaRouche reported, “including to eliminate the bubble, to streamline the control over the regions, and, most importantly, they announced that they were shifting their focus away from the export of consumer goods to Southeast Asia, to the development of

China's domestic market. They allocated the equivalent of \$1 trillion for the next three years for the infrastructural and scientific and technological development of the interior regions of China.”

So, she concluded, “there are changes, tectonic changes under way. . . . What is required right now, is not the mentality of accountants, but of visionaries, a vision for the twenty-first century.”

Some Western policymakers are at least looking in the right direction. President Clinton moved forward the schedule of his trip to Beijing, originally scheduled for the fall, in order to give the greatest possible momentum to his diplomacy with China. Robert Hormats, vice chairman of Goldman Sachs, at a press conference on May 11, called for China to be included in Group of Seven summit meetings. A discussion on the future architecture of the international financial system in the wake of the Asia crisis, without China, he said, is like a discussion about the future of the auto industry, without General Motors.

But what programs will the G-7 adopt? Too often, its summit meetings have been Mad Hatter's tea parties, at which British geopolitical manipulations have made sure that nothing useful was accomplished. The urgent task for sovereign nations, particularly the United States and China, is to join efforts for a New Bretton Woods system, and the development program known as the Eurasian Land-Bridge.

As *EIR* readers know, China is forging ahead with the Land-Bridge effort, in cooperation with many of its neighbors. But input from the Western nations would make possible much more rapid accomplishments, while reviving the prostrate industrial economies of the West. It is highly interesting, in this light, that Prime Minister Zhu Rongji received a briefing on maglev technology, the transport technology of the twenty-first century, from a group of German industrialists on April 29. He then asked Chinese experts to develop a pilot project for the maglev.

Think of Eurasia spanned with maglev and other high-speed transportation systems, and high-technology industrial corridors developed around those transport arteries: that is the kind of visionary approach that could take hold, under a New Bretton Woods system.

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