

EIR

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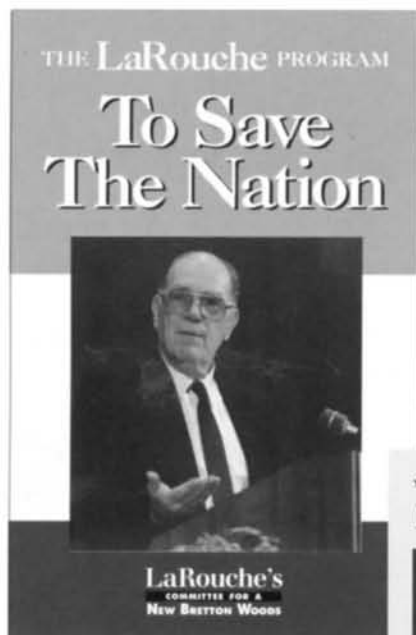
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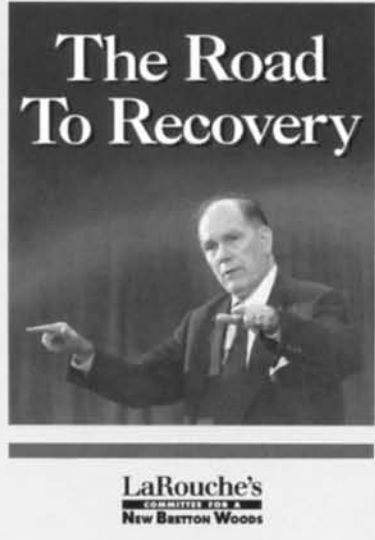
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Lyndon H. LaRouche, Jr.



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From the Associate Editor

What chance is there, some of our readers want to know, that Lyndon LaRouche's concept of Balkan reconstruction, linked to global economic reconstruction, will actually be implemented?

We have put a photo of the late U.S. Commerce Secretary Ron Brown on our cover, as a reminder of just how close the United States actually came to launching a serious development effort in Bosnia-Herzegovina and Croatia, in 1996. In our *Feature*, Edward Spannaus and Umberto Pascali report what Brown was doing, and how the International Monetary Fund and World Bank moved in, after Brown's tragic death in April 1996, to turn the reconstruction program into a cruel farce.

The same thing happened in the Middle East, following the assassination of Israeli Prime Minister Yitzhak Rabin in 1995. As Muriel Mirak-Weissbach documents in this issue, the Oslo Accords' commitment to economic development for the Palestinians was sabotaged, step by step, by the same IMF and World Bank, to the point that today, the Palestinians are worse off than they were prior to the peace agreement with Israel.

Yet today, in both of these war-torn areas of the world, a fragile potential exists for a turn in policy: with the steps toward a peace settlement in Yugoslavia, and with the ouster of Israeli lunatic Benjamin Netanyahu.

What, then, are the chances that the United States will take the necessary leadership, breaking decisively with the policies of the British-led financial oligarchy, including the IMF and World Bank? I am reminded of a conference of the LaRouche movement many years ago, when a member of the audience asked Mr. LaRouche, "What are the chances that we will win?" He answered with words to this effect: "Do you mean including *your* own efforts, or without them?"

Wars are won, when soldiers decide they are really going to fight, and when they have competent leadership to direct them. The war we are in now can be won, to the extent that *EIR's* readers take the responsibility to push LaRouche's policies through; to help mobilize the manpower and financial support this movement needs in order to succeed; to organize others to understand the importance of the fight. I'm not making any predictions, but if the opportunity now before us is not squandered, there is every reason for optimism.

Susan Welsh

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What EIR knows and what Hollinger says

by Lyndon H. LaRouche, Jr.

May 26, 1999

The recent, brief appearance of the republication of a list of names from other Internet sources on *EIR*'s own Internet site, prompts the following, clarifying reaffirmation of our general editorial policy. The contrast between our policy and that of the disreputable London *Telegraph*, makes the relevant points.

That *Telegraph* is the flagship propaganda organ of the British Commonwealth's Hollinger Corporation. As we have documented the evidence many times during more than six years to date, much of what the *Telegraph* publishes, is both willfully fraudulent and done with bald-faced malicious, and usually strategic intent.

The *Telegraph*'s professed ownership, the Hollinger Corporation, which was founded as a Canada-based offshoot of a World War II-vintage British intelligence agency, has been the leading enemy of President Bill Clinton since no later than 1993, and, through such of its agents as Ambrose Evans-Pritchard, played a directing role in the fabricating of the so-called Paula Jones case, and of many other attempts to destroy not only the person and family of President Clinton, but also the functioning of the U.S. Presidency, from that time to the present date. It is fairly described as, like Adolf Hitler's Josef Goebbels, a leading enemy of the United States.

We of *EIR* know the Hollinger Corporation's despicable character very well. In its leading international role in the malicious targetting of U.S. President Clinton, all of its notable U.S. accomplices in that dirty operation have been institutions and persons very well known to us at *EIR* as prominent accomplices in dirty political operations against me personally since the 1968-1973 interval.

Together with the other leading British Commonwealth press oligopoly, that of roguish press baron Rupert Murdoch,

the scurrilous *Telegraph* has been among the leading anti-American voices of the British monarchy's efforts to wreck and ruin the U.S. during this recent period to date. In addition to these scurrilous habits, Hollinger's thuggish *Telegraph* has played a leading role in the effort to bring about a cover-up of the facts bearing upon the wrongful death, in Paris, of the former presumptive next Queen of England, Princess Diana.

Now, expressing the *Telegraph*'s customary reckless disregard for truth, it has launched a currently escalating, international campaign of defamation against me, over an *EIR* Internet site's brief republication, on Wednesday, May 12, 1999, of certain listings of alleged British MI6 agents which appeared on other Internet sites earlier. This action has been launched by Her Majesty's Blair government itself, with a leading role as de facto monarchy propaganda agent by the *Telegraph*, in conducting its fraud-reeking campaign of defamation against me.

Justice for the victim

The principal victim in the affair of the so-called "MI6 list," is the often-wronged former pretender to the office of Queen of England, Princess Diana. It will be recalled that Lady Diana and two fellow-passengers died wrongful deaths, in consequence of injuries incurred during a time their vehicle was being harassed most aggressively and maliciously by so-called photographers and others. To make matters worse, her injuries were of such a nature, that she would probably be alive still today, had she been brought, as she easily might, to a relevant hospital in a timely fashion.

Since that time, the case of the death of Lady Diana has been a matter of one massive cover-up attempt after another. Granted, that the practice of such injustice is not only typical of the British monarchy and its Commonwealth press, but



Sometimes, the Queen did push dope!

also of what is often justly best described as a lying U.S. Department of Injustice, and even of all too many fraud-reeking occupants of Federal Court benches. The case of Princess Diana, the mother of putative heirs to the British throne, is of exceptional importance for the cause of justice in the world at large today.

First of all, if a person as popular as Princess Diana can not be assured justice, who can? As was made clear in the moments following her wrongful death, she was for many Britons like the fabulous Snow White of the fairy-tale, victim of the vengeful wrath of a witch-like, jealous old Queen. If we do not deliver justice for a person of such popularity, who can believe that justice is assured for them? Indeed, if the British monarchy and its accomplices can treat the case of Princess Diana so, who, in any such nations, can believe that the actual right to justice exists for them?

Second, Princess Diana deserved special consideration by reason of her status as a friend of Mother Teresa. Here was Diana, in torment over the circumstances into which she had been cast by a jealous old Queen and the Queen's dishonorable son, Prince Charles. In her torment, Diana turned to Mother Teresa, and sought to make her own life more meaningful by using her celebrity for the cause of justice. On this account, for reasons I need not explain here, I have some personal obligation to the late Mother Teresa, an obligation which *EIR* gladly shares with me.

Third, the British monarchy, Princess Diana's persecutor, is evil. Perhaps, in the course of time, the inhabitants of the so-called British Isles will make certain suitable changes in those islands' political affairs. Meanwhile, the stench of genocide against an estimated six millions African victims of the

British monarchy's meddling in Central Africa, perhaps the most massive case of ongoing genocide of this century, demands a *cordon sanitaire* containing such a monarchy's polluting influence in international affairs.

Fourth, it is necessary to make the nature of the British monarchy's role in world affairs clear to those many, childishly simple-minded babblers who babble the nonsensical assertion, that the British monarchy is only a ceremonial fixture, denying the actual, most dictatorial power it wields over most of the British Isles and much of the Commonwealth besides.

The British Queen is the actual head of state of not only the United Kingdom, but also

the British Commonwealth. She is to that vast empire as the old Doge of Venice was to the far-flung financial-oligarchical power then centered at the north of the Adriatic. Relative to the Queen, the British parliamentary government is more a side-show than an actually ruling power. The state apparatus—the military and so on—exists “On Her Majesty's Service;” the parliament can be turned over almost on a whim, through a readily orchestrated parliamentary coup d'état of the sort which the *Telegraph* and its accomplices attempted, with their fraudulent impeachment efforts, against the Presidency and Constitution of the U.S.A.

The Empire over which the Queen presides, is the greatest financial and political power in the world today. Only if a group of nations, preferably led by the U.S. President, were to make a Franklin Roosevelt-like effort to rid the world of the pestilence of “free trade” and other relics of colonialism, would it be possible to summon sufficient political power to defeat the presently world-dominating role of the British monarchy over not only NATO, but also the IMF, and so on.

Thus, the case of the wrongful death of Princess Diana continues to be of leading importance to the world as a whole today, especially when this injustice is seen against the background of the evil represented by today's British monarchy, the worst English monarchy since, perhaps, Richard III.

Therefore, we address the issue of that wrongful death as we have done, and will continue to do until true justice is finally done. Justice for the wrongfully deceased Princess Diana, is a leading matter of continuing concern for every intelligent and honest government, and news media, in the world today. If Diana can not secure justice, can you, can any nation victim of a British-directed NATO or other atrocity?

The issue of truth

We are also obliged to defend justice for Princess Diana out of true patriotism for a U.S.A. in which we are, unfortunately, one of the few remaining relatively influential and patriotic periodicals. As Cotton Mather said of the ruined Massachusetts Bay Colony, the U.S.A. today is “shrunk . . . almost to nothing,” by the disgusting, corrupting and sometimes outrightly treasonous spread of the Anglophile fungus over the mental life of our leading public institutions and mass media.

One of the things which ought to appear on the front pages of every newspaper in the U.S., if those publications were moral ones, would be a cartoon, showing an ugly, mean-spirited Queen Elizabeth II pushing a baby-carriage, the latter conveying a big-eared Prince Charles. The cartoon’s caption would be: “Sometimes, Queen Elizabeth did push dope!”

Think of the number of times, from 1984 through 1986 and beyond, virtually all leading print and electronic media in the U.S.A. said, repeatedly: “He [Lyndon LaRouche] says the Queen pushes dope.” I never said that, and every mass-medium in the U.S. which published that false report knew it to be false. The question, “Do you say that the Queen pushes dope?” was asked of me, on camera, by an NBC-TV interviewer from NBC’s Chicago flagship. The question was asked, in Washington, D.C., during 1982. I replied to that question by stating I did not say such a thing: on camera. But, nonetheless, every national TV medium which referenced that recorded interview lied by cutting out the reporter’s question and my response. Instead, the announcer supplied the ritual assertion: “He says the Queen pushes dope!”

Several important facts are demonstrated by that case:

First, if you take into account the number of times that false statement is repeated today, you should be forced to realize how politically degenerate most of the U.S. mass media and its journalists are today.

Second, if you take into account the number of foolishly credulous individuals who believe “what I have heard” on that and related issues, you wonder if the typical U.S. citizen is literate, or even honest enough, to deserve the right to vote.

Third, perhaps even more important, the widespread acceptance of that false report, points to the affection which so many less than truly patriotic U.S. citizens have for the worst mass-murderer on this planet today, the present British monarchy.

Fourth, most important of all, is the issue of truth, as this occupies the entirety of Plato’s largest written work, his *Republic*. This issue of truthfulness, as Plato defines it there and elsewhere, goes to the heart of our editorial policy.

Contrary to most opinion in any place, at any time, there are certain kinds of opinion which can be considered truthful, in contrast to the majority of opinion, customary or other, prevailing at any time.

In physical science, for example, truthful opinion depends upon certain experimentally validatable universal physical principles. In science, truthful opinion depends upon consis-

tency with such validatable principles. Opinions which either violate known such principles, or which ignore relevant principles yet to be discovered, are wrong opinions on that account alone. Although the progress of science shows that we never know the complete truth, we can be truthful nonetheless. We are truthful, in this sense, on two conditions: that we do not put mere opinion above known universal physical principles, and that we keep an open mind toward the existence of added principles yet to be discovered.

The evidence of physical science itself, points our attention to a still deeper meaning of truthfulness. The faculty by means of which validated discoveries of universal principles are made, is a faculty which Immanuel Kant, for example, falsely denied to exist, as did the British empiricists and the Cartesians before him. This creative faculty, most usefully named “cognition,” is the means by which new discoveries of validatable universal physical principles are accomplished, either by the original discoverer, or by a student, for example, re-experiencing that act of discovery later. Man’s increasing physical power over the universe, as measurable per capita and per square kilometer, occurs solely as a result of such discoveries of universal physical principle, by means of that faculty of cognition which Kant and the empiricists denied to exist.

This function of individual cognition, which no animal species can replicate, is the distinction which, as Biblical *Genesis* 1 is written, sets each human individual absolutely apart and above every animal species. This shows each man and woman as made in the image of the Creator of this universe, thus empowered to exert increasing dominion within that universe.

On account of this evidence, we can not treat relations among people as we treat the relations of people to animals, or relations among animals. Human individuals’ relations to other human individuals, must be premised upon the fact that it is the faculty of cognition, which atheist Kant denied to exist, which shows the competent scientist that each man and woman is each and all made in the image of the Creator.

This points to the following leading consequences for defining a general policy of truthfulness in editorial work.

Man’s physical relationship to man is located more narrowly in the increase of per capita power in the universe through fundamental scientific progress, as I have described that above. This progress is made possible through the assimilation of those validatable original discoveries of principle, of one mind, by a second mind which repeats that experience of cognition. It is the sharing of such fruits of cognition in this way, which thus constitutes the essence of human cooperation, and the essence of the moral relationship of one human being to another, or one nation to another.

This fact is the foundation for a science-based notion of universal natural law. That is the standpoint of the figure Socrates, in Plato’s *Republic*, in contrast to the opposing misconceptions of law and justice by not only the characters Thrasymachus and Glaucon, but also today’s advocates of

“customary law,” or of empiricism and positivism generally. This Platonic view, is the notion of the general welfare, the anti-Locke, fundamental principle of U.S. constitutional law.

The task of bringing about cooperation in both the knowledgeable development and the application of universal physical principles, forces us to recognize that universal principles are not limited in definition to physical principles alone. The greatest Classical forms of poetry, tragedy, music, and related political-science arts of historiography, show us principles of individual behavior and social relations beyond the conventional sense of universal physical principles.

The combination, and interdependency of such universal physical and Classical-artistic principles, defines the domain of *ideas*, as distinct from mere popular, or other opinion.

Now to sum up the point of reference to the matter of the so-called “MI6 list.”

EIR is a journal devoted to ideas, rather than opinion. Our editorial standpoint is that of truthfulness, not opinion.

However, this policy requires that we deal truthfully—or, one might say also “clinically”—with the notable, or what might be termed “newsworthy” occurrences of mere opinion. The latter obligation arises wherever the opinion being addressed is a factor in the shaping of history.

This policy carries a certain special kind of editorial burden with it. The case of the “MI6 list” typifies the challenge. In the case of the matter of delayed justice for Princess Diana, the leading issue was that of defending a known truth. The

reporting of a newsworthy development, the appearance of the alleged “MI6 list” on several Internet sites, was a matter of reporting opinions bearing upon a truthfully defined choice of subject, the wrongful death of Princess Diana. Strictly speaking, the two subjects should have been separated in the manner in which they were presented. Apparently, for reasons of economy in print, they were not.

To restate the point. The truthful newsworthy event was the continuing investigation of the wrongful death of Princess Diana. The fact that this was a wrongful death, has been demonstrated beyond scientific doubt of the evidence in hand, in earlier investigations. Justice remains delayed, nonetheless. The factual development in the case was the submission of an affidavit to the French authorities by one Tomlinson, formerly an employee of Her Majesty’s MI6. The names which the affidavit contained, were and are part of the relevant newsworthy developments to be reported.

The issue of the “MI6 list” was a horse of a different color, a reportable matter of opinion, and fairly represented as merely some other persons’ opinion, but which should not have been featured within the piece reporting on new developments in the case of the wrongful death of Princess Diana. Our policy is always to attempt to ensure that the distinction between mere opinion and actual ideas is made clear to the literate reader.

I trust the point is now clear, and need not be rehashed further.

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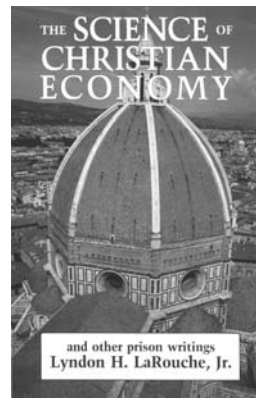
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Russia racked by crisis as globalizers demand more loot

by Rachel Douglas

The weeks of May and June are causing midsummer bad dreams for the London-centered oligarchy, addicted to globalized financial speculation and looting operations, and haunted by the memory of Russia's domestic debt freeze and government crisis in August 1998 and their worldwide aftermath.

Heading for a June 2 deadline on an \$855 million London Club debt payment that it couldn't make, Russia was in the grip of such vicious political infighting, that there were three different people appointed, or nearly appointed, to the post of first deputy premier for macroeconomics, in the space of a week. For ten days, it was unclear who would be the Russian finance minister.

Sergei Stepashin, the career security official named to head the Russian government after Yevgeni Primakov was dumped by President Boris Yeltsin on May 12, has been approved by the State Duma (parliament), but his control is shaky. On May 29, when the cabinet was meeting without a first deputy premier for macroeconomics—former Finance Minister Mikhail Zadornov having resigned, rather than be dictated to by the clique around Yeltsin's family—the widely read business paper *Kommersant-daily* pronounced, "The cabinet has collapsed. Whether or not Stepashin resigns, he is no longer head of the cabinet."

Russia specialist Prof. John Erickson of Edinburgh University told *EIR* on June 1, "I expect this Russian government of Stepashin to last six weeks or so. What is happening there now, is very bad. It's the return of cabal politics, and the return of [financial operator Boris] Berezovsky. It's the last chance saloon to drink vodka, before something very significant happens there. Underneath the surface, there are a number of things happening, such as testing tactical nuclear weapons. In

any case, the current crowd won't be in power for long, in my view."

Global debt bomb

Writing in the weekly *Zavtra* of May 25, economist Sergei Glazyev, head of the Center for Information and Analysis at the staff of Russia's Federation Council, reminded of the international impact of the looted Russian Treasury's inability to service the foreign debt. "In effect," said Glazyev, "default has already occurred, since we deferred payments many times. On the whole, it is not in Russia's interest for the default to be juridically certified, since it is not desirable for us to be completely isolated from the world financial market. But a Russian default is also disadvantageous for the West, especially the United States. *This is because a refusal by Russia to service its foreign debt, juridically certified, will make a rather grave deterioration of the financial positions of key Western banks, which do business with us, and that will provoke an avalanche effect in the world financial system. . . .* A default, followed by the isolation of our country, could quite well provoke the crash of the entire financial market in the West." (See p. 11 for Glazyev's assessment of the Primakov government's achievements.)

International bankers are attuned not only to the potential for Russian non-payment to touch off shock waves, the way the freeze on servicing short-term government bonds (GKO) last year triggered disaster for Long-Term Capital Management and other hedge funds that had bet the wrong way on GKO yields and related derivatives, but above all to the potential survival impulse on the part of nations. After all, in the wake of the Russian GKO freeze and the LTCM debacle, came a surge of national actions to form a "survi-

vors' club"—from Malaysia's imposition of exchange controls on Sept. 1, 1998, to Russia's own prioritization of national survival over debt service, under Primakov. Lyndon LaRouche's "New Bretton Woods" design was coming onto the agenda.

In the recently released annual report of the Bank for International Settlements, BIS Managing Director Andrew Crockett carries on about how last year's "sense of foreboding" is gone, but he also declares with some urgency that "the real task now is to improve the [international financial] system we have, *before suggested alternatives begin to look more attractive than they really are.*" About Crockett's voiced fears of the attractiveness of "suggested alternatives," LaRouche commented on May 31, "Wait until you see *next month!*"

Roulette in the Finance Ministry

On May 27, then-First Deputy Premier Zadornov, amid rumors about his own status and the composition of the new cabinet, briefed the press on the first cabinet meeting under Stepashin. The main item on the agenda was a report from Central Bank Chairman Viktor Gerashchenko and Economics Minister Andrei Shapovalyants, on "the program of economic policy that has been agreed upon with the International Monetary Fund and the World Bank" by the Primakov government, as the basis for the issuance of IMF loans.

The IMF rollover amounts to \$4.8 billion, to be used to make payments due from Russia to the IMF. The package included tax laws, to be passed by the State Duma, but that action has been delayed for nearly a month by the Duma's attempted impeachment of Yeltsin and the latter's ouster of Primakov. Zadornov pointed out that the Duma recesses on June 20, by which time the IMF-demanded laws must be passed.

The direct debt payments to the IMF are an important component of Russia's sovereign debt, but the package deal is of overreaching importance. Its finalization was supposed to be the go-ahead for the latest restructuring of Russia's Paris Club (state to state) and London Club (commercial) debt, inherited from the Soviet Union. While making interest payments on Eurobonds issued by independent Russia during the 1990s, Russia is not paying on the Soviet-era debt.

On May 26, Finance Ministry official Mikhail Kasyanov (subsequently confirmed, disconfirmed, and reconfirmed as Finance Minister in the new cabinet), stated that Russia was seeking "a new rescheduling" of the London Club debt, "by the end of the year." Meanwhile, Russia would not be able to pay the \$855 million due June 2 on PRINs and IANs, which are restructured principal and interest, respectively, of the London Club debt. Russia also missed its \$724 million PRINs payment in December 1998, but the London Club steering committee declined to make a formal determination of default.

Wall Street hedge fundies push for Russian default

A group of creditors holding about \$3 billion of Russia's total London Club debt (which comprises \$22 billion in PRINs and \$6 billion in IANs—the restructured principal and interest notes, respectively), is trying to force the issue of default. The group apparently consists of hedge fund operators and so-called "portfolio managers." Ten of them, including Gramercy Advisors (New York) and Appaloosa Management (New Jersey), have formed the Russian London Club Portfolio Managers, Inc. Gramercy managing director Mark Helie told Reuters that the large banks on the London Club steering committee were too ready to roll over the Russian debt, because they care about continuing to do business with Russia, whereas these funds just want their "investments" serviced.

The new group is not represented on the London Club steering committee, which is to decide by June 6, how to respond to the missed June 2 payment. The London Club declined to make a determination of default, when Russia missed the Dec. 2, 1998 payments.

The split mirrors what happened early this year with the committee of foreign holders of Russian GKO bonds, in which the speculation specialists at Crédit Suisse First Boston resisted the move by Chase Manhattan, Deutsche Bank, and others, to accept Russian redemption offers that entailed big losses.

Helie and others are talking about mustering 50% of the PRINs holders and/or 25% of IANs holders, to force a default. He was quoted by Reuters, "If Russia fails to remedy the default, we may take legal action in the London courts, because the underlying loan agreements are subject to U.K. law," and then, in this scenario, Russia would be "ordered" to pay the entire \$28 billion!

Key personnel of these funds are veterans of a Wall Street intelligence operation, run by John Irwin III—a discreet, but active figure in the operations of the American Family Foundation (AFF) and Cult Awareness Network (CAN) against Lyndon LaRouche in the 1980s. John Irwin III is President of the Bodman Foundation, which, along with the Achelis Foundation, was a key source of funding for the AFF, mother of CAN. Irwin's BPI Capital Partners took over Gramercy Emerging Markets Fund, which deals in dollar-denominated sovereign debt, in April of 1999.

—Rachel Douglas and Roger Moore

'I'm in charge'

The formation of Stepashin's cabinet was marked by appointments, near-appointments, and corrected appointments throughout the week of May 24—signs of a power struggle that on the May 27 featured Premier Sergei Stepashin saying to his cabinet: "I want once again to state that the government is run by the head of the government." Stepashin was alluding to an "I'm in charge here" statement by First Deputy Premier Nikolai Aksyonenko, in an interview to Radio Ekho Moskvy, that he will oversee the cabinet's work "in all fields." On RTR television May 26, Aksyonenko continued in this vein, saying that while he would be first deputy premier for the "real economy" and Zadornov was First Deputy Premier for "macroeconomics," the arrangement would "provide for a certain operational subordination of the block headed by Mikhail Zadornov, in relationship to the real sector."

Moskovsky Komsomolets suggested that this refers to a plan for the so-called natural monopolies to be under Aksyonenko; allegedly, it was when Duma Budget Committee Chairman Aleksandr Zhukov "found out that control of the natural monopolies would be given to Aksyonenko," that he rejected the first deputy premiership, because "an economics chief with no control over the levers on the basic financial flows of the country is worthless." The natural monopolies comprise the railroads, the national utility UES, Gazprom, state shares in major oil companies, and so forth.

On May 24, Stepashin and Presidential Administration chief Voloshin flew to meet Yeltsin at a resort in Sochi, only to find Aksyonenko there in advance of them. The next day, came reported appointments of Zhukov as first deputy premier (Kremlin leaks later said the decree on this was "prepared, but not signed"), followed by the actual appointment of Zadornov to the post. Then, Zadornov quit, ex-Deputy Premier Viktor Khristenko (under Sergei Kiriyenko, last year) was named first deputy premier for macroeconomics, and Zadornov returned as official liaison to the IMF, with the titular rank of first deputy premier.

Other appointments to the new cabinet reflect the clan warfare that is roiling Russian politics. According to an article by John Helmer in the Singapore *Straits Times*, Georgi Gabunia had been told by Stepashin that he would stay on as Minister of Trade, but "then Aksyonenko told Stepashin he preferred Mikhail Fradkov, the former trade minister." Former tax chief Georgi Boos likewise said he had been assured of keeping his post, but then was replaced by Aleksandr Pochinok—because, Boos said, he refused to break his political association with Moscow Mayor Yuri Luzhkov.

The natural monopolies

As Zadornov's fate in the cabinet hung in the balance, *Kommersant-daily* identified the personnel behind Stepashin's humiliation, first in Sochi, where he was forced to discuss the structure of the government "under the attentive su-

pervision of Nikolai Aksyonenko, representing the interests of the 'family oligarch' Roman Abramovich," and then in Moscow, where "Yeltsin dragged him out of a soccer match, in order to 'disengage' the fighting Aksyonenko and Zadornov."

Roman Abramovich is a 33-year-old official of Sibneft, and a business partner of Berezovsky.

Nikolai Aksyonenko, now Russian first deputy premier, was made Railways Minister in early 1997, brought in by the Anatoli Chubais-Boris Nemtsov team to replace a rail minister who had opposed the idea of carving up the railroads and other "natural monopolies." Nemtsov was in charge of this planned natural monopolies reform, which was ostensibly to increase efficiency, but was being designed in such a way as to increase the potential for looting and asset-stripping. The national rail system is one of the biggest economic entities, still employing over 2 million people.

Aksyonenko insists that "I only met Boris Berezovsky one time," but Berezovsky and his partner, Roman Abramovich of Sibneft oil company, have been pushing his status and authority. In any event, there is ample evidence in print that Aksyonenko succeeded in launching an array of lucrative trade and export enterprises of his own, during his years at the Oktyabrskaya Railway and then as deputy minister and minister. The business deals include a fertilizer exporting company called Akkus, dealing in apatite, and a Swiss-chartered firm called Eastern Fertilizer Trading, in which Aksyonenko's son is an official. An article in the intelligence magazine *Sovershenno Sekretno (Top Secret)* recounted these deals in November 1998.

Aksyonenko presided over a meeting at the Oil and Gas Ministry on May 27. It was reported that he arranged an increased Iraqi oil import quota for Sibneft. Although Sibneft denied that this was so, Aksyonenko did propose that Russia increase coal production for domestic use, allowing for bigger exports of oil and natural gas.

Kommersant wrote the next day about Aksyonenko's likely attack on the current Central Bank leadership of Viktor Gerashchenko, as motivated by "the lucrative nature of control over the natural monopolies: Gazprom, United Energetic Systems, Ministry of Railroads, and Transneft. The total financial flows circulating through them, including barter and monetary surrogates, is estimated at \$50 billion annually. . . . Personal profits may be extracted from natural monopolies in a lot of ways. The macroeconomic basis for these illegal incomes is provided by increased fees for services, which create non-payments and non-monetary circulation. . . . This situation can be practically changed only by efforts of the Central Bank, Tax Ministry, State Customs Committee, and the Federal Service on Currency and Export Controls. . . . That is why Nikolai Aksyonenko has challenged Viktor Gerashchenko."

The day before, Russian Prosecutor General Yuri Skura-

tov — still officially in office because of parliamentary support, despite being fired by Yeltsin — had been prevented from flying to Switzerland. Skuratov was to have attended a conference on fighting corruption and organized crime, to which he had been invited by Switzerland's Chief Prosecutor, Carla Del Ponte. She had been in consultations with Skuratov over tracing flight capital to Swiss bank accounts, and the case of the Mabetex company, in particular, which touches on the financial speculators, now on the upswing, who operate with and around President Yeltsin's family.

Primakov government in retrospect

Russia's former First Deputy Premier Yuri Maslyukov, ousted with Prime Minister Yevgeny Primakov on May 12, wrote an article for Pravda of May 19, titled, "The Fault of the Primakov Government Is That It Saved Russia." When Primakov came in, recalled Maslyukov, things had come to ruin, due to his predecessors' economic policy, the world financial crisis and the panicky actions of Aug. 17, 1998 (the 34% devaluation of the ruble and freeze on domestic debt payments). Industrial production was plummeting, the banking system was paralyzed, there was a payments crisis, some railroads had stopped transporting freight, and real incomes were at the level of January 1992. The "young reformers" (in the Kiriyenko government) had paid no attention to preparing for winter.

The Primakov government's actions allowed Russia to escape socioeconomic catastrophe and bloody political chaos, and began to achieve success in economic reforms. "It is possible he will not be forgiven for this," Maslyukov concluded.

As the commentator in the May 25 "Business Club" column in the weekly newspaper Zavtra, prominent Russian economist Sergei Glazyev analyzed the legacy of the Primakov-Maslyukov government—what it accomplished, and what was left undone, but might still be done in the future. Glazyev's discussion, which appeared in Russian on the Internet site of Zavtra, is excerpted below in translation by EIR. Subheadings have been added by EIR.

I shall begin our discussion of the work of the Primakov-Maslyukov government with official data from the State Statistics Committee. According to that data, industrial production increased by 23.8% from October 1998 through March 1999. This can be called an economic miracle. . . . Industrial growth of 10% per annum is considered a great achievement.



Russia's former Prime Minister Yevgeny Primakov. According to Russian economist Sergey Glazyev, his government stabilized the economy, but failed "to do battle with the oligarchs on behalf of domestic goods producers."

We have just experienced nearly 24% growth in half a year, and 11% in March alone. What is also surprising, is that this economic growth took place in a setting of declining inflation, which fell from a 35% monthly level to 3% per month. In analyzing these facts, it should be noted at the same time, that the Primakov-Maslyukov government adopted virtually no special measures to stimulate economic growth. It resulted chiefly from simply maintaining the macroeconomic conditions, favorable for the growth of production, which came about after Aug. 17 [1998]. Hopes for political stability were also a factor.

Many industrialists and entrepreneurs believed that this was a government of social partnership, which was prepared to solve practical problems and go half-way to meet the desires of business circles, linked with domestic production.

The macroeconomic conditions, which changed after Aug. 17 and worked in favor of growth, included a fourfold devaluation of the ruble, which brought about significant demand for domestically produced goods, almost immediately giving an impulse to their production. Moreover, the government blocked attempts to set up various sorts of new financial pyramids. In September-October, for example, the Central Bank and the Ministry of Finance very much wanted to set up the latest such pyramid, first in the form of seven-day GKO (short-term government bonds), and then with zero-coupon Central Bank bonds with 40-50% yields. The Central Bank launched this activity illegally, since it had no license, but very aggressively. Nonetheless, it was prevented from setting up this new financial pyramid.

The government also managed to pressure the Central Bank not to raise interest rates. Under the Kiriyenko-Fyodorov-Chernomyrdin program, Russia was supposed to have

tightened its monetary policy, not only restricting cash issues, but raising interest rates in order to lower inflation more quickly. The Primakov-Maslyukov government and the new Central Bank leadership chose a diametrically opposite path. They maintained low interest rates, carried out a centralized mutual cancellation of debts, and used cash issues to stabilize the banking system.

The government also restrained price rises on fuels and services provided by the natural monopolies. There was a real battle, for example, with the Railways Ministry, which was trying every ruse possible, in order to index transport fees to the exchange rate of the ruble, thereby introducing the payment of dollar tariffs for domestic freight shipments.

By blocking the increase of interest rates and of prices on the services of the natural monopolies, the Primakov-Maslyukov cabinet limited some destructive tendencies, and this made it possible for industrial production significantly to rise.

What the government failed to do

The government did not, however, decide to do battle with the oligarchs on behalf of domestic goods producers. The premier did not act, for example, on the Federal Assembly's demand that [Anatoli] Chubais be removed from the leadership of [the national electricity company] UES. Therefore, important possibilities were missed for lowering electricity fees. They could be reduced two- or threefold, if proper management were introduced at UES. There are also enormous possibilities for lowering natural gas prices, and freight transport fees. We all know that a substantial part of the export earnings from sales of raw materials just dissolves away abroad. Primakov talked about this, but did not go beyond talk.

In short, the government was unable to penetrate the internal workings of the natural monopolies and put things in order. I don't know what Chubais' salary is today. The press has reported that Brevnov, his predecessor in that job at UES, was paid \$20,000 per month. The leader of the anti-trust regulatory agency, meanwhile, responsible for monitoring electricity fees, gets 5,000 rubles (\$218) per month. How can a person, whose monthly salary is 5,000 rubles, supervise someone receiving \$20,000? It's absurd. The natural monopolies, essentially, are working for the people who run them, not for the economy.

In recent years, the Central Bank issued credits to commercial banks, collateralized by government securities, and it printed money with which to acquire foreign currency. In effect, it was servicing the speculative circulation of money by non-residents. . . Budget policy was also oriented toward financial speculators. The production sector, the real sector was effectively working without cash. In this respect, the Primakov government was unable to do anything, since its intention to reshape monetary policy in the interests of domestic production encountered very strong resistance.

The impressive growth of production was achieved mainly through the enterprises' own resources, and therefore could not be adequately sustained. One serious barrier is the contraction of demand. The population, ever more impoverished due to the previous policy, cannot permit itself to increase demand for domestic products, which would stimulate their production.

The inherent flaws of our financial system make it absolutely useless for developing industry and agriculture.

Therefore, we should first change the entire strategy of our financial policy, shifting to directed regulation of financial flows, which means to expand the money supply in accordance with the demand from the goods-producing sector, which has built up on the market.

In this aspect of policy, the Primakov-Maslyukov cabinet made one serious and stupid mistake. They did not act to begin to de-dollarize our economy. In Russia today, three-quarters of savings go into cash dollars. That means that free funds are taken out of economic circulation, and not invested. The result is that we donate three-quarters of our savings potential to the American Treasury. . . . The government did not even attempt to deal with the dollarization of the economy. But, if the outflow of savings into foreign currency is not halted, there cannot be any expansion of investment or, accordingly, economic upswing.

What must be done

I am personally convinced, that we must shift to limited convertibility of the ruble, allowing full convertibility only for foreign economic operations. If you wish to import goods, be my guest, buy foreign currency. If you wish to travel abroad as a tourist, exchange the relevant sum of rubles into dollars. But the conversion of savings into a foreign currency should be excluded.

The system of measures, which we developed at the Federation Council, includes a fundamental restructuring of monetary and credit policy, which should really be reoriented to the goods-producing sector. The population's confidence in banks must be restored, which means a system of state guarantees for bank deposits, . . . transparency in banking operations, and enforcement of the rules for the use of assets. Of course, there must also be tightened supervision of all the natural monopolies, from Gazprom to the Railways Ministry. . . . We believe that the state must keep natural monopolies fees at a level, where profitability in the energy and transportation sectors and profitability in manufacturing are approximately the same. Today, they differ by an order of magnitude. . . .

The government was unable to carry out its promises to reduce the tax burden. The chief reason was IMF pressure. The International Monetary Fund demands an increase of fiscal collections, so that Russia can continue to service its foreign debts, failing to understand that the problem is not that taxes are too low, but that 1) they aren't paid, and 2) incomes are concealed and taken out of the real sector.

The fallacy of 'benchmarking'

by Jonathan Tennenbaum,
Rüdiger Rumpf, and
Ralf Schauerhammer

Lyndon H. LaRouche, Jr., in an article on "The Coming Scientific Revolution" published in EIR on April 30, 1999, discussed the recently popularized bit of corporate-industrial lunacy known as "benchmarking," giving the example of the celebrated disaster of Mercedes' famous "A-Class" automobile. The following documentation was researched by Rüdiger Rumpf and Ralf Schauerhammer, and will be featured in a forthcoming article in the German magazine Fusion. Jonathan Tennenbaum, director of the Fusion Energy Forum in Germany, translated the article and provided some commentary.

Two years ago, the world-famous automobile manufacturer Daimler-Benz—manufacturer of the legendary Mercedes-Benz automobile and now partner of Chrysler in the greatest mega-merger in industrial history—triumphantly introduced into the world market for low-priced compact cars its own, specially designed model called "A-Klasse." Not only would A-Class offer people with small pocket-books the prestige and "feel" of driving a "Mercedes," but the car itself boasted extraordinary features. Instead of the engine being located in front of (or behind) the passenger cabin as in other cars, the A-Class has its engine placed *underneath*, with the passenger cabin built on top. This so-called "sandwich" construction, never before utilized in this sort of car, offers greater flexibilities in the use of space, while at the same time the passengers sit significantly higher off the ground than in other cars.

On Sept. 23, 1997 test drivers in Denmark found that the A-Class tilted onto two wheels during a swerving maneuver (i.e., a sharp turn of the sort needed to steer around an object) at 55 kph (34 mph). A month later, on Oct. 30, an A-Class Mercedes flipped over and landed upside-down during the so-called "Elk Test" at 60 kph (37 mph), slightly injuring three test drivers in the car. (The "Elk Test" simulated the maneuvers needed to avoid hitting a large animal in the road.)

The serious issue raised by these events is not so much the obvious design weaknesses of the Mercedes A-Class; what is significant is the kind of faulty *thinking*, embedded

in the process of design and development of the car, which ultimately caused the embarrassing and commercially disastrous result. In fact, the main weakness in the design and development process of A-Class lay in dependence on so-called "benchmarking" methods.

Switch to computer simulation

Up until recently, Mercedes has traditionally devoted much more time and investment to develop new models, than Japanese firms for example. In order to improve its "competiveness," in the case of the A-Class, Mercedes set the goal of reducing the development time from the traditional seven years (84 months) or so, to a mere 32 months! Yet, the comparison with the development time of Japanese makes it unrealistic and misleading, because Japanese producers typically concentrate on improving already-established and proven designs. In that case, only about 20-40% of the components must be newly constructed, even to make a new model. But in the case of the Mercedes A-Class, for example, 100% of the components had to be newly developed.

Although Mercedes is a leading automobile manufacturer, its engineers had never before built a compact car with front-wheel drive. Furthermore, the "sandwich" construction had never before been used in a small car. Setting these goals, while cutting the development time from 84 to 32 months, placed huge strains on the development department of Mercedes. That pressure greatly strengthened the existing tendency to think that computer simulations could replace actual, real-life driving tests.

In order to save development time and costs, in April 1993 Daimler-Benz engineers input the available projected basic design parameters of the A-Class into a computer simulation system designed to simulate the dynamic behavior of the car. This was done even before the components and parts of the automobile had been constructed. These imaginary driving tests, according to Mercedes, were supposed to be sufficient to provide "all the answers" concerning certain important design decisions, such as which of three alternative construction types (*Mehrlenker*, *Verbundlenker*, or *Längslenker*) should be chosen for the rear axle assembly. On the basis of those simulations, the cheapest of the three was chosen.

As a further test for the projected driving characteristics of the Class-A (which had not yet been built, even in prototype), "engineers put themselves behind the wheel of a Mercedes S280 [a completely different model—ed.] which had been programmed to simulate the dynamic behavior of the Class-A," a Mercedes report boasts. "During a double lane change [similar to the "Elk Test"] which reveals the handling characteristics of an automobile as well as its safety reserves in marginal situations, the *Längslenker* axle performed convincingly. . . . In the context of the total concept of the A-Class, the *Längslenker* demonstrated itself to be the best

compromise.” The compromise referred to, was between handling characteristics and cost. And here the fact that the *Längslenker* was much less costly, clinched the decision in its favor. All other Mercedes-Benz models are equipped with the *Mehrlenker* axle, which is much costlier, including in comparison with the systems used in competing models.

In an informational brochure on the A-Class, Mercedes also wrote: “This time there was not enough time to carry out the extensive basic investigations with different axle types, which are normal procedure for the development of a completely new automobile type.”

Other German producers calculate up to 12 months for the costly process of harmonizing and adjusting the chassis and related assemblies in connection with electronic systems such as an anti-lock braking system (ABS) and electronic stability program (ESP). This is normally done only after three years of testing with prototypes or rebuilt older models, in order to determine the proper design of the axle. This is what Mercedes itself had always done before.

For example: In 1989, driving tests in extremely demanding, mountainous areas revealed—contrary to the results of computer simulations—that the braking system of the newly-designed Class S auto (V-12 motor with up to 400 horsepower) was far from meeting the full stress performance requirements. The entire brake system had to be completely redesigned. But at that stage, the projected beginning of mass production of the auto was still two years in the future.

In the case of the A-Class, Mercedes not only did not have the necessary time, but also lacked sufficient capacities in its development department: in just the period from June 1993 to October 1997, nine new models were premiered. Jürgen Stockmar, Director of Development at Opel, was quoted as saying that many employees in the development departments of automobile producers today are working beyond the limits of their endurance, and that the overworked condition of the employees ran like a red thread through a series of technical breakdowns and other problems.

After the disaster in October 1997, Mercedes was finally able to bring the problems of the A-Class under control—although only after three separate attempts and after company head Schrempp had intervened to halt deliveries until further design and development had been carried out. But the methods used to “solve” the problem were rather dubious.

The electronic stability program, which was originally planned to be sold as an option for 1,700 deutschemarks, was now included as standard equipment on all A-Class autos and was delivered to the buyer without additional cost. The ESP had originally been conceived as a supplementary program for safe and stable cars, to assist control of the vehicle under extreme conditions such as wet or slippery roads. But in the A-Class, the ESP became indispensable even to carry out a simple avoidance maneuver on a dry surface—something which competing models had never had problems with.

The fact that Mercedes now claims it has solved the problems of A-Class by supplementary installation of the ESP, demonstrates that the fundamental problem behind the A-Class disaster has not penetrated to the consciousness of the company’s board members. They are still holding to their belief in benchmarking and computer simulations.

This becomes obvious from the fact that the board of Daimler-Chrysler still refuses to withdraw its even bigger disaster, the regrettably misnamed “Smart,” from the market. “Flop” would be a more appropriate name for this totally misconceived and technically defective product. Besides sharing problems with the A-Class—shorter wheelbase and elevated center of gravity—the developers thought they could simply ignore problems that had been known for decades. These are the problems which arise when one attempts, as with the “Smart,” to implement rear-motor, rear-wheel drive in a vehicle with a short wheelbase, leading to a situation where nearly two-thirds of the car’s weight falls on the rear axle.

Ignoring the long and problematic history of constructions of this type, the Mercedes engineers even installed an over-powerful engine (after all, the car was supposed to be “smart”!), with the philosophy that “electronics will fix everything.” Since the car was known to be unstable, the maximum speed was set at 130 kph (about 70 mph). But even below that speed, the electronics cannot compensate for the fundamental fallacies in the design. Physics prevents this! The cheap electronic stabilizing program, called “Trust,” has revealed itself, in all tests which were not designed in advance to give a positive result, as a failure.

The axiomatic problem

Readers will not have failed to recognize a recurring syndrome of today’s larger world in our story of the A-Class: Rather than correct fundamental, axiomatic fallacies in the design of policy, the reponse to each ensuing disaster is: “We’ll fix it!” The “successful” result is to carry the axiomatic fallacies forward into the next, even worse phase of disaster, whose onset has been rendered inevitable by the follies of such linear “crisis management.”

Note, also, a second point: In a multiply-connected manifold, “dimensionalities” can never be treated as Cartesian independent variables. In substituting or modifying even an apparently minor technical component within a complete functional system such as an automobile or a space vehicle, the potential nonlinear impact of that change upon the characteristic functioning of the whole system is an issue of physics, not mathematics. In a unique experiment, the components of the experimental apparatus and their characteristics, taken in and of themselves, seem to be fully “known.” But the composition of the experiment generates an irreducible anomaly, refuting exactly the sort of linear “curve-fitting,” which turned Mercedes’ proud creation into a thorough flop.

Mexico is on course for a Salinas-style blowout

by Carlos Cota Meza

At least in economic matters, the international financial institutions have tragically turned Mexican President Ernesto Zedillo into another Carlos Salinas de Gortari, the discredited former President (1988-94) who today lives in exile, wandering between Dublin and Cuba. Almost at every turn, President Zedillo repeats the litany, "I will not bequeath an economic crisis to the next administration" which will take office in December 2000. That was precisely what Salinas said, when he delivered his 1994 time-bomb over to his successor.

What Zedillo is bequeathing to his successor, is an economy held together with pins, with a new huge debt, set to explode whenever the U.S. Federal Reserve decides to start raising interest rates, and/or when President Zedillo is forced to devalue the peso in the face of the current unsustainable trade deficit. This hyperinflationary time-bomb is expressed in the growing foreign debt, as well as in a domestic public debt bubble which is completely out of control.

We told you so

In March 1993, when we analyzed the crisis which the Salinas model was taking Mexico into, we stated that the economy was rapidly approaching the point where "Mexico simply cannot continue to import at the current rate. When it reaches that point, Salinas de Gortari will find himself facing impossible choices."

Excluding the *maquiladoras* sector (in-bond assembly plants mainly along the U.S. border), Mexico's trade deficit in 1992 was \$20.7 billion. This imbalance was creating the conditions for a dramatic devaluation of the peso, we warned, which in turn would trigger the explosion of the financial system itself. Despite every possible warning, then President Salinas responded with his litany about the supposed "the solidity of macroindicators," measured by the current account deficit, which supposedly demonstrated investor confidence in the economy, since that deficit was being covered by an inflow (of speculative funds) on capital account.

A current account deficit is, primarily, the sum of the trade deficit (imports minus exports), plus payment of interest on the foreign debt. The way to sustain a current account deficit is through a countervailing influx of foreign capital.

Between Dec. 19 and 20, 1994, given the accumulated trade and current account deficits, the newly inaugurated Zedillo government decreed a 15% peso devaluation. What happened became colloquially known as the "December error,"

which unleashed the "Tequila Effect" that brought the entire world speculative financial system to the edge of disintegration. The "error," according to international bankers, was not the devaluation in itself, but the fact that they weren't apprised beforehand, so that they could both protect themselves and derive a speculative profit from the crisis—as was later to occur in January of this year, with the Brazil devaluation.

Reports have it that in attempting to assign blame, Zedillo's Finance Secretary Jaime Serra Puche, who, while serving as Salinas's Trade Secretary, at the time protested to Pedro Aspe, then Salinas's Finance Minister: "You left the economy held together with only pins." Aspe reportedly replied: "Why did you pull out the pins?" Serra Puche departed, leaving in his place Guillermo Ortiz Martínez, who had been Aspe's undersecretary.

Five years later, with President Zedillo swearing that he will not pass on a crisis to the next administration, he is also announcing that he will not pull out the pins which the international financial community is using to hold the Mexican economy together. But keeping things pinned together is hardly economic stability. Is devaluing the peso the only way to deal with the immense deficits which have once again accumulated?

At every turn, the Mexican government has taken the same approach: during the Salinas period, with the 1990 Brady rescue plan and the later North American Free Trade Agreement (NAFTA) negotiations; with Zedillo and the February 1995 bailout; and again today. They have chosen to finance the current account deficit through what is euphemistically called "foreign investment" and "historic increases in foreign reserves." But each time, the capital coming into the country is highly speculative, and short-term. Foreign capital goes into the foreign reserves, and is used to cover the trade deficit, which itself is a product of the "trade opening" that has destroyed national producers by dumping massive amounts of imports at low prices. The Salinas de Gortari government did this by attracting foreign capital with outrageously high yields, by privatizing state-owned companies, and by floating the now infamous dollar-denominated Tesobonos. The Zedillo government has offered the same menu, albeit it with slight variations.

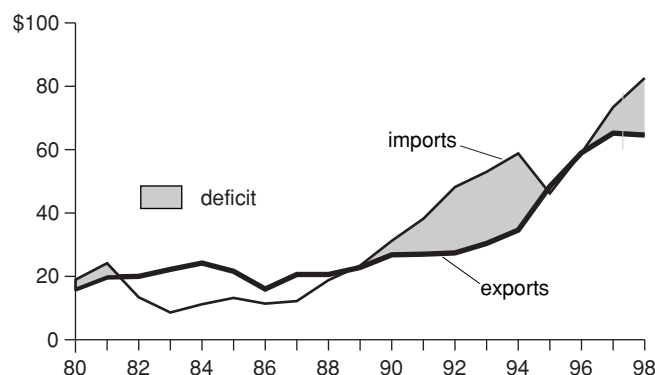
Then, and now

Figure 1 demonstrates that the "export-oriented" model imposed on the Mexican economy by the International Monetary Fund since 1982, is a formidable looting mechanism. Each time imports exceed exports, the domestic economy is strangled to cover the deficit, since it can't be financed with stable capital in this world of purely speculative capital flows. Then the government, playing by the rules of the game, seeks to "correct" this problem with recurrent and disastrous peso devaluations. Trying to raise exports by devaluing one's currency is as healthy for an economy, as tightening the noose around a hanging man's neck.

FIGURE 1

Mexico: non-maquiladora trade balance

(billions \$)



Source: Banco de México

Again, leaving aside the *maquiladoras*, which we will examine later, the 1998 trade deficit was about \$18 billion (see **Table 1**). Including the *maquiladoras*' surplus in the Mexican trade balance is an accounting sleight-of-hand more than anything else. This is because, in effect, the *maquiladoras* are a "manufacturing plantation" kind of enclave inside the national economy, typical of 19th-century British colonialism.

Just compare the non-*maquiladora* trade balance with the *maquiladora* trade balance. While it is true that the *maquiladoras* yield a positive trade balance, this surplus goes largely to purchases by *maquiladora* workers on the other side of the border (that is, within the United States), and in part as repatriation of profits by the *maquiladora* owners themselves. To say that this "benefits" the Mexican economy, is the equivalent of arguing that slavery was beneficial for the U.S. southern economy in the 19th century.

Apart from the accounting tricks the Mexican government is using to cover up its headlong flight into disaster, it is worth noting other elements of the Mexican trade balance which reflect the depression of the world economy.

In 1998, total non-*maquiladora* exports fell 1%, primarily due to the fall in the international price of oil. The Mexican government argues that the fall in

oil export revenues was covered in part by a 6.5% increase in non-oil exports. What is not said, is that non-*maquiladora* exports have been falling since 1996.

The reality is that exports of the majority of the world's countries have fallen as an effect of the economic and financial crises sweeping Asia, Russia, eastern Europe, and Ibero-America. In addition to the fall in raw materials prices, we now also have a fall in the price of, and reduction in the demand for, manufactured products such as automobiles, chemical products, electrical and electronic goods, and so forth, all of which has begun to take a toll on the economies of developed countries highly dependent on this activity.

The market for non-oil, non-*maquiladora* Mexican exports—two-thirds of which are automobiles and auto parts, electronics, and electrical machinery and equipment—will become increasingly tight in 1999 and 2000, with the result that the non-*maquiladora* trade deficit will increase.

Chaos in foreign accounts

As expected, official figures on the balance of payments are internally, arithmetically consistent, but they don't explain what is really happening to the economy, as a result of the neo-liberal economic policies in effect (see **Table 2**).

TABLE 1

Non-maquiladora trade balance

(billions \$)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|--------------|-------------|-------------|-------------|-------------|
| Total exports | 34.6 | 48.4 | 59.1 | 65.2 | 64.6 |
| —Oil | 7.4 | 8.4 | 11.7 | 11.3 | 7.1 |
| —Non-oil | 27.2 | 40 | 47.4 | 53.9 | 57.5 |
| Agriculture | 2.7 | 4 | 3.6 | 3.8 | 4 |
| Extractive | 0.4 | 0.5 | 0.4 | 0.5 | 0.5 |
| Manufacturing, raw materials, and non-maquiladora intermediate goods | 24.1 | 35.5 | 43.4 | 49.6 | 53.1 |
| Total imports | 58.8 | 46.2 | 59 | 73.4 | 82.6 |
| —Consumer goods | 9.5 | 5.3 | 6.7 | 9.3 | 11.1 |
| —Manufacturing, raw materials, and non-maquiladora intermediate goods | 36 | 32.2 | 41.4 | 49 | 54.2 |
| —Capital goods | 13.3 | 8.7 | 10.9 | 15.1 | 17.3 |
| Balance | -24.2 | 2.2 | 0.1 | -8.2 | -18 |

Maquiladora trade balance

(billions \$)

| | | | | | |
|----------------|-------------|-------------|-------------|-------------|-------------|
| Exports | 26.3 | 31.1 | 36.9 | 45.2 | 52.9 |
| Imports | 20.5 | 26.2 | 30.5 | 36.3 | 42.6 |
| Balance | 5.8 | 4.9 | 6.4 | 8.9 | 10.3 |

Source: Banco de México.

TABLE 2

Current account

(billions \$)

| | 1996 | 1997 | 1998 |
|------------------------------|-------|-------|-------|
| 1. Trade balance | 6.5 | 0.6 | -7.7 |
| 2. Non-factorial services | 0.6 | -0.5 | -0.6 |
| 3. Factorial services | -13.9 | -12.8 | -13.5 |
| 4. Transfer payments | 4.5 | 5.2 | 6 |
| 5. Current account (1+2+3+4) | -2.3 | -7.4 | -15.8 |
| 6. Capital account | 4.1 | 15.4 | 16.2 |

Source: Banco de México.

According to official documents, the current account deficit is mainly a result of the trade deficit, and this latter — as we have seen — the government attributes to the fall in oil prices. This has led to such childish arguments as, “If the price of oil hadn’t fallen,” then the deficit would have been less. But even taking into account this estimated loss of some \$4.2 billion in oil revenues, the trade balance would still have shown a deficit of \$3.6 billion.

Non-factorial service payments are also in the red, due primarily to transportation, insurance, and port fees. This means that, in addition to running a trade deficit, the Mexican economy is also paying handsome sums for its transport. This amounts to more than \$4 billion.

Factorial services also run a deficit, due to the payment of interest on the foreign debt, which came to \$8.3 billion in 1998, and to profit repatriation by foreign companies, to the tune of another \$5.2 billion.

As for transfer payments, which is the only line that shows a surplus on current account, they are entirely made up of the money sent by Mexican migrant workers (legal and illegal) to their families.

The economic reality behind these numbers begins to come into focus, once the *maquiladora* trade surplus is separated out from the totals. The *maquiladora* trade balance is positive, but — as is widely acknowledged — they are a foreign enclave which fundamentally does not affect the rest of the Mexican physical economy. Mexican involvement consists entirely of providing the abundant cheap labor power to be exploited in preassigned territories.

As for the migrant population (both legal and illegal) which generates positive transfer payments, this is labor power which the Mexican economy has been unable to employ. Thus, the two sectors which in fact are not functional parts of the Mexican national economy, are the only ones which produce a surplus on current account. The national economy proper is forced to pay a high cost: a non-*maquiladora* trade deficit, plus transport costs, foreign debt service, and repatriation of profits of foreign companies.

In 1998, the money transfers from Mexicans abroad amounted to \$6 billion, nearly equal to oil export revenues (\$7.1 billion); the surplus of the *maquiladoras* (\$10.3 billion)

TABLE 3

Balance of payments

(billions \$)

| | 1. January- September 1997 | 2. January- September 1998 | 3. Change (2 - 1) |
|------------------------|-------------------------------------|-------------------------------------|-------------------------|
| Current account | -3.8 | -11.5 | -7.7 |
| Capital account | 9.3 | 7.6 | -1.7 |
| —Debits | 6.4 | 7.4 | 1 |
| Loans and deposits | -10.1 | 0.8 | 10.9 |
| Foreign investment | 16.5 | 6.5 | -10 |
| Direct investment | 10.1 | 6.9 | -3.2 |
| Portfolio investment | 6.4 | -0.4 | -6.8 |
| Stocks and bonds | 3.5 | -0.9 | -4.4 |
| Money market | 1 | -0.2 | -1.2 |
| Bonds issued abroad | 1.9 | 0.7 | -1.2 |
| —Assets | 2.9 | 0.2 | -2.7 |
| Errors and omissions | 1.5 | 4.5 | 3 |
| Change in net reserves | 6.9 | 0.5 | -6.4 |

Source: Ministry of Finance, Mexico.

is higher than oil revenues, and the gross export of the *maquiladoras* (\$52.9 billion) is just 1% less than Mexico’s non-oil, non-*maquiladora* exports (\$57.6 billion) (see Table 1).

If the current account deficit is financed through what shows up on capital account, as the fraudulent official version of things would have it, then what you find is that, in this area of capital transfers, you have activities which have nothing to do with productive functions, but which, on the contrary, themselves generate paper claims against profits coming from a physical economy that is standing at the abyss of general bankruptcy.

To understand the Mexican conjunctural crisis, one must look not only at the collapse in oil prices, but also at the crisis that hit Russia in August 1998, and its repercussions in Brazil. These effects led the Mexican model to blow out in September-October 1998; but that model was put on a temporary artificial respirator through a desperate, hyperinflationary policy, as part of the suicidal global policy decision of the Group of Seven governments, to pump yet more hot air into the speculative bubble.

In Mexico, the results are evident. In the January-September 1998 period, compared with the same period in 1997, the capital account surplus (the flow of foreign capital into Mexico) had fallen by \$1.7 billion (see Table 3). Foreign direct investment was \$3.1 billion less than in 1997. Foreign portfolio investment revealed a decline of \$6.8 billion, of which \$4.5 billion had fled the stock exchange, and \$1.1 billion fled from government financial paper (domestic debt).

In the last quarter of 1998, economic “indicators” miraculously recovered. From October to December, the capital account surplus rose from \$7.5 billion to \$16.2 billion. Within

this, Foreign Direct Investment (FDI) closed the year at \$10.2 billion—an increase of more than \$3 billion in only 90 days.

The incredible thing about all these capital flows, is that they are occurring in an economy which is scarcely generating foreign exchange, but rather is living under the burden of a gigantic trade deficit. Trying to distinguish his administration from that of Salinas de Gortari's, President Zedillo has argued that the FDI figures prove that the current account deficit is being compensated with these positive flows.

But government accounting does not address the changes within the FDI category. In the face of international financial disasters, capital flows are dedicated to “acquisition of existing assets” (mergers and buy-outs of national companies or of companies which were already foreign owned). In the case of Mexico, 32% of what was defined as FDI in 1997 actually consists of buy-ups of bankrupt companies and banks. In 1998, this capital flow operated the same way, meaning that there was no economic expansion. However, this “investment” will still demand its repatriation of profits.

The foreign and domestic debt bubbles

One of the axioms of the 1995 financial rescue package was that it would be used only to finance economic activities that generated foreign exchange. However, as proven by the trade deficit, this certainly was not the case.

The companies that were supposed to bring in the foreign exchange are the so-called “High-Export Companies,” some of which entered 1999 by declaring that they were in default on their foreign debts. The 1998 foreign debt of all private companies was nearly \$62 billion, 17.5% higher than 1997. Nearly the entirety of the increase occurred in the non-banking sector of the High-Export Companies. In 1999, some \$15.9 billion in private-sector foreign debt will need to be refinanced.

In order to keep his government's economic model afloat, President Zedillo has opted for a voracious internal and foreign indebtedness, which is reminiscent of what the Salinas de Gortari government did with the infamous Tesobonos.

According to official documents, what saved Mexico in the last quarter of 1998 were “reductions in interest rates of the main industrialized economies.” In effect, Mexico fully joined the decision of the Group of Seven countries which, last October, decided to refinance the world speculative bubble with hyperinflation. As part of this, the Mexican government decided to once again create an immense debt bubble which, sooner or later, must explode.

In the last three months of 1998, the government increased its issuance of short-term domestic bonds: It eliminated six- and twelve-month terms for the Cetes and Udibonos, and increased the emission of 28- and 91-day Cetes; it reintroduced the Bonde with a 28-day “renewable coupon”; and maintained emission of the Bonde at 91 days, indexed to inflation. With these operations, the Banco of México has turned itself into the only supplier of credit to the national

financial system, precisely as occurred in 1994 before the December blowout.

Although domestic debt issuance is supposedly purchased domestically, i.e. by Mexicans, when one analyzes the activities of the commercial banks, one discovers that the amounts of their deposits have hardly fluctuated, and that the volume of loans issued to the non-financial private sector has actually fallen. This has been the case since 1995 in all banking activities, with the exception of the growth of non-performing debt. So, everything indicates that the placement of government domestic debt instruments in the banking sector involves a sleight-of-hand between the Banco de México and the “commercial banks” (many of which are already foreign controlled), which masks further foreign capital flows and, perhaps, money laundering.

Regarding the public foreign debt, officially this didn't grow much over the course of 1998. The main development was the refinancing of about \$25 billion that came due. More than 98% of these lines of credit were shared among the central government, *Petróleos Mexicanos* (Pemex), the Foreign Trade Bank (Bancomext), and *Nacional Financiera* (Nafin).

Of the \$6.8 billion for the central government, 73.4% (or \$5 billion) are allocated to “refinancing of loans.” Pemex contracted for \$9.5 billion, using nearly all of that to “finance the export and import of crude and its derivatives,” that is, to cover for lost income due to the fall in oil prices.

Bancomext contracted \$5.6 billion for the “financing of export programs” of private companies. As is well known, such financing has taken the form of emergency loans to the High-Export Companies facing bankruptcy. Nafin contracted \$2.8 billion “to develop small and medium companies,” companies which are nowhere to be found—although Nafin did make loans to the same group of insolvent High-Export Companies, contrary to its regulations.

All of these operations were carried out so that Mexico would not go into default in 1998. Instead, it began 1999 with the “novelty” of needing new contingency loans to the tune of \$13.7 billion, in order to continue paying or covering the huge deficits that the “export-oriented model” is generating. As one banker, in an unusual moment of insight, was heard to comment, the fact that Mexico did not go into default last year as a result of the acrobatics on the international markets, does not mean that this can be pulled off every year.

It is clear that President Zedillo is in a race against time, and that, just like Carlos Salinas de Gortari, is desperately trying to avoid devaluing the peso during his administration. But the blowout has already hit.

The only way to pull out the pins which have held the economy together since 1982, without everything falling apart, is to recognize that free trade has destroyed Mexico's economy and sovereignty, and that a 180 degree turn is now required. Mexico must have the right to control its own generation of credit. It must be free to develop a protectionist national economy.

Banks open for foreign takeover

The federal government is trying to sneak a through a disastrous "bill of rights" for multinational companies.

Australia is poised to sign a new international treaty that will open its domestic banking system to total foreign takeover. The Fifth Protocol to the General Agreement on Trade in Services (GATS) is promoted by its authors in the World Trade Organization (WTO) as just another step in trade liberalization, this time in the area of financial services. However, the Fifth Protocol has been rightfully denounced by its opponents as a "back-door substitute" to the Organization for Economic Cooperation and Development's widely despised Multilateral Agreement on Investments (MAI)—the so-called "bill of rights" for multinational companies that was defeated last year by bitter opposition in numerous countries, including Australia.

The Fifth Protocol represents an all-time low for sovereign national control over the Australian banking system. Under its terms, the countries that signed the 1994 GATS have nominated, in a "Schedule of Specific Commitments," the financial services areas they would be willing to further liberalize. Canberra nominated Australia's domestic banking and insurance sectors, in keeping, it says, with new government policy toward the financial system that came out of the 1997 Wallis Committee of Inquiry. This committee recommended a raft of financial sector "reforms" geared to achieve complete deregulation. The Wallis Committee was the sequel to the 1980 Campbell Committee, based upon which the former Hawke/Keating Labor government opened Australia up to foreign banks, although not allowing them to take over domestic banks.

The Fifth Protocol, however, goes the whole way: Now foreign banks will be permitted to buy up Australia's major banks, as well as to buy into the former national central bank, the Commonwealth Bank. Since its privatization in 1996, and until now, both domestic and foreign banks have been prohibited from holding any shares in the Commonwealth Bank, and no entity has been allowed to own more than 5%.

In testimony to the Parliamentary Joint Standing Committee on Treaties, the Department of Foreign Affairs and Trade defended the Fifth Protocol against allegations that it would cause all domestic banks to be snapped up by foreign multinationals, by insisting that it was in line with 1997 policy that lifted the blanket ban on foreign takeovers, and that any attempted takeover will have to meet a "national interest" test determined by the Treasurer. However, Peter Westmore of the National Civic Council, a conservative political lobby group, pointed out to the May 9 *Sunday Herald Sun* that the onus would be on Australia to show how it was not in the national interest. "If a government were to veto a foreign takeover, it could be ordered to pay compensation by the WTO," he said. Furthermore, Australia's treasurer is invariably controlled by the City of London—which is hardly concerned with "national interest."

Westmore also points out that since the GATS treaty was first signed, eight of the country's ten largest stock brokerages have been sold to foreign interests. That the banks will be sold as well, was essentially admitted by Sen. Barney Cooney, the deputy chair-

man of the Joint Standing Committee on Treaties, which recommended that the government sign the Protocol: "Any foreign investor could buy our banks," he said, adding lamely, "But they would have to comply with our regulatory regime."

Ironically, the Fifth Protocol debate comes exactly 50 years after Prime Minister Ben Chifley and his Australian Labor Party attempted to nationalize Australia's banking system, which was vetoed by the Privy Council. Chifley's idea was to harness credit creation to national economic development, in the tradition of the American System of political economy, as devised by America's Treasury Secretary Alexander Hamilton in the 1790s.

The Canberra government has tried to sneak the Fifth Protocol ratification through Parliament without public scrutiny. The only official announcement that this new treaty was under consideration, was a small advertisement in a national newspaper in May 1998, which simply listed its name as one of eight to be considered by the Parliamentary Joint Standing Committee on Treaties, and calling for submissions. In reply, the committee received a paltry 16 submissions, all from one state, compared with the thousands upon thousands (mostly negative) received in response to the earlier, widely publicized MAI inquiry.

In March, the committee officially recommended that the new treaty be signed, dismissing the objections that were submitted as "overtly conspiratorial," and defending the treaty's erosion of sovereignty with the perpetual hollow promise of globalization: that the economic benefits flowing from "liberalization" far outweigh the consequences of shrinking sovereignty. Australia is expected to sign on June 15.

IMF would not allow Bosnia to rebuild

by Edward Spannaus

Now that the outlines of a negotiated settlement of the Kosovo crisis have preliminarily been agreed upon, there is the hopeful possibility that the NATO bombing of Yugoslavia will soon end. This pushes to the fore the issue of the economic reconstruction of the entire region—the only basis for a durable peace.

To simply replace that which has been destroyed, is not sufficient. A true postwar “Marshall Plan” program of reconstruction means overcoming the region’s national, religious, and ethnic divisions by launching a new era of rapid economic growth, based upon a vast expansion of southeastern Europe’s transportation infrastructure.

In its most elaborated form, as put forward by *EIR*’s Founding Editor, and currently U.S. Presidential candidate, Lyndon LaRouche (see *EIR*, May 28, 1999), Balkans reconstruction can, and must become the pivot for global development and a “New Bretton Woods” monetary system.

However, be forewarned: The plans currently on the table for the postwar Balkans have nothing to do with actual reconstruction and economic development! A meeting in Bonn on May 27 for what is called the “Stability Pact for Southeastern Europe” demonstrated that what is being planned, is a replay of what happened in Bosnia after the 1995 Dayton Accords—where reconstruction was sabotaged by the International Monetary Fund (IMF) and the World Bank (see article, p. 49).

It is the same sort of sabotage that was inflicted upon the Oslo agreement for the Middle East, as documented by Muriel Mirak-Weissbach in this *Feature*.

The May 27 Bonn meeting was held under the auspices of the World Bank and the European Union, with a major role also assigned to the IMF—exactly the same structure which was created to control the post-Dayton events in Bosnia. Although there are forces in the United States, Germany, and Italy, for example, who are looking for a real “Marshall Plan” program, unless the lessons of Bosnia are thoroughly understood, any honest plans will be shoved aside, just as the perspective put forward in 1995-96 by the late U.S. Commerce Secretary Ron Brown, and by

FIGURE 1

Components of the LaRouche Plan for European development



Since Lyndon LaRouche laid out his plan for a European Productive Triangle (shaded) in 1989, EIR has elaborated it, including “spiral arms” extending to the Balkans. Shown here is the Rhine-Main-Danube Canal, a crucial feature for southeast Europe.

patriotic forces within Bosnia, was crushed under the pressure of IMF/World Bank “conditionalities.”

Take, for example, statements made recently by the heads of some of the “front-line” states regarding what they want in terms of reconstruction. The Presidents of both Romania and of Macedonia, in Washington for the April 23-25 NATO summit, stressed the need for the development of heavy industry and transportation infrastructure. Romania’s President Emil Constantinescu also warned the West not to repeat the mistakes of Bosnia: “Let us not make the errors that were made in the case of Bosnia, where hardly anything has been reconstructed, even though military operations ceased long ago.”

President Constantinescu was being much too polite. What happened in Bosnia was not simply “mistakes.” There was a deliberate, explicit campaign by the IMF and World Bank to subordinate reconstruction to their goals of monetary and currency “stability,” debt repayment, free-market reforms, and privatization.

The IMF’s Annual Report for 1996 described its “program objectives” for Bosnia-Herzegovina as follows: “Rebuild the country after the devastation of war without losing control over financial policies. To receive foreign assistance, normalize relations as quickly as possible with external creditors, starting with the problem of arrears to multilateral insti-

tutions other than the Fund.”

This, for a country which has been destroyed by four years of war, whose population is destitute, and whose economy has been obliterated!

The IMF boasts of two key decisions “for maintaining control over financial policies”—that the new Central Bank would operate for at least six years as a currency board (and would be headed by a non-Bosnian), and that the Bosnian central government and public-sector entities “will refrain from domestic bank financing of fiscal expenditures.” That is to say, that the sovereign powers of creating and controlling money and credit were stripped away from Bosnia at the outset.

One of the first demands placed upon Bosnia, was that it assume 17% of the pre-war debt of the old Yugoslavia. This was one of a number of conditions demanded by the World Bank; others included privatization of state-owned enterprises, and “efficient deployment of scarce resources to help the poor”—which the World Bank explained meant that a “bloated social assistance budget would undermine fiscal prudence needed for stability.”

Addressing a country whose population was decimated by four years of war, the World Bank warned against “excessive amounts of social assistance” which “would discourage work and enterprise restructuring.”

After being forced to accept such conditions, Bosnia was accepted into membership in the IMF in December 1995, and then into the World Bank in April 1996. A reconstruction conference in Sarajevo scheduled for February 1996 was twice postponed, until Bosnia agreed to the IMF/World Bank blackmail.

That Sarajevo conference was preparatory to the second “Donors’ Conference” held in Brussels in April. That, and all other such donors’ conferences, were held under the auspices of the European Union and the World Bank. The most recent such donors’ conference was held in Brussels on May 20-21, 1999; a World Bank press release on the conference cites extensive discussion on economic “reforms,” privatization, and “sound public finance management.” The World Bank release reports that many of the donors noted that “disbursement of their funds would be conditioned on significant progress in the field of economic reform, media, rule of law, human rights and return of refugees.”

The prohibition of state credits and government funding eliminated the possibility of any serious reconstruction efforts. (Indeed, the United States economy could never have been built if such conditions had been in effect in the nineteenth century; likewise, much of Franklin Roosevelt’s “New Deal” economic recovery measures would have been forbidden by such IMF/World Bank conditions.)

Rebuilding or developing heavy industry was also prohibited in Bosnia. The World Bank report to the first Brussels reconstruction conference in December 1995 stated: “Like elsewhere in central and eastern Europe, increased output is likely to come from growth in the services sector and light

industry set up by private entrepreneurs. The state should concentrate on providing . . . a sound legal, regulatory and institutional framework that promotes smooth function of free markets.”

Carl Bildt, the first “High Representative” for implementation of the Dayton peace accords, put it this way in an April 2, 1996 speech in Washington: “A large part of industry is, of course, destroyed. Industrial production is down to less than 10% of capacity before the war. A lot of that industrial capacity, that has to be said, is never going to come back.”

The World Bank’s chief of operations in Central Europe, Michel Noel, issued a sweeping mandate in Sarajevo on July 8, 1996, insisting: “The state and its entities must disengage itself very rapidly from any direct role in the productive sphere of the economy.”

The Ron Brown approach

The Clinton administration was taking a very different approach back in the spring of 1996, under Commerce Secretary Ron Brown. Brown’s approach was to promote bilateral, state-to-state projects, bypassing the international financial institutions such as the IMF and World Bank. When he was killed in a plane crash on April 3, 1996, Brown was leading a delegation to Bosnia and Croatia of executives from some of America’s biggest engineering and energy firms, including Parsons, Enron, ABB Asea Brown Boveri, Foster Wheeler Energy Corp., and Harza Engineering Co.

Brown’s emphasis was to use the resources of the U.S. Federal government to facilitate large-scale, private investment in the Balkans and elsewhere. This included a major emphasis on both the U.S. Export-Import Bank, and the Overseas Private Insurance Corp. (OPIC)—which provides project financing and risk insurance to U.S. companies investing abroad (something the Bosnian government would never be permitted to do).

Speaking in Tuzla, Bosnia, on April 3, hours before the fatal plane crash, Brown said that the long-term economic development of Bosnia would depend on foreign investment, not just foreign aid. “I think we shouldn’t just look at aid. Aid is a kind of a one-shot deal. We’d better look at long-term economic development, and it can only come through investment,” Brown said. “Our desire is to have American companies fully engaged in the reconstruction of this region.”

Brown’s mission was continued by the new Commerce Secretary, Mickey Kantor, in July. Top executives from 18 corporations accompanied Kantor to Bosnia, and an OPIC investment agreement was signed in Sarajevo. Reflecting what was then still a commitment to the Ron Brown perspective, Kantor said in a July 15 speech in Dubrovnik that the next phase of American policy toward Bosnia and Croatia would be “economic and commercial development.”

“The most pressing need obviously is to reconstruct the infrastructure,” Kantor said. “Once the infrastructure of Croatia and Bosnia is up and running, the floodgates for development can be opened. Machine tools to get factories going, raw

materials for production, and finished products can all begin to flow. . . . For industry, a steady supply of power is the only way production lines, or furnaces, can be fired up.”

The Ron Brown approach to Bosnia was part of a larger economic perspective developed at the beginning of the Clinton administration, which was in sharp contrast to the post-industrial, monetarist and free-market policies promoted in eastern Europe and around the world by the British and by the international financial institutions.

In March 1994, Brown had announced that under the Clinton administration’s National Export Strategy, the Commerce Department had designated ten “Big Emerging Markets” which offered what he called “the greatest opportunity for U.S. trade expansion in the twenty-first century.”

In August 1994, Brown declared that the Clinton administration “has junked a 12-year tradition of laissez-faire government,” and that the administration would now mobilize gov-

ernment funds “to fight for U.S. exporters in the global market, with financial support from the U.S. Export-Import Bank and other U.S. government resources.”

Brown’s Undersecretary of Commerce Jeffrey Garten, in a 1994 New York speech, specifically emphasized foreign government-backed infrastructure projects for U.S. participation. “It is in infrastructure—in megaprojects—that government and business often form the most successful partnerships. Often the bidding process is done through a government procurement system. This is where effective advocacy by Washington on behalf of our firms is critical.”

Government financing, government procurement, megaprojects, state-to-state deals: All of this stands in the sharpest opposition to the approach which has since triumphed in Bosnia, which has meant no state financing—indeed, no state role whatsoever—and above all, no megaprojects, and no industrial development.

How Bosnia won, and lost, its economic sovereignty

by Umberto Pascali

We were struck recently by a comment from one of those all-too-numerous television “experts.” Drawing a parallel between what will happen in Kosovo after the end of the bombings, and what is happening now in Bosnia, in a matter-of-fact tone, he threw the following “whopper” into the casual debate: “Of course, Bosnia now is a *NATO protectorate*, and will be so for a very long while.” None of the other “experts” even attempted to dispute that statement, as if to stress that indeed, Bosnia could not survive for one single day without the “protection” of NATO and the “international community.

“*Protectorate*”! This word, taken from the lexicon of the old colonial empires—most emphatically the British Empire—has come back into fashion, especially so, ever since NATO began dropping bombs over Kosovo, Serbia, and Montenegro. Already on Feb. 3, the London *Times*, in an article proclaiming Britain’s Prime Minister Tony Blair to be the “new Gladstone” (the prototypical nineteenth-century “liberal imperialist”), announced that, soon, Kosovo would be occupied by Gen. Sir Michael Jackson’s NATO Rapid Reaction Corps, and that it would become a “NATO protectorate.” In other words, this population would not be afforded the right and dignity of political and economic sovereignty, but instead would be “protected,” i.e. dominated and exploited by a foreign power—“for its own good,” of course.

Stripped of all double-talk, the concept of a “protectorate” is outrightly feudal, opposed to the republican principles upon

which the United States was established. But, if the plan of the “new NATO” succeeds, the entire Balkans will become a protectorate, with U.S. participation. Already, large areas of the Third World, progressively deprived of their sovereignty, have been pushed back into the status of “protectorate” or colony that they had escaped with their struggles for independence in the aftermath of World War II.

The pressing question we must answer, therefore, is: How did Bosnia ever become a “protectorate” in the first place? And, what lesson can we learn from this? These are crucial questions at the present moment, when an even broader area in the Balkans—Kosovo, Serbia, and Montenegro—is being systematically destroyed by the “new NATO” bombing, after Kosovo had been already been ravaged before that.

All of former Yugoslavia has now been devastated. Bosnia was not given the chance to implement its reconstruction. Instead of being the focus of a new “Marshall Plan,” as Lyndon LaRouche and many of Bosnia’s best leaders had requested, the region was abandoned to the usury of the International Monetary Fund and the World Bank. It was not rebuilt, and has therefore remained in a situation of no war, but no peace. Lacking any economic reality, any national purpose, Bosnia’s ethnic components have remained divided—more divided, in fact, than they were at the time when Sarajevo, besieged by Radovan Karadzic’s forces, and Muslims, Serbs, and Croats stood shoulder to shoulder in defense of the city.

Bosnia's economy is now being progressively taken over by organized crime, and war could begin again at any moment. Bosnia's only "guarantee" of peace, is the military "protection" of the "new NATO," whose presence is not justified by any plan to help get the country back on its feet, but instead has turned into a permanent occupation force, waiting for the next explosion to occur.

Is this the future that is now also being prepared for Kosovo and the rest of the Balkans, after the bombs stop falling?

The second war against Bosnia

When Bosnia emerged from four years of war and genocide, the country was left with no economy. Industrial plants had been destroyed or extensively damaged; infrastructures, communications, cities, and towns had been smashed. Unemployment was at 70-80%, and the country had no food supplies. Nevertheless, there was much optimism: Sarajevo and the country had successfully resisted defeat and Serbian occupation. Now the moment had arrived to rebuild the country, institutionally and materially. The people who had fought and won without any military training, were now ready to return to productive activities. There was no lack of energy and will to rebuild the country.

In November 1995, a peace agreement reached at Dayton, Ohio guaranteed the end of the hot phase of the war. But it did not establish the peace. The Bosnian leadership around President Alija Izetbegovic had to accept many otherwise unacceptable conditions, and had to give away much of what had been gained in the terrible war. As Izetbegovic's Chief of Cabinet, Faris Nanic, put it in an interview in *EIR*'s July 26, 1996 issue: "We in Bosnia accepted an unjust peace, in order to have reconstruction. But now . . . you have an unjust peace, and on the other hand, there is no reconstruction. So the peace will lose its stability, if reconstruction is not implemented."

On Nov. 1, the day the negotiations started at Wright-Patterson Air Force Base in Dayton under U.S. sponsorship, Secretary of State Warren Christopher delivered a brief welcoming speech. "A major effort must be undertaken for the reconstruction of Bosnia," he said, "for it is certainly true that lasting security will depend upon bringing the economy of this troubled region back to life. In other words, once an agreement is signed, a multi-dimensional effort will begin. It'll be backed by soldiers, diplomats, bankers, engineers, governments, and private organizations. . . . If we succeed, we can make sure that the sons and daughters of Americans will not have to participate in another major war in Europe." His words reflected what Bosnia was hoping to achieve, with the assistance of the United States.

What followed, unfortunately, was a new war that lasted for another two years. But this time, the enemy was more insidious than Yugoslavian President Slobodan Milosevic. An exhausted population had to face the combined forces of the biggest financial institutions on the planet: the International Monetary Fund, the World Bank, and the financial institutions of the European Union, plus the military and psycho-

logical warfare apparatus of the "new NATO" that deployed into Bosnia, under top British specialists in intelligence dirty tricks, population control, and terrorism/anti-terrorism, such as Sir Michael Rose and Sir Michael Jackson. The new enemy was determined not to grant Bosnia its national sovereignty. Bosnia had to face the threat of a new genocide, only this time, "genocide through financial means."

Bosnia was not to be allowed to have *control over its economy, its finance*. It was to be denied the basic prerogative of a sovereign country: *the ability to issue credit for production*. Bosnia was forced to write into its own Constitution, that the governor of its central bank had to be a foreigner "appointed by the International Monetary Fund"! Bosnia was progressively denied its *right to have an army* or a national intelligence-gathering capability. It was, in short, denied the *ability of the governed, to actually govern*.

Instead, the Dayton Accord established a strange institution called the "High Representative," an individual who supposedly represents the juridically ill-defined "international community." With powers superior to those of the elected institutions, this High Representative is a close approximation of a British colonial viceroy. He was given the "civilian power," while the military power rested with the "new NATO" contingent which, in turn, was dominated and shaped by the British as a sort of new colonial army and police.

Despite all this, Bosnia kept fighting for its national sovereignty. It took two years to weaken that resistance—though even today, the resistance is far from over.

The heorism of Ron Brown

There is no doubt that Izetbegovic accepted the Dayton Accord because the talks were being hosted and sponsored by the United States. Izetbegovic and the Bosnian leadership had decided very early on, at the beginning of Karadzic's genocidal assault, that the country had to establish the closest possible links with the United States, distinct from those with the "Europeans." Already in 1993, during the siege of Sarajevo, this point was being clearly stated. The Bosnians also knew that the decisive push to halt the military-driven genocide did not come from the British or the French, but from the United States. In particular, they put solid confidence in President Clinton. The Bosnian leadership believed that once the Dayton Accord was signed, the United States would be the main partner in assisting in the country's reconstruction. The post-World War II Marshall Plan was the most obvious precedent. The hope and expectation was that the U.S. Presidency would launch a plan for direct, sovereign, state-to-state economic links between the two countries, and that it would foster investment in to the real economy, thereby bypassing—and thus making irrelevant—the gigantic international financial institutions.

And that was precisely what U.S. Commerce Secretary Ron Brown was seeking to do, at the point when, while returning from a mission to Bosnia, he and 30 prominent U.S. businessmen were killed in a plane crash, whose causes have never

been fully explained. The crash took place as they were approaching Dubrovnik Airport in Croatia, on April 3, 1996, a little over three months after the Dayton Accord had been signed.

Ron Brown's heroism underscores another crucial lesson for the present time. His unprecedented mission had great meaning for Bosnia, but it had, perhaps, even greater meaning for the United States. Establishing a direct connection between U.S. productive forces and the Bosnians, could have created the historical opportunity for Washington to free itself from the usurious and oligarchic control that was destroying the country. Ron Brown's mission was chance for the United States to return to the American System economic and foreign policies of Franklin Delano Roosevelt, and—by saving Bosnia from the IMF/World Bank enforcers—to free the United States from the deadly embrace of the British-American-Commonwealth oligarchy. Today, this conflict between these two tendencies inside the United States—the Ron Brown legacy versus the IMF—continues to dominate the debate today on what is going to happen in the Balkans after the NATO bombings stop.

“Help ignite the reconstruction's engine! . . . I think this [a Marshall Plan for Bosnia] is a matter of *political* decision, as it had been a matter of political decision when the Marshall Plan was launched in postwar Europe,” Faris Nanic told *EIR* in July 1996. On July 1, Nanic had been appointed as Chief of Cabinet of Bosnia's President Alija Izetbegovic. “This is not a technical economic issue. The important thing, is that you [in the United States] decide that you want to help the reconstruction of a country that has been devastated by a war. Therefore, in the same way that the United States played the leading role after World War II in reconstructing Europe, so, now, the U.S. should take on the responsibility in the reconstruction efforts in Bosnia and the whole region, in *tight* coordination with the Bosnian government. . . .

“Technically it would *not* be difficult, because we have tremendous resources for a small country. We have considerable human, scientific, and natural resources to restart very advanced production of various kinds. . . . We know how to rebuild Bosnia, and we have the capabilities; what we need is investments and help, to ignite the engines of our reconstruction. . . . [But] we have problems in restarting some of the production facilities that have not been damaged, because we do not have funds. There is no conception of how the economic strategy of the country should look, because there are too many pressures from outside. We are not able to launch a real development program, because we are not able to issue long-term credits through our National Bank.”

Asked about Brown's mission and the policy of “massive investments without intermediaries,” Nanic stressed: “We have always advocated that certain bilateral cooperation is crucial. Mr. Brown led a delegation of about 30 prominent businessmen who were committed to . . . invest—but to invest in productive investments. . . . If our information is correct, these people were committed to invest real money, to launch

a real reconstruction of the country. We have the impression that the plane crash somehow discouraged potential investors.”

An IMF-controlled central bank

The fear which Ron Brown's initiative instilled in international financial circles, is plainly evident in a negative way, when we examine the conditions that these circles forced through into the Dayton Accord. On the basis of Annex 4, Article 7 of the agreement, the Constitution of Bosnia must incorporate the following definition of Bosnia's central bank:

“Article VII: Central Bank. There shall be a Central Bank of Bosnia and Hercegovina, which shall be the sole authority for issuing currency and for monetary policy throughout Bosnia and Hercegovina.

“1. The Central Bank's responsibilities will be determined by the Parliamentary Assembly. For the first six years after the entry into force of this Constitution, however, it *may not extend credit by creating money, operating in this respect as a currency board*; thereafter, the Parliamentary Assembly may give it that authority.

“2. The first Governing Board of the Central Bank shall consist of a *Governor appointed by the International Monetary Fund*,. . . The Governor, who *shall not be a citizen of Bosnia and Hercegovina or any neighboring state*, may cast tie-breaking votes on the Governing Board.”

Documentation

The following are excerpts from historic documents dealing with Bosnia's reconstruction—and the sabotage of that reconstruction. Emphasis has been added.

The Dayton peace agreement

From the General Framework Agreement, Annex 10 Agreement on Civilian Implementation:

Article I: High Representative [HR]

The Parties [the Republic of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, and the Republika Srpska] agree that the implementation of the civilian aspects of the peace settlement will entail a wide range of activities including continuation of the humanitarian aid effort for as long as necessary; *rehabilitation of infrastructure and economic reconstruction*. . . . In view of the complexities facing them, the Parties request the designation of a HR . . . to facilitate the Parties' own efforts and to mobilize and, as appropriate, *coordinate the activities of the organizations and agencies involved in the civilian aspects of the peace settlement*. . . . The HR shall:

- *Monitor* the implementation of the peace settlement. *Maintain close contact* with the Parties to promote their *full compliance with all civilian aspects of the peace settlement* and a high level of cooperation between them and the organizations and agencies participating in those aspects. *Coordi-*

ate the activities of the civilian organizations and agencies. . . . The civilian organizations and agencies are requested to assist the HR. . . . Facilitate, as the HR judges necessary, the resolution of any difficulties. . . .

- Participate in meetings of donor organizations, particularly on issues of *rehabilitation and reconstruction*. . . .

- Provide guidance to, and receive reports from, the Commissioner of the International Police Task Force. . . . In pursuit of his or her mandate, the HR shall convene and chair a commission (the “Joint Civilian Commission”) in Bosnia and Herzegovina. It will comprise senior political representatives of the Parties, the IFOR Commander or his representative, and representatives of those civilian organizations and agencies the HR deems necessary. [The IFOR, or Implementation Forces under NATO, were generally commanded by a British officer—ed.] . . . The Parties shall facilitate the operations of the HR. . . . Privileges and immunities shall be accorded as follows: The Parties shall accord the office of the HR and its premises, archives, and other property the same privileges and immunities as are enjoyed by a diplomatic mission and its premises, archives, and other property.

Article IV: Cooperation

The Parties shall fully cooperate with the HR. . . .

Article V: Final Authority to Interpret

The HR is the final authority in theatre regarding interpretation of this Agreement on the civilian implementation of the peace settlement. . . .

Article VIII: Establishment of a Joint Military Commission

The Commission shall: Serve as the central body for all Parties to this Annex to bring any military complaints, questions, or problems that require resolution by the IFOR Commander. . . . The Commission shall be chaired by the IFOR Commander. . . . The *High Representative* or his or her nominated representative shall attend Commission meetings, and offer advice particularly on matters of a political-military nature. . . . [A]ll final decisions concerning its military matters shall be made by the IFOR Commander. The Commission shall meet at the call of the IFOR Commander. The High Representative may when necessary request a meeting

Article XII: Final Authority to Interpret

In accordance with Article I, the IFOR Commander is the final authority in theatre regarding interpretation of this agreement on the military aspects. . . .

World Bank dictates

From the World Bank Report, December 1995, to the Brussels Conference on Reconstruction of Bosnia Dec. 20-21, 1995.

[The Preamble recognizes that 80% of the Bosnian economy has been destroyed, and half the population either killed, maimed, or expelled.]

Bosnia could become a successful economy, provided international assistance can be mobilised. . . .

A particularly serious threat to the current policy stance is the rapidly accumulating arrears in wage and pension payments and the past state liabilities to households for their lost foreign exchange deposits in the banking sector. These could overwhelm the budget if the Government were to take them on. . . . In seeking solutions, every effort should be made to limit the government’s use of domestic banking funds especially Central Bank Financing. Large amounts of these liabilities . . . may have to be written down or written off outright through schemes such as trading wage and pension arrears for foodstuffs and other aid.

The Government must move towards a convertible dinar and should maintain a flexible position on exchange rate arrangements. Making the dinar convertible is a critical step.

Like elsewhere in Central and Eastern Europe, increased output is likely to come from growth in the services sector and light industry set up by private entrepreneurs. The State should concentrate on providing . . . a sound legal, regulatory and institutional framework that promotes smooth function of free markets.

The Government should undertake structural reforms to ensure efficient resource allocation. Rapid privatisation of the idle assets of state enterprises. . . .

An integral component of economic revival is the efficient deployment of scarce resources to help the poor. . . . [But] a bloated social assistance budget would undermine fiscal prudence needed for stability. Inappropriate targeting and excessive amounts of social assistance would discourage work and enterprise restructuring. . . .

In order to gain access to the longer-term financing needed for a sustainable recovery of economic activity, Bosnia would benefit greatly from being able to normalise its international financial relationships. It has accumulated substantial arrears, including to the IMF, the World Bank, and other international financial institutions, bilateral creditors and commercial bank creditors. Based on an assessment of the entire external debt situation, economic prospects, the post-war reconstruction and recovery needs, the Government will need to design, jointly with the IMF, the World Bank, and other creditors, a medium-term balance of payment and external financing plan . . . and enable Bosnia to normalise its international financial relations. . . .

The most important conditions for World Bank membership are for Bosnia to assume an agreed share of the outstanding Bank loans to the former Yugoslavia and agree on a plan to eliminate arrears on these loans. This arrears clearance plan would need to be integrated within the medium-term financing plan. . . .

From remarks by the chief of the World Bank’s country operation in Central Europe, Michel Noel, in Sarajevo, July 8, 1996.

The [Bosnian] State and its entities must disengage itself very rapidly from any direct role in the productive sphere of

the economy. . . . They must concentrate on maintaining a stable macroeconomic environment and a transparent and effective governance framework in which the private sector can thrive. . . . It will be extremely difficult. . . .

Bosnian responses

A Bosnian source comments on the World Bank demands, as quoted in New Federalist newspaper, Jan. 3, 1996.

After four years of genocide at the hands of the Nazi-like Greater Serbians, now we discover that there is something worse. . . . Without a single bullet, without any physical violence, these bureaucrats could boast of having potentially done more damage to the future of our people than Karadzic and his gangs. They are laughing at our misery when they throw at us that piece of stale bread, the \$500 million. And yet these gentlemen have the power to control the faucet of credit, they can decide to allow or prevent basically anybody from giving us any credit. On top of all this, we had to accept destructive conditionalities that could seriously jeopardize the future of our children.

From a "Letter of Intent" prepared by a group of Bosnian intellectuals in December 1995.

Statement of principle

The government of the Republic of Bosnia-Herzegovina, adheres to the principle expressed by the American Republic, of government "of the people, by the people, and for the people." The government is thereby convinced, that population is the true origin and source of all national wealth.

The word "people" as used here, refers to the citizens of the Republic of Bosnia-Herzegovina, without any distinction as to their racial, ethnic or religious origin. . . . The most pressing concern and most chief aim of this government, shall be to restore, within the briefest period, the *population potential* of our nation. To that end, the Republic of Bosnia-Herzegovina has determined to emerge as a modern industrial nation.

The Republic of Bosnia-Herzegovina and the debt of the former Federal Republic of Yugoslavia:

The nation of Bosnia-Herzegovina has observed with disquiet the effects of shock therapy and IMF conditionalities upon the nations of Eastern Europe and of the former U.S.S.R., and of neo-liberalism in Western Europe.

Frail and distraught, the people of the Republic of Bosnia cannot be submitted to such policies lest the Republic itself vanish.

The Federal Republic of Yugoslavia having unlawfully seized and put to her own uses, the gold bullion and whatever real property, accounts, property titles, and other forms of property of the former Socialist Federal Republic of Yugoslavia she found within her power to seize. . . .

Aware that this decision by the Republic of Bosnia-Herzegovina will not meet with the approval of international financial institutions, in particular, of the International Monetary Fund, institutions which to our best knowledge and belief,

are beholden to private financial interests indifferent to the existence of the State and Republic of Bosnia-Herzegovina, the government of this Republic desires to enter into bilateral and multilateral financial and economic agreements with friendly and/or allied nations, committed to reconstruction of our Republic, in preference to agreements with international financial institutions, and in order to avoid becoming a Protectorate, *de facto* or *de jure*, of the latter institutions. . . .

To the end of promoting the highest degree of sovereignty for the Republic of Bosnia-Herzegovina, . . . we have decided, to adopt the so-called Colbertist or Dirigist Model for our banking system, and to reestablish upon a new principled foundation, a *National Bank*, on the model of the First National Bank of the United States (1790). The National Bank of the Republic of Bosnia-Herzegovina shall be constituted of two parts: a Treasury Board, to issue currency, in a rigorously controlled relation to the real wealth created by agriculture, manufacturing, and trade, and a Board, to issue credit, for such projects as the government shall propose, and as the Parliament shall vote, which projects shall be designed to restore the population potential of the nation.

The National Bank shall be charged to put into circulation new issues of paper money, for those reconstruction projects dictated by the present national economic emergency, for these purposes alone:

- the purchase of raw materials, goods and capital goods for industry;
- the building of installations, the employment of labor in producing or transporting manufactured or agricultural goods;
- for mining;
- for building housing and manufactures;
- for producing and distributing energy;
- for public services, in particular, the building and operation of hospitals and schools;
- for scientific research and technological applications;

Currency issues shall be put into circulation by the following means alone:

- Credit from the National Bank, for public investment;
- Participation by the National Bank, in loans from private banks;
- Discounting by the National Bank, of bills of exchange, obligations and other notes, related mainly to the production of tangible wealth and capital improvements. . . .

From a statement by Bosnia Prime Minister Hasan Muratovic at the National Press Club, Washington, D.C., July 17, 1996.

The most important part of the [Dayton] agreement is economic reconstruction. . . . The money for reconstruction is not coming, neither in promised amount, nor in time. . . . There is a lot of conditioning for the donations. . . . I must say: We have problems also with the World Bank. The World bank is putting conditions that are very difficult to reach. . . .

Resolution calls for peace through development for the Balkans

The following resolution is being circulated for endorsement worldwide by the Schiller Institute.

The obvious fallacy in current NATO policy respecting the Balkans is that the mere fact that one professes to be acting on behalf of a moral concern, does not mean that the action may not produce results directly contrary to that professed motive.

Such were the considerations in definitions of justified and unjustified warfare. War is not morally justified, no matter what the professed moral pretext, unless that war is necessary as the only alternative, and unless the means applied are likely to succeed in removing the cause for which a war is fought.

The present situation in the Balkans affirms the wisdom of the aforementioned considerations, because so far the military campaign has not been successful, but rather has caused a deterioration of the global security situation, and led the Kosovar Albanians into catastrophe.

We, the signers, state that:

1) There is no durable or permanent and just solution of the crisis without reaching a strategic consensus among leading NATO states and leading nations such as Russia and China;

2) Not a single regional crisis can be observed or treated separately from the global financial crisis and its consequences;

3) Only by reaffirmation of the concept based on the development of the real economy, can we have a solution for Kosovo, the Balkan region, and Southeastern Europe;

4) We greet and support the initiative for the regional development plan presented by U.S. President Clinton.

Therefore, we demand:

1) To reach an urgent diplomatic solution for Kosovo, using UN Secretary General Kofi Annan's plan as a basis, to be conducted through the UN Security Council, and with the full consent of Russia, China, India, and other key nations;

2) To work out a "Marshall Plan" for the region, using the already existing materials on postwar reconstruction plans for Bosnia-Herzegovina and the region as an integral part of the overall Eurasian development program;

This would include exemplary projects such as:

Full rehabilitation of the Danube water connection as the most important European waterway. Development and expansion of the line Munich-Vienna-Budapest-Nis-Sofia-Plowdiw-Istanbul as the southern corridor of the new Eurasian Continental Land-Bridge. Expansion of water systems (canals, etc.) of rivers such as Drava and Sava; linkage of the Danube to the rivers Morava and Vardar, thereby establishing navigable waterways through Serbia, Macedonia, and Greece to the Aegean Sea. These waterways also serve as infrastructure corridors for the development of industry.

Development of four main regional corridors of rail/road and water connections, such as:

Salzburg-Villach-Ljubljana-Zagreb-Belgrad-Nis-Skopje-Thessaloniki-Athens;

Linz-Graz-Maribor-Zagreb-Karlovac-Split-Ploce-Dubrovnik-Durres-Athens;

Budapest-Pecs-Osijek-Tuzla-Sarajevo-Mostar-Ploce; Vienna-Gyr-Szombatheley-Nagykanizsa-Maribor-Ljubljana-Monfalcone-Mestre-Milan.

The development of modern agriculture in the whole region as another major priority.

3) An approach to reform of the world monetary and financial system by creating an architecture of the "New Bretton Woods" with no delay (i.e., fixed exchange rates, protection of national economies, and sovereign credit generation for economic development);

4) An urgent and sharp break with the IMF and World Bank practice of imposing austerity measures and unacceptable financial conditionalities on sovereign nations;

5) Debt moratoria for the economies of the region, which have been ruined by war and enforced shock therapy;

6) Use of the model of the Kreditanstalt für Wiederaufbau (Credit Institution for Reconstruction) during the post-World War II period reconstruction of Germany;

7) Joining the initiative for launching the project of the Eurasian Land-Bridge as a spine of Eurasian development in cooperation with all interested nations;

8) Inclusion of all Balkan and Southeastern European states into the Land-Bridge project.

Initial Signers:

Faris Nanic, Secretary General of Bosnia's Party of Demo-



Faris Nanic (speaking) and Helga Zepp-LaRouche (seated, next to her husband, Lyndon LaRouche), initiated the resolution for "Peace Through Development for the Balkans." Here they are shown at a January 1997 forum of the FDR-PAC.

cratic Action in Croatia; former Chief of Staff of President Alija Izetbegovic of Bosnia-Herzegovina in 1996.
Helga Zepp-LaRouche, founder of the Schiller Institute internationally.

What follows is a selection of prominent signers as of June 4, 1999. Titles for identification purposes only.

** Signifies former

United States

State Representatives

Rep. Tommie Houston, Birmingham, AL
Rep. Thomas Jackson, Thomasville, AL
Rep. James Thomas, Selma, AL
Del. Michael Dobson, Baltimore, MD
Rep. Ben Swan, Chair, Massachusetts Legislative Black Caucus, Springfield, MA
Rep. Ed Vaughn, Chair, Michigan Legislative Black Caucus, Detroit, MI
Rep. Leonard Henderson, Clarksdale, MS
Sen. William L. Clay, Jr., St. Louis, MO
Sen. Don Eret, Dorchester, NE**
Rep. Barbara Hull Richardson, Richmond, NH
Rep. William McCann, Dover,** Executive Board, SEIU Local 1984, NH
Rep. Gerald Weeks, Albuquerque, NM**
Rep. Harold James, Philadelphia; Special Assistant to the President, National Black Caucus of State Legislators, PA
Rep. Thaddeus Kirkland, Chester; Vice Chair, Pennsylvania

Legislative Black Caucus, PA
Sen. Gerald F. Lange, Madison, SD
Rep. Roger Lee, Desmet, SD**
Sen. Theo Mitchell, Greenville, SC**
Rep. Joe Towns, Memphis, TN

Municipal Elected Officials

William Curry, City Council Member, Linden, AL
Rufus Lee, City Council Member, Geneva, AL
Richard Green, City Council Member, Shoshoni, WY

Religious Leaders

The Rev. Antanas V. Bitinas, M.S., Th.D., Pontifical Lithuanian University of Rome, CT
Dr. Abdul Alim Muhammad, Minister of Health, Nation of Islam, Washington, D.C.
Father Richard T. McSorley, S.J., Director, Center for Peace Studies, Georgetown University, Washington, D.C.
Bishop Alex Stevens, Stephen Temple Holiness, Washington, D.C.
The Rev. Roman Schaefer, National Chaplain, Veterans of Foreign Wars, Ft. Lauderdale, FL**
The Rev. Arnold Howard, Pastor, Enon Baptist Church, Baltimore, MD
The Rev. G. Ellison, First Baptist Church of Elkridge, Elkridge, MD
The Rev. Carl Washington, President, Baltimore Baptist Ministerial Alliance; Pastor, St. Timothy's Baptist Church, Baltimore, MD

Bishop Thomas J. Gumbleton, Roman Catholic Diocese of Detroit, MI
The Rev. James Lucas, Union Baptist Church, Las Vegas, NV
The Rev. Djuro Majerle, Priest, St. Sava Serbian Orthodox Church, Broadview Heights, OH

Democratic Party Officials

Jennie Jones, President, Democratic Committee, Wakulla County, FL
Dowling Parrish, President, Democratic Committee, Calhoun County, FL
Helen Alexander, Democratic Cent. Committee, Frederick County, MD
Mary Borawski, Democratic Cent. Committee, Frederick County, MD
Helen Bradford, Democratic Cent. Committee, Baltimore, MD
David Shapiro, Maryland Democratic State Cent. Committee, Baltimore, MD
Gordon Anderson, County Chair, Democratic Party, Astoria, SD**

Other leading officials

Amelia Boyton Robinson, Civil Rights Leader, Tuskegee, AL
Ahmad Alahmad, Palestine Arab Fund, Anaheim, CA
Nihad E. Dzinovic, Bosnia Relief Fund, Anaheim, CA
Hunter Huang, National Assn. for Chinese Unification, Washington, D.C.
Marie Huang, President, Hunan Assn., Washington, D.C.
Dr. Zharaon Xu, President, Consolidated Society of Chinese Organizers, Washington, D.C.
Prof. Raphael Cassimere, Jr., Ph.D., New Orleans, LA
Henry Julien, Attorney and Civic Leader, New Orleans, LA
Edward Roberts, Officer, United Teachers of New Orleans, New Orleans, LA
Dr. Chia Ting Chen, Bethesda, MD
Levander Little, Jr., Exec. Board Member, Coalition of Black Trade Unionists, Baltimore, MD
Al Lloyd, UAW Region 8 CAP Coordinator, Baltimore, MD
Dr. A.J. Stovall, Prof. of Political Science, Chairman of Social Sciences Division, Rust College, Holly Springs, MS; National Director, African American Student Leadership Conference
Melvin Muhammad, Nebraska State President, NAPE/AFSCME, Omaha, NE
Norman Curry, Vice President, Community College of Southern Nevada, Las Vegas, NV
Maurice Norrise, Treasurer, Student Government, Community College of Southern Nevada, Las Vegas, NV
Prof. Robert Fitrakis, Columbus State Community College,

Columbus, OH
Nathaniel Batchelder, Director, The Peace House, Oklahoma City, OK
Syed A. Ahsani, Chair, American Muslim Alliance, Texas; Former Ambassador of Pakistan to Sudan, Arlington, TX
Christopher Atang, Ph.D., Advisor to the Social Democratic Front, Cameroon; Leader, Southern Cameroons National Council; Professor, Texas Southern University, Houston, TX
Carl F. Bernard, USIA (ret)., Alexandria, VA
Samir Karam, Washington Bureau Chief, Al-Kifah, Fairfax, VA
Yang Lei, China Radio International, Arlington, VA
David W. Chang, Prof. of Political Science Emeritus, University of Wisconsin, Oshkosh, WI

Canada

Chor-Bishop Elias El-Hayek, Collegial Judge, Montreal Regional Tribunal, Montreal
The Rev. Basil Miller, Brampton, Ontario

Europe

Austria

Dr. Hans Koechler, President, International Progress Organization (IPO), Vienna

Bosnia-Herzegovina

Father Petar Andelovic, Sarajevo
Prof. Dragoljub Stojanov, University of Sarajevo; Member of the Bosnian Government**
Dr. Lamija Tanovic, Chargé d'Affaires, Embassy of Bosnia-Herzegovina, Copenhagen

Croatia

Jany Hansal, "Desa" Dubrovnik (Women's Association), Dubrovnik

Czech Republic

Olbrich Pospisil, Freelance Journalist, Economic Advisor, Prague
Dr. Marcel Winter, Director, WMC Prague; Representative, Czech Management Association, Prague

Georgia

Georg Bichashvili, Member of Parliament of Georgia (Labour Party), Tbilisi
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Prof. Peter Gutcke, Bad Salzuflen
Father Robert Krieger, Roman Catholic Priest, Karlsfeld
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Nikola Stojanov, Macedonian Translator, Dortmund

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Dr. Bathori Gabor, Vice President, Presidium of the KDNP Party
Dr. Fekete Gyoergy, Vice President, Presidium of the KDNP Party
Dr. Hasznos Miklos, Vice President, Presidium of the KDNP Party
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Mandoki Andor, Advisor to the President, Presidium of the KDNP Party
Dr. Tibor Kovats, Schiller Institute, Budapest

Italy

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Angelo Sandri, General Secretary, Christian Democracy in Friuli-Venezia-Giulia; Member of National Committee, Christian Democratic Party, Cervignano de Friuli
Paolo Caoduro, Industrialist

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Prof. Dr. Vassyl Solyarov, Economist, Institute for

Finances, Kiev
Anatoly Vosnyza, Interpreter, Schiller Institute, Kiev

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Prof. Dr. Tomislav Popovic, Institute of Economic Sciences, Belgrade

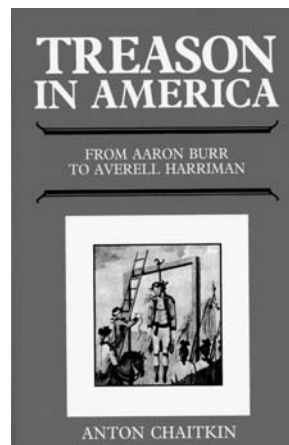
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Peter Cross, Secretary, Auckland Tramways Union, New Zealand
Ken Griggs, State Secretary, United Firefighters of Australia Aviation Branch, Queensland
June Kirwan, State President, Municipal Employees Union, Western Australia
Valda Liepins, President, Baltic Council of Victoria, Australia
Brian Manning, Branch Secretary, Maritime Union of Australia, Northern Territory
Victor Jose, Organizer, Ballarat Regional Office, Australian Manufacturing Workers' Union (AMWU)
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The World Bank is the killer worm that sabotaged Middle East peace

by Muriel Mirak-Weissbach

In September 1993, the peace agreement made by Israel and the Palestine Liberation Organization, was hailed as the beginning of a new era in relations between the two former adversaries. The Oslo Accords, named after the Norwegian capital which had hosted secret negotiations, called for the extension of Palestinian autonomy, through phased arrangements over five years, eventually leading to the establishment of Palestinian sovereignty. The thorniest problems in the relations between the two former belligerents, relating to statehood, and the status of Jerusalem, were postponed to the latest phase, in which “final status” talks would settle outstanding questions. In the interim, a vast array of economic projects was to be implemented, whose effect would be to improve the economic and social condition of the Palestinians, and, as a result of such collaboration, to lay the basis for altering the adversary relationship into one of cooperation.

Had the promise of the Oslo Accords come to fruition, the Middle East today would be an area pulsating with economic growth, generating development, not only for the territory handed over to the Palestinian Authority (PA), but also for neighboring Jordan, Lebanon, and Israel itself. Instead, the entire regional economy deteriorated dramatically, and the Palestinian population—the targeted beneficiary of the peace agreement—finds itself far worse off than it had been under total Israeli occupation. The years since the signing of the Oslo Accord, have seen successive agreements sealed between Israel and Jordan in 1994, as well as between the Palestinian Authority and Israel, up through the Wye Plantation accord in October 1998. But none of these agreements constituted steps forward in the process. The government change which took place in Israel in 1996, following the election of Benjamin Netanyahu as Prime Minister, ushered in the era of outright political sabotage of the agreements, whereby Israel, under the pretext of “security concerns,” froze all progress which should have led to the final status discussions. Netanyahu also used the security issue, to justify closure of the territories, thus preventing Palestinians from reaching their jobs in Israel.

Now, in the wake of the May 17 election of Ehud Barak

to replace Netanyahu, there are clear indications that a deal with Syria will be struck, but the original Oslo agenda is still unfulfilled. If President Clinton is to succeed, as he has promised, to restart the peace process with the new, more amenable, Israeli government coming in, he must deal not only with the blocked political talks, but with the underlying cause of the failure of the peace: the economic issue. Here, it is not a question of picking up the process where it was stalled, but radically reversing the economic policy which was imposed—in violation of the actual peace perspective—by the World Bank, International Monetary Fund (IMF), and their sponsors worldwide.

What should have happened

The Oslo Accords were explicit in directing that peace could be assured, only to the extent that real economic development were to take place. The economic annexes to the agreement were clear in spelling out what kind of development was meant; among the areas of cooperation, were water, electricity, energy (oil and gas, including pipelines), finance, transportation, trade, industry, etc. (see *EIR*, May 28, 1999). These areas were slated to be developed jointly, in the context of a broader regional development perspective, again laid out in detail in the annexes. This was to include a development program for the West Bank and Gaza Strip, as well as for the entire region; for the latter, a Middle East Development Bank was envisaged, and big projects were to be tackled, among them the Mediterranean-Dead Sea canal, and regional desalination programs.

Had the plan been implemented, the Middle East Development Bank would have been established, with initial capital provided by donor countries, and would have issued long-term, low-interest (or interest-free) credit, earmarked for the infrastructure projects in the annexes. The first big regional project to be started would have been the Med-Dead Sea canal. In *EIR*'s view, another canal, connecting the Dead Sea to the Red Sea, should also have been dug. Both would have raised the level of the Dead Sea, and replenished the depleted aquifers.

More important, desalination plants should have been lo-



Palestinians in a refugee camp in Jordan. Had the Oslo Accords been carried out, hundreds of thousands of Palestinians would have found jobs, modern housing, as well as schools for their children and medical facilities.

cated along the new canals, as well as along the Mediterranean coast, off Gaza. *EIR* had proposed at the time, that the cheapest and most efficient means of running desalination plants, would be through the installation of nuclear energy plants. These inherently safe, high-temperature reactors (HTR) would provide energy as well for agriculture, domestic, and industrial electricity needs. The introduction of nuclear energy technology would have revolutionized the entire economy. Such a plant, located at Gaza, could have been combined with research laboratory facilities and training centers, which would have fired the imagination of young Palestinians about science, sparking excitement about this, and other, new technologies. This nuclear desalination approach would have solved the water problem, forever.

As for the areas to be progressively handed over to administration under the Palestinian Authority, in the West Bank and Gaza, the emphasis was to be on providing urgently needed basic infrastructure: first and foremost, housing, but also schools and hospitals, were to be constructed. The main transportation links would include the vital “corridor” which would link the Gaza Strip to the West Bank, thus providing the fledging Palestinian entity with a communications grid, linking it further to Israel and other countries. The other two vital infrastructure projects for the PA were the Gaza airport and the Gaza Sea Port, the latter of which was identified in the annexes. Such facilities would have been indispensable for Palestinian trade relations with the rest of the world.

Had these projects been carried out, the region would be booming today. Unemployed Palestinian labor would be productively and gainfully employed in the huge construction efforts; the construction industry would have developed with Palestinian cement factories and other building materials production, while unskilled labor would have been assimilated and qualified through activity in this sector. Skilled Palestinian labor, including engineers, would have found meaningful work. Agriculture, with the availability of water, and basic technological imports, would have flourished in the extremely fertile land. Hundreds of thousands of Palestinians, some of whom had been living in refugee camps for generations, would have found modern housing, as well as schools for their children and medical facilities.

What happened in reality

None of this has materialized. With the sole exception of the Gaza airport, which has been hotly contested, none of the major infrastructure projects have been completed. Minimal improvements have been made, for example, in the introduction of a sewage system in Gaza, and some housing has been built. Many hotels and a flashy gambling casino have sprung up on the West Bank. But general economic progress has been nowhere to be seen. Instead, unemployment has risen among the Palestinian population, and more families are being thrust below the poverty line.

How, and why, did this come about?

FIGURE 1

Selected infrastructure projects for Middle East development



To put it succinctly: Powerful political interests centered in the British-led financial oligarchy, decided to kill the prospect of peace, by infiltrating a worm into it, which would bore away from the inside, to ensure it would rot. The worm was known as the World Bank.

The sabotage took several forms: the financial instruments and mechanisms; the selection of projects; and outright fraud.

Estimates of the cost of economic development varied greatly at the time the Oslo Accords were made public. One group of Palestinian economists under Yousef Sayigh had projected \$11.6 billion would be required from 1994-2000. Another study, issued in 1992, by the Palestine Studies Project, Center for Engineering and Planning in Ramallah, entitled "Masterplanning: The State of Palestine: Suggested Guidelines for Comprehensive Development," projected that \$30-35 billion over ten years would be required to finance development of Gaza, the West Bank and East Jerusalem. In the 1980s, when such projects were being debated in some Israeli Labor Party circles, economist Gad Yaacobi had talked of \$25 billion over a decade. And Shimon Peres, who signed the agreement with Palestinian leader Yasser Arafat, had reckoned back in 1986, that \$50 billion would be required for a regional effort.

In comparison, what was actually pledged by the World Bank was an order of magnitude less than even the conservative estimates given. As PA Finance Minister Mohammad Z. Nashashibi told *EIR* in an interview in October 1993, the PA had argued with the World Bank at a meeting a month earlier, that they needed significant funds for a ten-year program. "They were convinced," Nashashibi reported, "and raised their commitment from \$350 million a year to \$550 million a year." Then, on Oct. 1, when the donor countries met in Washington, they ended up pledging \$2.2 billion over five years, which meant \$440 million a year. Nashashibi complained that this figure would not cover urgent allocations for housing, and stressed that they also needed financing for the PA administration and the creation of a police force of up to 25,000. Referring back to the Sayigh program, Nashashibi said that the PA had hoped to spend \$6 billion of the project \$11.6 billion, to build 200,000 housing units. "The World Bank did not take this into consideration," he explained. "The World Bank says this is not something for the public sector," he added.

A year later, some funds began to trickle in. In September 1994, the Bank signed an agreement with the PA, whereby a \$30 million grant would be allocated for projects in Gaza, as the first tranche of \$129 million for the year. The money was to go for schools, electricity power lines, roads, sewage systems, and improved water facilities. Over the following years, funds pledged by the donor countries came in in dribbles, all under the watchful eyes of the World Bank.

The most recent figures available from the Palestinian

National Authority website, on donor assistance, were released at the end of 1997. In that report, the PNA gave figures for total pledges, commitments and disbursements in the five years from 1993-98. The total pledges were \$3,655,446,000, and actual disbursements were \$1,961,681,000. Significantly, the World Bank, which had pledged \$203,700,000 of that, disbursed only \$105,709,000. The biggest donors were the Europeans, the United States and Japan. The West Europeans disbursed about \$1 billion—over half the total.

Robbing the poor

But the role of the World Bank cannot be appreciated if viewed only in the light of the funds it has or has not disbursed. More important, in fact, than the amounts it directly controls, is the policy control that this institution exerts. The World Bank assumed this prerogative before the ink had dried on the Oslo Accords. At the donors conference in Washington, on Oct. 1, 1993, according to the Bank's version of events, "participants . . . asked the Bank to provide technical underpinning and a framework for effective use of such assistance" as had been decided by the donors. Then, "Responding to the sense of urgency expressed at the conference by all the parties," the Bank sent a mission to the Occupied Territories (OT) from Oct. 11-Nov. 22, 1993, with the following objectives: "(i) to provide an effective framework for *channelling donor assistance* to meet the immediate needs of the Occupied Territories; (ii) to identify *technical assistance* needs for building Palestinian capacity for designing and managing economic development programs; and (iii) to lay the ground work for more effective use of donor assistance beyond the immediate term by identifying necessary *technical studies of high-priority policies, programs and projects.*" The result of the mission was a report, issued in record time, on Dec. 7, 1993, called "Emergency Assistance Program for the Occupied Territories." That report established the "rules of engagement" in the de facto war of the World Bank against peace through development in the Middle East.

As spelled out in the objectives, the World Bank established itself as the entity determining the flows of financial assistance to the PA, in accordance with the priorities that it would define as such. The reference to "technical assistance" is important, as this is the rubric under which most of actual thievery by the World Bank takes place. Technical assistance is supposed to provide training for the Palestinians, so that they will be capable of implementing programs given them. This includes "policy studies" and "feasibility studies and preparation work for priority investments" to be made.

The way that "technical assistance" functions, is as follows: The World Bank, or another "international" organization, announces that it has a project, worth a couple of million dollars, for some local improvements. To "prepare" the project, the Palestinian Authority is asked, or rather,

told, to hire a couple of outside experts, at the price of \$20,000 per month. This also applies to “experts” called in to “educate” the Palestinians in the grand art of building democratic institutions.

Feasibility studies on projects are part of the same racket. Thus, for example, the World Bank will arrange the financing for “experts” to study the feasibility of the Med-Dead Sea canal, and come up with a project which will cost \$3 billion. The project, the feasibility study says, should be financed by private investors. No such private investors come forward. But the studies have been done, and the “experts” are duly paid.

Another way in which World Bank funds are disbursed, is through the Bank’s own activities. It has become notorious, that the World Bank and IMF will send delegations (“missions”) to Gaza, to inspect the books of the Palestinian Authority. Members of such a delegation enjoy a \$1,000 per day expense account, and often stay for a week or ten days.

War on development

But aside from such petty fraud, the real damage done by the World Bank is on a far greater scale: This is the outright sabotage of development. The thrust of the World Bank’s strategy outlined in the report, is the direct opposite of what was laid out in the economic annexes to the Oslo Accords. Instead of great projects, the World Bank demands the program should “emphasize short-gestation, labor-intensive, rehabilitation and maintenance activities to make better use of existing infrastructure.” In discussing public sector investment, the report says, “The immediate focus would be on upgrading, repair and maintenance of existing facilities; however, new construction, particularly during the later stages of the program would also be important.” All this is motivated by the need to absorb unemployment. As for new investments in infrastructure, they are “Pending the outcome of feasibility and engineering studies.”

Whatever investment is to be made, must come from the private sector, says the report. Even in the housing sector, which, Nashashibi and others had stressed, was of the most urgent requirements, public funding is rejected. The priority identified in the report is not to provide massive new housing but to upgrade conditions in the refugee camps! “With access to more space per person, and upgrading the quality of housing and infrastructure to those remaining in the camps being the overriding objective in the longer term, the strategy in the short term would be to assist the ongoing United Nations Relief and Works Agency (UNRWA) program for improving housing in the camps; to support expansion of housing for low and moderate income households being undertaken by the [Palestinian] Housing Council, suitably modified to minimize and adequately target subsidies. . . . But the key effort in the housing sector should not focus on the *direct* construction of houses, but creation of an institutional, regulatory, and policy framework that is supportive of private development.”

Similarly, in telecommunications: “The public sector investment program would be limited to \$3.2 million” whereas the bulk of investment should be private, and a “regulatory framework” again must be established.

Although repair work and maintenance of existing infrastructure may be necessary emergency interventions, in the Bank report, they are the main focus. Anything which relates to more ambitious projects, building new facilities on a major scale, is relegated to the lowest priority. Thus, in the case of the Gaza airport and sea port, Finance Minister Nashashibi reported that the Bank simply would not consider them. “The World Bank did not even mention the port in Gaza, or the airports” in Gaza and Jericho.

‘It all goes back to making a profit’

Not only has the Bank excluded all major infrastructure projects from its agenda, but it has organized internationally to impose its “free market” ideology on economic and political forces which could otherwise be involved in supporting real development. Since the Oslo agreements, it has held court at a number of international conferences, called to debate regional development, and has each time dictated policy. The first such meeting, in 1994 in Casablanca, launched the process under the auspices of the Middle East and North Africa (MENA) development conference. The following year, in the Jordanian capital Amman, the conference was a major event gathering 2,000 politicians, businessmen, industrialists, and press. Under the official auspices of the Davos, Switzerland, World Economic Forum, the Amman conference featured heavy representation from the World Bank and the IMF, whose sole message was: The only route to development in the region is through privatization, deregulation, liberalization of trade and tariffs, and a leading role for the private sector.

At the conference, the Middle East Development Bank, which had been announced in the Oslo economic annexes, came to life, but “less a development bank than a merchant bank,” according to U.S. representative Joan Spero. The bank’s shareholders and partners, she said, would have to be committed to the doctrines of the free market and privatization. In short: Any hopes that the MEDB would finance the Med-Dead canal or nuclear desalination, were dashed.

As for the nuclear energy option, that too was raised, briefly, only to be shot down like a duck at a shooting gallery. At the time that the Amman conference took place, it should be noted, leading spokesmen of the political forces in the region had gone on record supporting the nuclear desalination approach. PA Finance Minister Nashashibi had embraced the idea warmly in extensive comments to *EIR*, as had then-Crown Prince Hassan of Jordan, who was deeply involved in regional economic policy issues.

Regardless of this, any suggestion that nuclear desalination plants could solve the scarce water problem, was rejected out of hand, at several panels in the conference. Instead,

World Bank vice president Koch Weser proposed that water resources be better managed, and that water prices be raised, to promote conservation. John Hayward, also of the World Bank, said that water projects must be considered from the standpoint of profitability. "It all goes back to making a profit," was the dictum.

As if to drive home the point, about the kind of economic policy that would "work" according to the World Bank, the only major deal that was clinched at the MENA conference, was a \$5 billion agreement among Enron, a Texas-based energy company, Qatar, and Israel, whereby Enron would process Qatar's gas, to be shipped as liquefied natural gas to Israel. The project would provide gas, nothing more. On the other hand, an ambitious project was presented by the Italian hydrocarbons firm ENI, for a vast regional network of gas pipelines, conceived as development corridors along which new industries would spring up, generating broader economic growth. This approach was not considered orthodox by the conference.

The other big attraction at the conference, was tourism. Among the great projects presented by the Jordanian government, those featuring tourism were prominent, adding up to investments for \$1 billion. There was the Dead Sea Tourism Project Master Plan, which foresees the construction of hotels with 15,000 rooms and 18,000 housing units along the beach. Similar designs were presented for resorts in Aqaba, in southern Jordan, and so forth. The illusion nurtured by Jordanian authorities, was that such investments in the tourist "industry" would fill the state's coffers with magnificent revenues, and put Jordan on a par with Israel in this field.

Palestinians in poverty

To form an idea of where the World Bank's leadership of the peace process has led since 1993, it is sufficient to take a glance at the current state of the economies of the region. Jordan, instead of swimming in gold brought in by floods of tourists, is wallowing in a deepening economic crisis. Thanks to its acceptance of the World Bank doctrine in regional economic programs, and thanks also to its faithful adherence to the dictates of the IMF's structural adjustment programs domestically, Jordan is suffering massive inflation, and skyrocketing unemployment. Rather than the hoped-for peace dividend, Jordan's population—60% of whom are Palestinian—has enjoyed instead a marked deterioration in living standards.

The failure of the World Bank's economic "peace policy" has been further aggravated by the disastrous effects of the Netanyahu's closure policy, over the past three years. Under the pretext of "security" concerns, Netanyahu's government repeatedly closed off access to Israel for Palestinians living in the West Bank, beginning in February 1996, thus preventing them from going to work at jobs in Israel. The deleterious effects this has had on the Palestinian economy has also had repercussions on Jordan.

And those who pay the highest price for the World Bank's sabotage, have been the Palestinians. In its quarterly economic reports on the West Bank and Gaza Strip, the Palestinian Economic Council for Development and Reconstruction (PECDAR) has been able only to document a continuing downward trend.

Thus, its autumn 1996 report, read, "between 1992 and 1996, real GNP in the West Bank and Gaza Strip (WBGS) has declined 22.7%." In the same period, "real per capita GNP . . . has declined an estimated 38.8%." In the middle of 1996, unemployment in Gaza was at 39%, and 24% on the West Bank. Wages fell 16% and 8% respectively. Much of this, according to the report, was caused by the Israeli closures in February 1996; however, had real development taken place in the West Bank and Gaza Strip since Oslo, the Palestinian labor force would not have remained so directly dependent upon employment in Israel.

In the first half of 1997, the situation improved slightly, as the closures were lifted; however, most employment was due to jobs in Israel, or jobs created in PA agencies. When, in August and September, Israel again closed off the territories, the crisis worsened, unemployment went up to 20-30%, and wages plummeted. As the quarterly report issued in October 1997 stated, "The total losses inflicted on the Palestinian economy by the recent closure measures may be as high as twice the donor disbursements during the first of half of this year."

Again, ostensibly, the cause of the crisis was the closures; in reality, it was the lack of development, which meant continued dependence on jobs in Israel. The World Bank's philosophy and practice had inhibited growth; Netanyahu had simply put the axe to the neck of the outstretched chicken.

The extent of the tragedy hitting Palestinians was documented in a special report by the Palestinian National Authority. Entitled "Poverty in Palestine (1998)," the report, the first of its kind, defined two poverty lines: one, the "absolute poverty line" reflecting the most basic needs, of food, clothing and shelter; and the "poverty line" indicating these needs plus health care, transport and education. It was found that for six- and nine-member households in the West Bank and Gaza in 1997, the level of absolute poverty was 82%! Those suffering absolute poverty, overall, were two out of three families in Gaza, and half those in the West Bank. The report explores ways and means of providing support and alleviating the poverty.

The report concludes with the ultimate understatement: "Any poverty alleviation strategy in the West Bank and Gaza should be part of a comprehensive development strategy." The question remains: what development strategy? Will the U.S. President seize the political opportunity opened up, at least fleetingly, by the Barak victory, to force through such a comprehensive development strategy, coherent with the letter and spirit of the Oslo Accords?

Crisis in Kashmir created to weaken South Asia

by Ramtanu Maitra

After undergoing continuous artillery fire for weeks in Kashmir, in the last week of May, the Indian Army disclosed that a large number of armed insurgents from Afghanistan had intruded far inside the Line of Control that separates the Indian and Pakistani armies in Kashmir. The insurgents have captured strategic high points in the Kargil area, posing a threat to Srinagar, the capital of the Indian state of Jammu and Kashmir, and cutting off the vast rocky lands of Ladakh district, which borders Tibet in China. Grudgingly admitting a complete intelligence failure, New Delhi swung into action with MiGs and Mirages and brought in at least 25,000 troops to push back and, if necessary, kill off the terrorists. The first few days of reports indicate clearly that the enemy is not only solidly entrenched, but is also armed with Stinger missiles. India lost two MiGs and a helicopter. One Indian Air Force pilot was shot in the head and another was captured by the Pakistani Army. India claims that it has not violated Pakistani air space, and Washington endorsed India's view, but Pakistan has said that the Indian planes crossed the border.

At this writing, the situation is dangerous, with Pakistan threatening to use "any weapon" if Indian troops cross the border. Indian Defense Minister George Fernandes has assured the nation that there is no threat of a nuclear war.

Much confusion

In February, Indian Prime Minister Atal Behari Vajpayee, entirely on his own initiative, opened a bus line between New Delhi and Lahore, Pakistan, where he was met by Pakistani Prime Minister Nawaz Sharif. The two signed the Lahore Declaration, which called for a settlement of the Kashmir issue through peaceful, bilateral negotiations. Now, all intelligence information indicates that even as the two prime minis-

ters were signing this historic declaration, armed insurgents had begun to cross the Line of Control to occupy strategic positions. There is no explanation for why Indian intelligence kept mum about the whole thing.

New Delhi's confused state can be traced to following reasons:

- The Vajpayee government is keen to keep the historicity of the Lahore Declaration alive, and, hence, has come up with the formulation that Islamabad is not involved in pushing in the insurgents, placing the blame on the Pakistan Army. On May 28, Defense Minister Fernandes even exonerated Pakistan's Inter-Services Intelligence (ISI)—which is linked to Israel's Mossad and Britain's MI6—and pointed his finger solely at the Army. The next day, however, the government changed its line and added in the ISI as a fellow-intriguer.

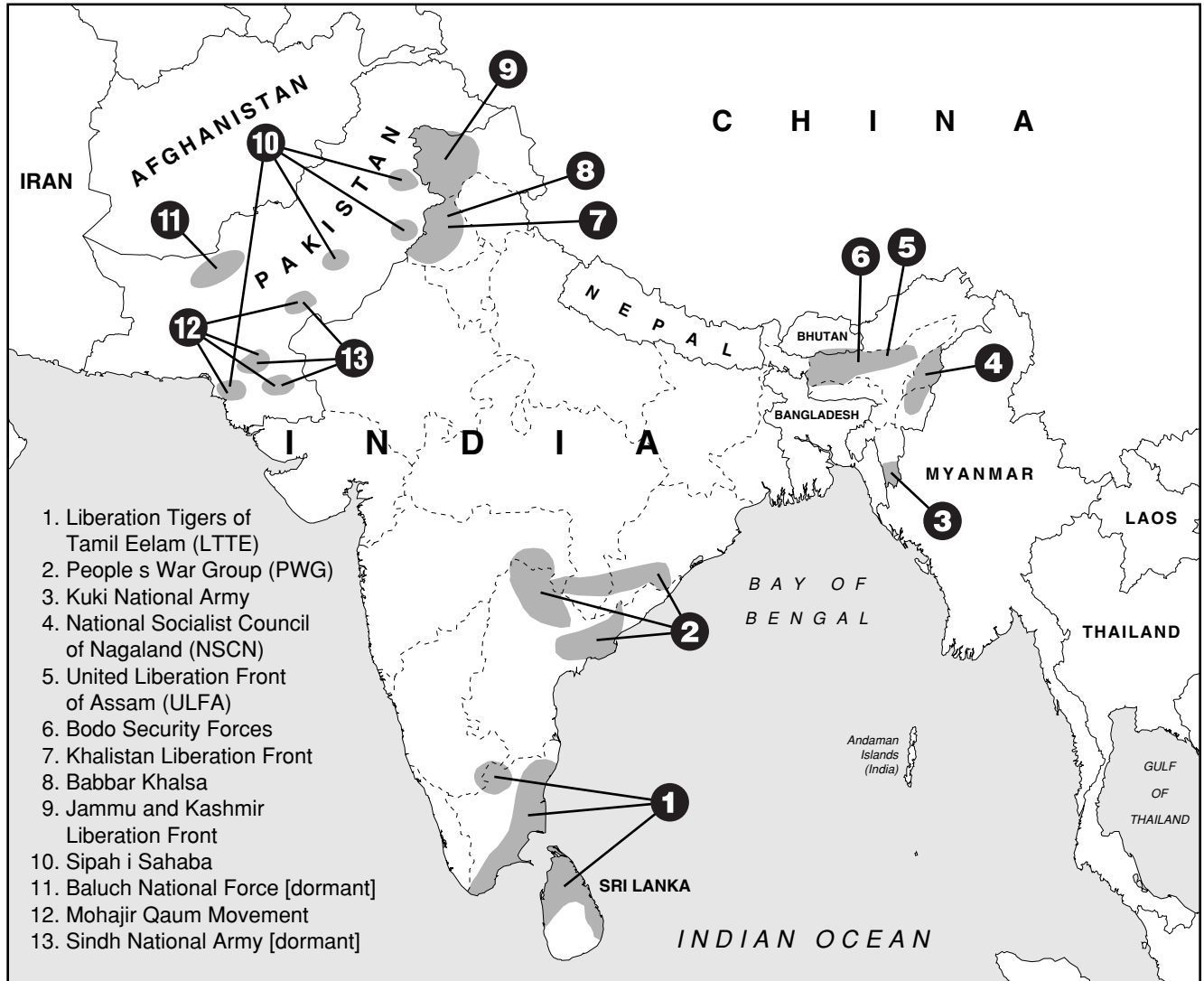
- The government, a coalition led by Vajpayee's Bharatiya Janata Party, is facing parliamentary elections in September. The opposition, particularly the Congress Party, has accused the BJP of being "soft" toward Pakistan, and has charged the Defense Ministry with gross incompetence. To fend off the political attack, the Vajpayee government is issuing menacing statements that a "war-like situation" exists in Kashmir.

- Islamabad has also added to New Delhi's confusion. Sharif has labelled the insurgents "freedom fighters." The Pakistan Army, in its daily briefing, has allowed the terrorist group Hizbul Mujahideen to appear on the dais, singing the praises of the insurgents' bravery.

- Sharif reached Vajpayee by phone, and requested him to stop the Indian air strikes against the intruders, and offered to send Foreign Minister Sartaj Aziz to Delhi. Vajpayee rejected the proposal to stop the air strikes, and asked Sharif, in

FIGURE 1

Terrorist theater of operations in South Asia



This map first appeared in EIR's Oct. 13, 1995 Special Report, "The New International Terrorism."

return, to call the insurgents back. Aziz has been kept waiting by New Delhi with packed bags in Islamabad.

Is Pakistan involved?

Such a question can be answered only if one can locate a power center that can be identified as the Pakistani establishment: Unfortunately, there is none. There is no question that Prime Minister Sharif has alienated himself from his people, by failing completely to prohibit the World Bank and International Monetary Fund from all economic and financial policy-making.

In addition, the law and order situation in Pakistan is in shambles. Terrorist groups and religious sectarianism are kill-

ing off Pakistanis, with Shias killing Sunnis, and Sunnis killing Shias; in Sindh, the Mohajir Qaum Movement, whose leader has been based in London for the last six years, is killing anyone they do not like in Karachi.

Prime Minister Nawaz Sharif, after bringing further economic misery on his people, has crossed swords with both the judiciary and the press, drawing popular wrath. As a result, he has become increasingly dependent on both the Pakistan Army and the ISI for his own and his family's physical survival. One attempt on his life was reported a few months ago, and recently, he accused Britain of interfering in Pakistan's internal matters. Moreover, it is no secret that the Pakistan Army did not endorse the Lahore Declaration. The army

thrives and prospers as long as a conflict with India exists. This was the norm during the Cold War, when India was close to the Soviet Union and Pakistan was close to the Soviets' main rivals, China and the United States. Although the Cold War is over, the Pakistan Army has kept its priorities the same.

The ISI, for its part, became powerful during the Soviet occupation of neighboring Afghanistan. Helped by Islamic volunteers from Arab and the North African countries, and financed by the western intelligence agencies and renegades, the ISI got a share of the drug-and-gun funds that flooded Afghanistan. As a result, the ISI was infiltrated mightily by the MI6, Mossad, and the CIA. After the Russian withdrawal, the ISI maintained its high profile by creating the Afghan Taliban, and financing the Kashmiri separatists, and the Uighur Muslim separatists in the Xinjiang province of China. It is likely that if Kashmir's Ladakh district becomes infiltrated, new operations against neighboring Tibet will start.

A clearer picture emerges from a London *Times* story reporting that British Muslims of Kashmiri origin are being trained in Pakistani Kashmir to be sent across the Line of Control. Without revealing the MI6's hand in the terrorist training, the paper did say that two prominent radical Islamic groups, Shariah and Al Muhajiroun, are recruiting Muslims for *jihād* in order to create an independent Kashmir. Shariah is an Afghansi organization, headed by Abu Hamza, a former Afghan Mujahideen. Sheikh Omar Bakri Mohammad is the leader of Al Muhajiroun.

Thus, although Pakistan is not directly involved in pushing the Afghans into Kashmir, it does not prevent them from going in, nor does it oppose the open support for the insurgents by various terrorist groups and the ISI. Neither did the Pakistan Army or intelligence inform India that a large-scale intrusion by armed guerrillas was taking place.

Target India

There are indications that India, a major British target for break-up in the late 1970s and early 1980s, has once again been put in the cross-hairs. In late December, when then-Russian Prime Minister Yevgeni Primakov visited India, he spoke of a "strategic triangle," centered on China, India, and Russia. The idea, in the aftermath of the U.S.-U.K. bombing of Iraq, was to change the strategic geometry from unipolar to multipolar. The concept did not get much support from either Beijing or New Delhi, but it was not rejected either. But, a number of significant international developments have taken place since then which give the concept, at least indirectly, more relevance. With the NATO powers pounding on Yugoslavia, Russia was served a warning. The British-American-Commonwealth faction in Washington also put forth the theater of missile defense (TMD) system, which is intended to throw a protective shield around East Asia. As Japan played a crucial role in the scheme, China identified the TMD as a provocation. It is at this time that Beijing also changed its stance toward India. A former Chinese Ambassa-

dor to India hinted that China's long-standing refusal to recognize Sikkim as part of India would be resolved, and expected that New Delhi would consider opening the historic trade route through Nathu-La in Sikkim.

Subsequently, two other important events occurred: first, Vajpayee's historic "bus diplomacy" to Pakistan, where he also announced that he may take the bus to China. On May 30, New Delhi announced that External Affairs Minister Jaswant Singh has accepted an invitation to visit China in June, thus formally ending the hiatus in relations between New Delhi and Beijing. Second: On May 7, three NATO missiles struck the Chinese Embassy in Belgrade. As a Chinese official told this author, 20 years of hard work to bring the United States and China close was destroyed in one night.

Things changed inside India, too, undermining Vajpayee's international accomplishments. Following Vajpayee's bus trip to Lahore, there were a number of violent acts against Christians in the Indian states of Gujarat, Orissa, and Madhya Pradesh. The BJP, which led the government coalition, was once again berated internationally as a "Hindu militant" organization and the blame was placed squarely on the "Hindu militants" for those ghastly acts.

Then, on April 20, Vajpayee's government was brought down by a no-confidence vote that passed by one vote. In its wake, the following occurred:

- According to a recent report, the Liberation Tigers of Tamil Eelam—who, on May 21, 1991 had assassinated former Indian Prime Minister Rajiv Gandhi—had met in Durban, South Africa to plan the assassination of his widow, Sonia Gandhi, who leads the Congress (I) Party. Similar meetings took place in London, where the Tamil Tigers met with Kashmiri separatists, and in Toronto, where the Tigers met with the self-styled "Khalistanis," Sikh separatists in Punjab. The Khalistanis were credited with the Oct. 31, 1984 murder of Prime Minister Indira Gandhi. For their part, the Tamil Tigers have links with British MI6, Mossad, the Kurdish Workers Party (PKK), a faction of the African National Congress, the Italian mafia, and Khalistani and Kashmiri separatists in Britain and Canada.

- Equally significant was the May 30 recovery of three bombs with timer devices in Chennai, Tiruchi, and Coimbatore—deep in southern India—two days after the Indian Air Force struck at the intruders in Kashmir. The bombs were attributed to Al Ummah, a radical Islamic group, allegedly linked to the ISI. In addition, intelligence reports indicate that in the state of Andhra Pradesh, several Islamic militant groups, identified as Lashkar-e-Toiba (the same outfit in London has pushed some militants in Kashmir), Hizbul Mujahideen, and Harkat-ul-Mujahideen, have become very active.

- Finally, India's northeast remains vulnerable to ongoing insurgencies, and violent actions against the Christians may have also hardened the attitude of the Christian-dominated northeast toward the New Delhi government.

'Rice War' coalition against Sudan crumbles

by Linda de Hoyos

Former Sudanese President Jaafar Nimeiri returned to Sudan on May 22 after 14 years in exile in Cairo, Egypt, and called for a dialogue toward peace and reconciliation in Sudan, where war in the south has been raging for 16 years. In explaining his return, Nimeiri said, "The government has given political pluralism a chance by passing the Political Association Law. This has encouraged me as it shows the government is serious about handing power over to the people. I have not returned to power, but to my home to participate with my brothers who have chosen me as head of the Coalition of Working People's Forces in the practice of real democracy, and the peaceful rotation of power."

Referring to the war in the south, Nimeiri continued, "We will work with the faithful to stop bloodshed in the country." Two days later, he spoke at the rally to launch his National Working Alliance of Forces Party, and declared, "From inside the country, we are appealing to all Sudanese national forces to engage in a constructive national dialogue that will culminate in a Sudanese peace accord, with a set of guiding principles to be observed by all." Among the leaders of Sudan that Nimeiri met with upon his return was Dr. Riak Machar, President of the Southern Sudan Coordinating Council. "We hope that the rapprochement between the Sudan government and the northern opposition parties increases the process of pluralism and democracy that has been started in the country, and that it would consolidate it," Dr. Machar told *EIR*.

Nimeiri's return is but the most dramatic of a number of events that have taken place in the last two weeks, all of which are leading to reconciliation among the Sudan government and the opposing parties of northern Sudan which were previously arrayed in the National Democratic Alliance (NDA). Further, Nimeiri's return from Egypt signals the success of diplomatic efforts by the Sudan government and others to bring about normalization of relations between Sudan and its neighbors, including Egypt, Uganda, and Eritrea.

Combined, these two parallel processes toward reconciliation have stamped the seal of doom on the erstwhile alliance that had been put together by British intelligence and its sidekicks in the U.S. Department of State, like Assistant Secretary of State Susan Rice, for the purposes of "bringing down the Khartoum government." The National Democratic Alliance had been cobbled together by its patroness Baroness Caroline

Cox, Deputy Speaker of the House of Lords and leading spokesman of Christian Solidarity International, in order to bring the northern opposition parties, centered around Democratic Union Party leader Mohamed Osman al-Mirghani and Ummah Party leader Sadiq al-Mahdi, together with southern rebel leader John Garang, chairman of the Sudanese Peoples Liberation Army (SPLA). This coalition, which originally had backing from Eritrea, Egypt, and Uganda, and even briefly from Ethiopia, now appears to have bit the dust.

The one recalcitrant remains John Garang, who has refused to sign the April 1997 peace charter which was signed by most of other armed faction leaders of southern Sudan. Garang, politically nurtured by Cox et al., is in the "business" of war; receiving upwards of \$75 million from the U.S. Agency for International Development for setting up "civil administration" in areas of the south under his control, or under his control after armed attack.

Renewed relations with neighbors

In the past month, diplomacy from Sudan and others to re-establish normal relations between Sudan and its neighbors has moved at a breathtaking speed. In all cases, one of the key interlocutors has been Libyan President Muammar Qaddafi, who has encouraged all sides to meet and initiate dialogue. According to Libyan television, Qaddafi has carried out his efforts "to reconcile the Sudanese government and different opposition parties to prevent Sudan from becoming a new Somalia"—precisely the scenario that would result if British-State Department war-mongers were to prevail in the region.

- On May 2, Sudan and Eritrea signed an agreement to end the state of hostilities between them. Relations had been broken since December 1994, and Eritrean President Isaias Afwerki in 1995 had handed over the Sudan Embassy in the capital, Asmara, to the NDA, as Eritrea became a base for military operations against Sudan, in close working alliance with Israel. However, the Eritrean invasion of Ethiopia in May 1998 and Eritrea's subsequent motion toward Qaddafi's Libya, has had the perhaps inadvertent result of permitting the re-opening of a dialogue with Sudan. The dialogue between the two countries has been mediated by Qatar, reportedly with strong encouragement from Libya, where the Eri-

trean and Sudanese Presidents had met in April in a meeting with Qaddafi. After the signing of the preliminary agreement on May 2, it was reported that a Sudan security delegation went to Asmara to work out the precise modalities for renewed relations, according to Sudan Foreign Affairs Minister Mustafa Osman Ismail in a press conference May 19. In addition, BBC reported that Eritrea has agreed to hand the Sudan embassy in Asmara back to the Sudan government. The foreign ministers of Sudan, Eritrea, and Libya are to meet next month for further discussions. The minister also said that Sudan wants to normalize its relations with Uganda. "Commenting on statements by some Ugandan officials, Ismail pointed out that the Sudan is ready to normalize its relations with Uganda, adding that what is required is to translate these statements into reality."

- On May 23, Egyptian Foreign Minister Amr Moussa told reporters that his meeting with visiting Sudanese Foreign Affairs Minister Dr. Mustafa Osman Ismail had resulted in "progress without doubt in our contacts and relations with Sudan. Egyptian President Hosni Mubarak gives the highest importance to Sudan which tops the list of interests for Egyptian diplomacy." Sudan President Omer al-Bashir told the nation on state television that relations with Egypt were improving at a "remarkable rate."

According to Agence France Presse, the two countries are

set to sign a security agreement in June, by which neither government would harbor anyone wanted by the other on a security matter. Egypt, however, would not have to cease being a refuge for Sudanese opposition groups. The accord would also call upon Egypt to look to mediate a reconciliation between Sudan's government and the southern opposition.

While the Sudanese Foreign Minister was in Cairo, an Egyptian delegation was in Sudan taking possession of several buildings owned by the Egyptian government that had been confiscated by the Sudan government in 1992.

- By the end of May, Sudanese Foreign Affairs Minister Mustafa will further visit Algeria, to begin the normalization of relations with that country, which were partially ruptured in 1993.

The process of reconciliation within Sudan had begun with talks in Geneva early this month between Speaker of the National Assembly Hassan al-Turabi and former President Sadiq al-Mahdi, to establish modalities by which al-Mahdi would also return to the country. On May 27, Mohamed Othman al-Mirghani, leader of the Democratic Union Party which has close ties to Egypt, met with Libya's Qaddafi in Sirte, Libya, along with Egyptian Foreign Minister Moussa, a meeting believed to be a prelude to talks between representatives of the Sudan government and al-Mirghani later in the coming days.

War in the south

It can only be hoped that the unity of the north in a commitment to peaceful dialogue and "rotation of power" through democracy, as Nimeiri phrased it, will lead to a far greater mandate to end the war in the south, which has caused such terrible suffering to all the Sudanese people. Despite a cease-fire agreement, Garang's SPLA continues its war in the south against the Sudan government and the southern forces that had signed the April 1997 peace charter. In the last two months, Garang warned that the SPLA would make all efforts to destroy the capacity of Sudan to export oil, which it will begin doing from Unity state through a pipeline to Port Sudan in June. On May 2, as Garang's forces attacked government-held territory, the Sudan government troops moved to secure the oilfields, and has taken preemptive action to ensure the flow of the oil.

However, according to the peace charter, the Unity state is under the military jurisdiction of the Southern Sudan Defense Forces, under the command of the Southern Sudan Coordinating Council. According to the charter, a joint command between the SSDF and the government forces was to be established, but this has been delayed. "There has been a campaign in the international press," said Riak Machar, to put forward the idea that the SSDF are "rebels," and make it appear as if the peace charter was being ripped up. "There was fighting between two forces who had been friendly, so how do you call them rebels?" He said that there was a commitment on the part of the Southern Council and the government to re-

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solve this problem peacefully. “This commitment to a peaceful solution is very important,” he said. “We have done so much for the peace process. We have moved so far in Sudan in creating a constitution, in establishing pluralism, that we cannot say that the peace process has failed. Even the violations [of the peace charter] we are complaining of, are because of the war. If there were no war, no one would attempt to violate the agreement.”

Anti-Sudan policy in ruins

It is no exaggeration to say that the policy rammed through the State Department in 1997 for a full-court press against Sudan, put forward by Roger Winter of the U.S. Committee for Refugees, John Prendergast, then of the National Security Council, and enforced through Susan Rice, U.S. Assistant Secretary of State for African Affairs, and U.S. Secretary of State Madeleine Albright, is a total shambles. That policy built the “alliance” against Sudan of the northern opposition parties, the SPLA, along with Eritrea, Ethiopia, and Uganda for a military war against Sudan. Militarily, this policy has accomplished absolutely nothing, but it has cost the lives of up to hundreds of thousands of civilians destroyed by the famine and disease caused by the war. Calls are now beginning to be heard for an end to the insane policy of war and destabilization toward Sudan.

The case was put most bluntly in a *Wall Street Journal* commentary by Milt Bearden, who had been CIA station chief in Sudan during the 1980s. Bearden noted that the United States effectively admitted that the Aug. 20, 1998 bombing of the Al-Shifa pharmaceutical plant was a mistake, when it ordered the frozen assets of the plant’s owner to be freed on May 3. The plant was targeted on the basis of allegations that it had been producing chemical weapons in cahoots with terrorist ideologue Osama Bin Laden, who, in turn, was blamed for the terrorist bombing of the U.S. embassies in Kenya and Tanzania earlier that month. Noting that soil sampling—which allegedly clinched the evidence of the chemical weapons research at Al-Shifa—“has historically been considered only a small tile of the intelligence mosaic. Does it make sense for the sole remaining superpower to attack a small African nation, without warning, based solely on unconfirmed evidence provided by an agent from a third country?” In reality, Bearden argued, the bombing of Al-Shifa was not a matter of mistaken intelligence, but of mistaken policy. And worse, because of the failure of the United States to admit its mistake, “damage to America’s credibility is far more serious than any possible short-term compromise of intelligence methods. . . .

“On the positive side, finally settling the Al-Shifa affair might actually get the U.S. re-engaged in Sudan, where its leadership is needed to end the near-biblical suffering in a ravaged region, and in the process move a country that was once a close U.S. ally back into the international community. The Sudanese are ready for that.”

The crimes against peace in The Hague

by Mark Burdman

A British source in a position to know, told *EIR* on June 1, that massive, official British pressure was largely responsible for the May 27 decision by the International Criminal Tribunal for the Former Yugoslavia (ICTY), to indict Serbian President Slobodan Milosevic, and four other Serbian political and military leaders, for war crimes. The British source, who is opposed to the NATO war against Yugoslavia, revealed that British government circles also had pressured the United States, to support the operations of the Hague, Netherlands-based ICTY. “Our government has no interest in negotiating with Milosevic, and this is coming from the lot that is pushing for the ground troops option in Yugoslavia,” the source said.

This assessment confirms widespread suspicions that the ICTY indictments were issued to wreck a diplomatic solution with the Yugoslav/Serbian leadership, at precisely the time that the momentum for such a solution was reaching critical mass. After the indictments were announced, senior officials of all governments that have shown a genuine interest in a negotiated settlement—including those of Italy, Germany, Greece, Russia, and China, as well as United Nations Secretary General Kofi Annan—promptly voiced their amazement at the timing of the court ruling.

The Chief Prosecutor for the Tribunal, Louise Arbour of Canada, stated May 28: “We were driven by a now-or-never sense of urgency . . . ensuring that the justice agenda did not get completely bypassed by the peace process. . . . I am mindful of the impact that this indictment may have on the peace process in the Federal Republic of Yugoslavia. . . .” The indictment has “simply exposed the unsuitability” of Milosevic and the other indicted officials, to be guarantors of any peace deal, she said.

On May 28, the Vienna-based International Progress Organization (IPO) released a statement, authored by its President Dr. Hans Koechler, charging that Arbour’s comments reveal that she “has tried to act as a surrogate politician, and to influence political events in the interest of those NATO countries presently waging war against Yugoslavia.”

A BAC operation

That Milosevic is guilty of war crimes, is nothing new. As amply documented by this publication over the years,

these crimes date back to no later than 1991, and have been well known to the “international community.” Yet, as the ICTY members themselves stress, the purview of their “investigation” for the indictments includes only the period from March 23, 1999, up to the point that the “investigation” concluded. Hence, the ICTY’s work in this endeavor, has clearly been to provide some legal justification for NATO’s war, launched on March 24. Limiting the work to that selected period, also neatly eliminates any effort to study the vast array of British and British-linked collaborators and protectors that Milosevic has had, throughout the 1990s.

By the same token, the ICTY’s work excluded any consideration of war crimes committed by NATO, even though these have been so extensive and blatant that even Britain’s Lord William Rees-Mogg, in a May 31 London *Times* article, commented that NATO was likely in violation of the post-World War II Nuremberg statutes.

Such omissions are hardly surprising, in view of the composition of the ICTY’s top officials. The President of the Hague Tribunal, Gabrielle Kirk McDonald, is an American; the Investigating Judge, David Anthony Hunt, is an Australian; and Chief Prosecutor Arbour, as noted, is a Canadian. According to the May 30 London *Observer*, Arbour is soon to be appointed to the Canadian Supreme Court, and this

imminent appointment is an additional motivation for her having wanted to rush the indictments through.

It appears, that from the top, the ICTY is being run as a special operation of the “British-American-Commonwealth” (BAC) power bloc. In his May 28 statement attacking the Tribunal’s indictments, International Progress Organization President Dr. Koechler stresses that the “purely political nature” of the indictments is underscored by the fact that the Tribunal’s leading officials “are citizens either of NATO countries directly responsible for the undeclared war against Yugoslavia, or of a country fully endorsing the NATO war. If the ‘Tribunal’ would have taken general legal standards of impartiality seriously, it would have been obliged to determine that there is a conflict of interest for ‘judges’ from countries waging an undeclared war against Yugoslavia, to sit on such a panel initiating ‘judicial’ action against the Head of State of the country under attack.”

Koechler warned that this kind of “self-righteous power politics” will provoke “international anarchy” and sow the seeds for future wars, if not stopped.

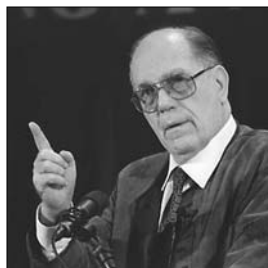
The Tribunal’s behavior reminds some of a previous BAC-centered operation to provoke war, when the so-called “Butler Report” was issued by the United Nations team of “weapons inspectors” in Iraq, in November 1998, setting into motion what became the new Iraq war, a month later. That report’s author, Richard Butler, is a senior Australian official. (See *EIR*, Jan. 1, 1999, pp. 36-37, “Butler Faked Iraq Report, as Gore, Blair Pushed War.”)

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‘Biggest handover of British intelligence’

The magnitude and intensity of British involvement in the ICTY was revealed in the cited May 30 *Observer* article. It reported that British Foreign Secretary Robin Cook is so committed to the Tribunal’s work, that he appointed one David Gowan as the special British Foreign Office liaison to the ICTY. Gowan met Louise Arbour on April 20, and arranged “the biggest handover of British intelligence in history, to an outside agency,” the *Observer* claims.

The paper reported that a parallel ICTY support nexus has been established in the United States, set up in the “institutional structure” of Washington, comprised of officials of the Defense Intelligence Agency, Central Intelligence Agency, State Department, Pentagon, and certain think tanks, but without any liaison to, or contact with, the Clinton White House. Politically, this “structure” gravitates toward a triumvirate composed of former Senate Majority Leader Robert Dole (R-Kan.), Secretary of State Madeleine Albright, and Arizona Republican Sen. John McCain, now a candidate for the Republican nomination and a loud-mouthed supporter of a NATO ground war.

An unnamed British official exclaimed to the *Observer* that the ICTY’s indictments mean “this has been the week we slammed the door on Milosevic’s face. . . . He will have to go.”

Barak's prospects for peace with Syria

by Dean Andromidas

The landslide election victory of Ehud Barak as Israel's next Prime Minister holds great promise for peace, but there is still much leeway for destabilization. First and foremost, Benjamin Netanyahu is still Prime Minister, still more warhawk than lame duck. Barak has until July 1 to form a governing coalition.

Second, the paucity of public statements by the Prime Minister-elect have left all Middle East political leaders in a state of impatient expectation, and Palestinians, especially, are feeling considerable frustration. Barak's silence is due to his painstaking efforts at cobbling together a coalition from among the 15 political parties which are represented in the 120-seat Knesset (parliament). The task is made more difficult by the fact that Barak's own One Israel Alliance, the successor to the Labor Party, won only 26 seats. Another, perhaps more likely reason, is an intention by Barak to resume negotiations for a peace agreement with Syria, which would involve an Israeli withdrawal from most of the Syrian Golan Heights. For this task, he would want to form a government based on a prior agreement to enter those negotiations and not after, which would leave open the possibility of a government crisis.

So far, no party has officially agreed to the political guidelines laid down by Barak for joining his government. It is expected that the left-wing, pro-peace Meretz party and the Center Party, led by former Defense Minister Yitzhak Mordechai, will form the core of the new government. But, Barak also wants a broader coalition that could include the right-wing Likud, the Heredim Shas Party, most of whose members are Sephardic Jews, and the extreme right-wing National Religious Party. One source told *EIR*, "If Barak can get a government that commands 80 or 90 seats [in the Knesset], he would be able to get an agreement [with Syria] without having to hold a referendum." Such a majority would help to avoid a protracted and divisive national political debate, and forestall attempts to destabilize the new government.

During the election, Barak had pledged to withdraw Israeli troops from the "security zone" in southern Lebanon, within a year. Such a withdrawal—unless done unilaterally, which is unlikely—would require an agreement with Syria first, since it maintains 35,000 troops in Lebanon and func-

tions as arbiter among Lebanon's manifold political factions.

The consensus in Israel for a deal with Syria, along the lines of the 1979 Sinai agreement with Egypt, is far greater than publicly acknowledged. One leading political commentator told *EIR*: "Listen, the details of a what a peace deal with Syria would look like have been around for 20 years, it just a question of getting on with it."

At events over the last three weeks of May point to the possibility of an early start to serious negotiations.

Barak's advisers have let it be known that negotiations with Syria would begin where they left off, when they were disrupted in February 1996, which has been a key demand of the Syrians. It is significant that Barak, who had been Prime Minister Shimon Peres's Chief of Staff at the time, was involved in those talks. Another player in the 1996 negotiations, which were conducted in Washington, was Itamar Rabinovich, who was then Ambassador to the United States. Barak has now named him as his personal envoy to President William Clinton.

The Israeli daily *Ha'aretz* revealed that, during Netanyahu's regime, Israel had been holding secret discussions with Syria along no fewer than three tracks, all of which Netanyahu made sure bore no fruit. The first, which had the full backing of the Clinton administration, was led by Maj. Gen. Danny Yatom, who had met Syrian Ambassador to the U.S. Walid Mualem several times. Their talks led to a Israeli draft proposal involving input from then Defense Minister Yitzhak Mordechai, and then Chief of Staff Lipkan Shahak. This track blew up when Netanyahu ordered the Mossad to assassinate Khaled Meshal, a leader of the Palestinian Hamas. The outrage, committed in Amman, Jordan, failed miserably. Both Mordechai and Shahak will probably have portfolios in Barak's government, while Yatom, who resigned as head of Mossad, because he disputed Netanyahu's order to kill Meshal, has been tapped to become Barak's chief of cabinet.

Netanyahu decided to play along with the considerable institutional support for a deal with Syria, looking for the next opportunity to blow up negotiations. To begin with, he pursued several tracks that would all exclude involvement by the Clinton administration. These included: mediation by the foreign minister of Oman, and another making use of the European Union Middle East Envoy, Miguel Moratinos. A third involved former U.S. Ambassador to Austria Ronald Lauder, heir to the Estée Lauder cosmetics empire, and one of the moneybags behind Netanyahu and Ariel Sharon.

Although the negotiations broke off at the time of the 1996 elections, they had always been doomed to fail, since the Syrians knew full well that any agreement without the full involvement of Clinton's circles in Washington was less than a bad joke.

Peace may break out

Developments in southern Lebanon, the bellwether for relations between Israel and Syria, point to greater momentum

for negotiations. The security zone—a swath of territory several kilometers deep into south Lebanon, which the Israeli army occupies—is in reality a geographical extension of the Golan Heights. This area has been a zone of low-intensity conflict between the Lebanese Hezbollah guerrillas, and the Israeli Defense Forces and its proxy, the South Lebanon Army (SLA). Fighting and skirmishes have been kept below the threshold of international crisis by the so-called “Grapes of Wrath committee,” which includes representatives of Israel, Lebanon, the United States, and France.

At the end of May, the SLA pulled out of the Jezzine enclave, just outside the Israeli security zone, which the SLA had occupied for over a decade. The move was seen as a harbinger of an actual withdrawal of Israeli troops. It was also seen, not unrealistically, as the first sign of the collapse of the SLA, which was financed and armed by the Israelis to help patrol the security zone. It has even been rumored that its commander, Gen. Antoine Lahad, is about to resign and move to France.

Nonetheless, fighting has continued between the Hezbollah, and the SLA and Israeli Defense Forces. One observer commented that the escalation has been prompted by the Hezbollah and its Syrian backers, as a signal to the Israelis that a deal in Lebanon will come only after—and not before—an agreement with Syria. *Ha'aretz's* editorial on June 3, warned Israel not to attempt to bypass Syria in seeking a solution to the

Lebanese quagmire: “Israel must quickly seek a comprehensive arrangement with Syria,” not just in terms of securing the Lebanon-Israel border, but the Syrian Golan Heights as well.

The dead hand of Bibi Netanyahu

As we said, although Netanyahu has one foot in the political grave, as long as he remains Prime Minister, he has enough slack to continue his belligerent provocations. Most important has been the move to annex several square kilometers that would connect the Jewish settlement of Maale Adumin on the West Bank to Israel. The annexation would hand a territory the size of Tel Aviv to this settlement of 20,000, and would bisect the West Bank. The Palestinians have called for a “Day of Anger,” and are planning demonstrations, marches, and other protests.

Sparking Palestinian-Israeli violence strikes at the greatest vulnerability of the Syrian track: Should a settlement with Syria precede the final status negotiations with the Palestinians, the latter would take it as an attempt to weaken them leading up to final status talks with Israel. Widespread Israeli-Palestinian violence would make it impossible for a serious Syrian effort to get off the ground.

Above all, concrete progress between Israel and Syria awaits the formation of Barak’s government and a Barak-Clinton meeting, which he has said he would want at the earliest opportunity.

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BüSo slate brings ideas to eager voters

by Hartmut Cramer

As the campaign for elections to the European Parliament on June 13 enters its “hot phase,” voters throughout Europe are hungry for real ideas, especially how to stop the Balkans war from mushrooming into another World War. In Germany, Lyndon LaRouche’s co-thinkers have put up a slate of 52 candidates, under the Civil Rights Movement Solidarity party (BüSo), led by Helga Zepp-LaRouche. Of all the parties, only LaRouche’s co-thinkers are addressing the real issue in this war: the international financial oligarchy’s desperate efforts to control what Zepp-LaRouche calls the “absolute end phase of the disintegrating, totally bankrupt global financial system.”

And in this respect, the BüSo slate has scored considerable points with its hard-hitting campaign against the war, and with the inroads it is making into new layers of a population which is looking for real leadership, as its illusions are being shattered day by day, almost hour by hour. In its arsenal, the BüSo slate includes beautiful campaign posters reading “Peace Through Development” in German, Russian, and Chinese, with the map of LaRouche’s famous proposal for a Eurasian Land-Bridge in the center.

The concept that Europe has to link up with the “Survivors’ Club” of nations in Asia—Russia, China, India—if it is to survive the global crisis, is also the theme of advertising spots featuring Zepp-LaRouche that were aired nationally, starting May 20. Finally, 10,000 election pamphlets were released, featuring her statement on the strategic crisis and its solution, as well as Lyndon LaRouche’s now-famous “Eight-Point Program” to create a New Bretton Woods system to replace the bankrupt world monetary system. The pamphlet also featured BüSo’s election platform: 1) the immediate establishment of a New Bretton Woods; 2) the construction of the Eurasian Land-Bridge as the best way to “produce ourselves out of the crisis,” with the famous German machine-tool sector playing a crucial role; and 3) the return to that great system of Classical education founded by Wilhelm von Humboldt almost 200 years ago, which laid the basis for Germany’s industrial development.

This material has set the foundation for lively recruitment of campaign activation, from literature distribution, to forums, to bullhorn rallies. Typical of the eagerness with which European voters respond to ideas, was a BüSo rally on May

12, where British Prime Minister Tony Blair was to receive the prestigious *Aachen Karlspreis* (named for Charlemagne, whose European capital was in Aachen) for his “work for peace” in Ireland. When BüSo activists briefed voters on Blair’s role in inflaming the Balkans war, they became so outraged that the ceremony organizers hustled Blair in through the back door.

Aachen’s voters were not the only ones enlightened: Britain’s Sky Channel TV filmed the demonstration and banner reading, “Instead of Bombs and Expulsions: A Global Marshall Plan and New Bretton Woods,” along with its interview of the campaigners.

In Berlin, a campaign event was addressed by LaRouche ally Jacques Cheminade, who ran for President of France in 1995. He shared the podium with BüSo candidate Gregoire Mukengechay. Originally from Africa, Mukengechay described how the International Monetary Fund was able to seize control of the finances of former colonial nations, and how the former colonial powers could maintain their stranglehold by playing on tribal and national differences.

LaRouche’s co-thinkers in Sweden, the European Labor Party (EAP), are also running a small slate of 14 candidates, headed by Ulf Sandmark, and including *EIR* contributor Hussein Al-Nadeem.

Solution to global systemic crisis

Among other campaign appearances, Helga Zepp-LaRouche was able to speak to the annual Congress of the German Association of Galvanizers, Engravers, and Metal-Workers, which is comprised of many small and medium-sized firms. Flanked by the association’s president, the president of Dortmund’s chamber of craftsmen, and the Dortmund’s representative for economic development, Zepp-LaRouche presented the *actual* picture of Germany’s economic problems—and the solution. Situating Germany’s economic problem in the context of the worldwide depression, and describing the collapse of the physical economy as the result of the global systemic financial crisis, she delved into history, quoting 1930s economist Wilhelm Lautenbach on his plan for “productive credit creation.” Had his plan been implemented, it could have prevented Hitler from taking power in Germany and destroying Europe and much of the world. A similarly positive role, she said, was the success of Franklin D. Roosevelt’s New Deal, which ended the Depression in the United States.

Zepp-LaRouche next presented LaRouche’s concept of a New Bretton Woods and the great infrastructural projects like the Eurasian Land-Bridge. “Only by thinking big in terms of financial and economic matters, and connecting this with the necessary education of our young people, by returning to Humboldt’s successful system of Classical education, which places the emphasis on developing the *character* of the student, can we overcome this crisis,” Zepp-LaRouche concluded.

Robert Burns song to open the new Scottish Parliament

by Mark Calney and Mark Burdman

The new Scottish Parliament, when it inaugurates its first session in almost 300 years, on July 1, will sing the great national poet Robert Burns's 1795 song, "A Man's a Man for a' That," instead of "God Save the Queen," the British national anthem. Thus, when the Queen presides over the formal opening of Parliament, she will hear the words of the poet:

Ye see yon birkie¹, ca'd a lord,
Wha struts, an' stares, an' a' that;
Tho' hundreds worship at his word,
He's but a cuif² for a' that,
For a' that, an' a' that,
His ribband, star, an' a' that:
The man o' independent mind
He looks an' laughs at a' that.

On May 31, Ian Maitland, who is the 17th Earl of Lauderdale and the hereditary bearer of the Scottish flag, denounced this decision as "an extraordinarily silly choice and quite infantile. It sounds like a deliberate snub to me. . . . The new Scottish MPs took the oath of allegiance to the Queen, and this does not seem to go with that at all." His daughter, Lady Olga Maitland, said that the Queen will be "horrified." Contacted by *EIR*, Buckingham Palace refused comment.

It is no accident that the British oligarchy has spent much time and effort to slander and destroy Scotland's greatest poet, Robert Burns (1759-96). In particular, they have despised the fact that Burns was an avid supporter of the American Revolution and was capable of conveying the principles of the new American republic through his poetry and songs.

In 1759, the year Burns was born, Benjamin Franklin visited Scotland for the first time. He was in the process of collaborating with James Watt in the development of the steam engine, and Franklin began recruiting a number of Scots, such as James Wilson and John Witherspoon, who would later become signers of the Declaration of Independence. Although written out of contemporary history books,

it was that circle of Franklin's friends in Scotland that intersected those of Robert Burns.³ Burns, like many people of the time, believed that the success of the American Revolution would usher in a new Age of Reason, replacing the tyranny of the oligarchical system with modern nation-states, Scotland included.

Undoubtedly, the Royals would much prefer that the Scots stick to the romantic images of man and nature purveyed by Sir Walter Scott, rather than Burns. In 1814, as British troops burned Washington, D.C. to the ground, Scott wrote a crude parody of Burns's republican song "A Man's a Man for a' That," in support of the British Empire's war against the American republic. Scott scrawled:



Robert Burns

America they ca' that! A coward plot her rats had got. . .
The British flag shall bear the grie, And win the day for
a' that!

In contrast to today's oligarchy, a spokesman for the Scottish National Party said: "The opening of the Parliament is about Scotland looking to the wider world, and restating its identity on the international stage. One of Scotland's great international songs, by one of Scotland's most famous sons, would seem to be entirely appropriate. . . . We would regard it as an ideal way to usher in Scotland's new democracy and new Parliament." The woman who will sing the Burns song, Sheena Wellington, said that the song "sums up what we want the Scottish Parliament to be about."

On July 1, it is both fitting and proper that Scotland and the rest of the world take hope from Burns's song "A Man's a Man for A' That":

Then let us pray that come it may,
(As come it will for a' that,)
That Sense and Worth, o'er a' the earth,
Shall bear the gree⁴, an' a' that.
For a' that, an' a' that,
It's comin' yet for a' that,
That Man to Man, the world o'er,
Shall brothers be for a' that.

1. fellow
2. fool

3. Mark Calney, *Robert Burns & the Ideas of the American Revolution* (Glasgow: Scots for Peace and Freedom, 1996).
4. prize

Talking reconstruction to death

There are many promises to rebuild the Balkans, but as long as it relies on IMF methods, nothing will happen.

Undoubtedly, Bonn, at this moment, is a center of world diplomacy on a Balkans cease-fire. In addition, the German government has become the host of talks on a reconstruction plan for Southeast Europe. The June 3-4 European Union summit and the June 18-20 G-7 world economic summit, both in Cologne, have the question of postwar reconstruction on their agendas.

The density of diplomatic activity is impressive. But, cease-fire or no, the fact remains: Neither the German government, nor any other government, has formulated a positive policy for the Balkans. No war is not peace, which is something the Germans ought to understand, having lived through the limbo of Allied occupation, between 1945 and the start of the Marshall Plan in 1948. The Marshall Plan, announced in 1947, did have its conditionalities, but they were nothing like those of today's International Monetary Fund, because they made possible the rapid reconstruction of German industry and infrastructure. Today, except for the supporters of the LaRouche-Nanic proposal (see *Feature*), everyone in Germany who is talking about a "new Marshall Plan" has only an IMF-controlled project in mind.

This became all too evident, when the government hosted a conference of 30 nations in Bonn-Petersberg on May 27, to discuss a "stability pact for southeastern Europe." What "discuss" means became clear from a background conversation which this author had with a senior Foreign Ministry of-

ficial, a few days before that conference, who said that "discussion" had already been placed in the hands of the usual bureaucrats.

Would the 30 nations actually discuss concrete proposals on what to do? I asked. No, came the answer; this was supposed to be a first meeting of high-level experts, and the initiation of a longer-term process of talks, which hopefully would be concluded by the end of this year, so that, then, one might be able to begin talks about the financial framework of the "stability pact."

Well, when would the Kosovars and the other Balkans war victims first receive funds for reconstruction? Not before the required "structures" were in place, the official said.

And, what about the war damage in Kosovo, Serbia, and Montenegro? Recent news reports had put it between \$3 and \$30 billion. Where was it on the scale? Well, it was virtually impossible to assess the damage, the official said, first of all, because the air strikes were continuing to destroy more infrastructure every day; also, inspectors have to be sent after a cease-fire, to get an assessment independent of the figures provided by local authorities.

All of that would take time, naturally.

But, time is exactly what the refugees, the war victims, and their neighbors in the Balkans, do not have. What are the refugees expected to do, when the cease-fire is declared? Return to a war-torn Kosovo, with no houses to live in, because the Serbs destroyed them; no power supply, which NATO

has bombed to smithereens; no harvest, because they were forced to leave before planting season? Are they expected to just wait for the inspectors to make the assessments on the damage, and wait another couple of months to see the beginning of real reconstruction? Kosovars have already seen that kind waiting, in Bosnia and Croatia, whose citizens are still waiting four years after the cease-fire.

The "Stability Pact for Southeastern Europe" resolution, which was passed at the Bonn-Petersberg conference on May 27, makes no direct reference to funds for the region, but does state that the leading monetarist institutions, the IMF, World Bank, European Bank for Reconstruction and Development, and the European Investment Bank "have a most important role to play," in the creation of "vibrant market economies" in the Balkans.

Assistant German Foreign Minister Wolfgang Ischinger was honest enough to admit that. "This is a long-term project; it will employ a whole generation of diplomats and experts," he told a Berlin radio interviewer on May 27. On June 1 in Berlin, Foreign Minister Joseph Fischer said that the process of "stabilizing southeastern Europe" would take "between two and three decades."

By comparison, rebuilding a Germany that was far more destroyed than Serbia is right now, took about ten years, with the Marshall Plan playing a catalyst role in the crucial four years between 1948 and 1952. By the late 1950s, Germany had achieved what became known globally as the "German economic miracle." The secret behind that "miracle" was speed, concentrated investment in industry and infrastructure, and generation of long-term, low-interest credit. What the politicians and experts of today are offering, is just the opposite. It can't work.

EIR in Prague discusses solutions to financial crisis

by Angelika Beyreuther-Raimondi

On May 13, the Czech Management Association (CMA), EIRNA from Wiesbaden (*EIR* in Germany), and the Schiller Institute held a joint press conference in the prestigious conference hall of the Syndicate of Journalists in downtown Prague. The subject of the press conference was the international financial and economic crisis. The invitation for the event featured Lyndon LaRouche and Helga Zepp-LaRouche as leading spokesmen of the Schiller Institute, who are “involved in searching for solutions to the world’s global problems.”

Engineer Ivo Gajdos from the CMA opened the conference by referring to the history of cooperation between the CMA, EIRNA, and the Schiller Institute, which goes back to an international CMA conference in Prague in January 1998, where Zepp-LaRouche delivered the keynote address to top Czech managers and businessmen on “The Euro-Asian Land-Bridge as the Motor for Global Economic Development.” The cooperation intensified throughout the year, and Gajdos mentioned another, rather informal gathering of experts, including from the Czech Finance Ministry, in December 1998, where the problems of the world financial crisis and the policies of the International Monetary Fund and World Bank were discussed, and Lyndon LaRouche’s New Bretton Woods proposal was presented. Now, the event of May 13, Gajdos stressed, was planned not only to analyze crisis developments, “but hopefully also to seek solutions, and in this way find a pathway out of the dead end.”

Crisis in the Czech economy

In fact, the Czech economy looks grim. In 1998, industrial production grew only 1.7%; unemployment increased 2%, rising to 7.5%; and the inflation rate stayed at an annual average of about 10%. Already in 1996, eleven banks were put into receivership by the Czech Central Bank, and to this day the situation in the banking sector is very fragile: About 30%

of Czech banks’ outstanding loans are considered “bad loans,” i.e., unrepayable. After the national parliamentary elections in June 1998, the chairman of the strongest party, the Czech Social Democratic Party, Milos Zeman, formed a minority government and became Prime Minister, but his government is dependent on a “toleration agreement” with Zeman’s leading onetime adversary, monetarist former Prime Minister Vaclav Klaus.

And, since the war began in Yugoslavia, the political situation in the country has become even more tense. According to opinion polls, the majority of the Czech population were not at all eager to see the country join NATO. In April, at the last conference of the ruling Social Democrats, nearly one-quarter of the delegates signed an open letter delivered to the Yugoslav Ambassador in Prague, condemning NATO’s actions against Yugoslavia as blatant aggression.

In this situation, the press conference drew significant interest, with 12 journalists from the Czech economic and financial news media present, as well as representatives of embassies, several Czech ministries, political parties, and university professors. Michael Liebig, Executive Director of EIRNA in Wiesbaden, gave the keynote on “The World Financial Crisis, and What To Do About It.” He was followed by Prof. Jaroslav Jirasek, a well-known honorary dean of the Czech Management Center in Celakovice, an adviser to the president of the CMA, and a man who has accompanied countless missions of Czech entrepreneurs to many countries, including to the United States and Asia.

In his remarks, Professor Jirasek praised the Schiller Institute as a “unique group” of people who provide interesting and inspiring ideas, especially for a country, such as the Czech Republic, where “conservative liberalism is so influential.” In such a situation, the ideas presented by the Schiller Institute are all the more inspiring, and Professor Jirasek referred especially to the studies of the “American Revolution economics,”



The May 13 seminar in Prague sought, as one speaker described it, "to find a pathway out of the dead end." Speakers were, left to right: Prof. Zbynek Pitra (Czech Management Association, CMA), Michael Liebig (Schiller Institute), Angelika Beyreuther-Raimondi (Schiller Institute), Prof. Jaroslav Jirasek (CMA), and Ivo Gajdos (CMA).

the revival of the works of Alexander Hamilton and Friedrich List, clear adversaries of the British System's Adam Smith, as very valuable and thought-provoking for scholars in the Czech Republic. The *Czech Manager Magazine*, read by the industrial elite of the country, in its latest issue also featured an article by Professor Jirasek on those subjects, in which he refers to the American System of Political Economy and to Lyndon LaRouche's intellectual contributions.

Participate in the real economy

Professor Jirasek was followed by Prof. Zbynek Pitra, deputy director of Sindat Consulting and vice president of the CMA, who taught for many years at universities and worked for companies in the United States. He urged the country to take part in the global economy, but *not* in the speculative financial bubble. To the contrary, he urged that the Czech Republic's tremendously valuable industrial potential take part in adding *real* value, producing *real* goods, and thus helping change humanity for the better.

Prior to World War II, Czechoslovakia was the seventh-largest industrial nation in the world. It was one of the key manufacturing centers in Europe, with a proud tradition of developing machine-building and engineering capabilities, and very advanced machine-tool industries. This potential was not destroyed. The great industrial fair in Brno, for example, founded in 1928, has been especially known, including during communist Czechoslovakia, for its machine-tool exhibits. And, engineering and science are highly regarded in the country today: In 1996, the Organization for Economic Cooperation and Development published figures showing that, of total university graduate output, former Czechoslovakia produced the highest percentage of science and technical graduates in the world, with 39% graduating in those fields.

And, as can be seen from the discussions at the conference, published below, there are people fighting today to save this precious jewel for a better future.

The Czech Republic exports its goods (mainly machines, transportation equipment, and semi-finished goods) primarily to its neighbors: 36% to Germany, 12.8% to Slovakia, 6.5% to Austria, and 5.8% to Poland. Its imports (mainly machines, transport equipment, semi-finished goods, and chemical products), show a similar pattern: Imports from Germany are 26.6%; Slovakia, 8.4%; Russia, 6.8%; Italy, 5.3%; and Austria, 4.4%. The close interrelationship among the industries in Central Europe could be, despite the real difficulties, of great advantage in a future in which Eurasian industrial development is dependent on exactly those industrial potentials, which still exist today.

Hopefully, the small-mindedness which still dominates today's policymaking, can be left behind. This state of mind is exemplified by the fight around the construction of the nuclear power plant in Temelin in South Bohemia. There, Czech Minister of Industry and Trade Miroslav Gregr, who was educated in the traditional machine-building curriculum, and throughout his life was involved with the real industry of the country, supports completing the construction of the power plant, while the Czech Environment Minister is vehemently against it, as is President Vaclav Havel, who warned against an "industrial lobby" and a "dictatorship" of companies around the Czech Energy Plants firm. The European Parliament in Strasbourg even went so far, on the demands of Austrian Members of Parliament, as to condemn the construction of the nuclear power plant in an emergency meeting. Despite this, in May the Prague government decided to finish the nuclear plant. This stubbornness in defense of real industrial values deserves international support.

The world financial crisis, and what to do about it

by Michael Liebig

The following remarks were delivered to a press conference co-sponsored by EIR and the Schiller Institute in Prague, on May 15.

Currently there exists a pathological delusion in both Group of Seven (G-7) populations generally, and relevant institutions, that the world economy must be healthy, simply because the stock markets—i.e., “*my money*” invested there—have been growing during the past months. On this delusion, the American economist Lyndon LaRouche commented, “If anyone insists that the rising Dow Jones stock market index proves that the U.S. economy is growing, your reply ought to be, ‘Oh, you mean that the cancer is growing?’” The fact is, “market values” are not economic values; economic processes are primarily physical-economic, not monetary or financial.

Conventional wisdom will concede that over the past two years there has been an unfortunate series of crises in the world financial system: an “Asia crisis,” a “Russia crisis,” a “Brazil crisis,” a real depression in Japan’s economy, and “irrational exuberance” on Wall Street, which was Federal Reserve Chairman Alan Greenspan’s way of describing financial asset price inflation. (I would simply call it an utterly unsustainable financial bubble.)

But, conventional wisdom will categorically deny that all these financial and economic eruptions during the past two years, are simply different expressions, symptoms, or “fronts,” of one global and systemic financial crisis. The manifold crises in different segments of the financial system can no longer be adequately explained just by concrete, localized situations or abnormalities. The recent financial disasters, as typified by the so-called Asia crisis, are not an arbitrary accumulation of isolated crises of different, specific origins. What is really important, is not the individual causality of the specific crisis episodes, but the causality for the series of crises.

Their denial of the global and systemic nature of the crisis, explains the complete failure of the crisis-management policies of the International Monetary Fund (IMF) and the G-7 governments and central banks. None of these institutions, to date, has in the least been able to re-stabilize the global financial system. These crisis-management actions have only “bought some time” for keeping the current system going, by actually worsening its overall condition, through a combina-

tion of vast bailout packages, IMF conditionalities, and massive injection of liquidity by central banks. Whenever, during the past two years, the financial situation was declared to be “back under control,” the next, and worse, crisis was about to hit.

The LaRouche ‘Triple Curve’

To understand the global and systemic nature of the crisis, one should look at it in terms of what has been called the “LaRouche Triple Curve,” or “Typical Collapse Function,” which provides a demystification of the multiply-connected relations among physical economy and monetary and financial processes (**Figure 1**).

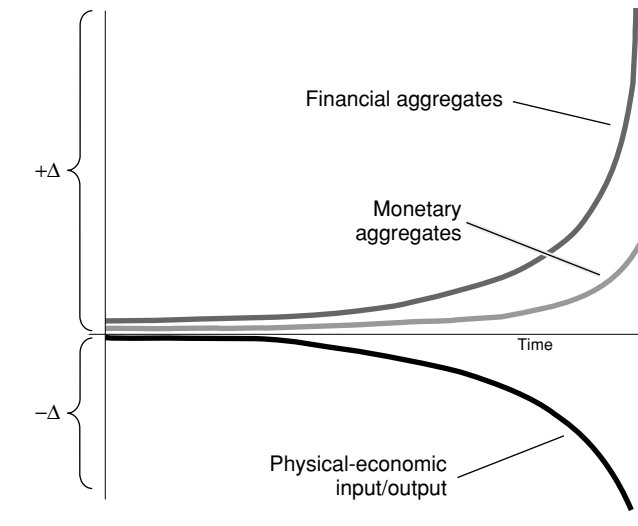
The Triple Curve concept maps the exponential growth, first, of financial titles: stock prices, bonds, real estate values, and derivatives. That growth, in the past decade, has gone into the stratosphere. Second, the growth of monetary supply of leading world central banks. It has also grown exponentially higher, if at a slightly less rapid rate than financial titles. The third curve is the growth of the real physical economy globally, which has plummeted.

These aggregates are measured within the framework of both per-capita and per-square-kilometer values of physical-economic input and output. The rate of growth of physical-economic output has become consistently negative since the 1971-72 establishment of the “floating exchange-rate” monetary system. The characteristic of the relationship among declining net physical-economic rates of output; self-feeding, speculative growth of financial aggregates; and monetary expansion to sustain leveraged expansion of financial aggregates, is peculiar to the 1966-99 process, as distinct from the relations among these magnitudes for the 1946-64 interval.

To grasp the widening gap between physical economic output and exponential growth of financial-monetary aggregates, it is necessary to consider real household incomes in physical-economic terms, net capital-intensity of both physical production and basic economic infrastructure per capita and per square kilometer. The characteristic relationship of the curve of financial-monetary aggregates to physical-economic input-output, is “self-cannibalism” of the real economy as a whole, because there is no net physical-economic profit. Especially after the Carter-Volcker interest-rate measures of 1979-81, the composition of financial profit was shifted to

FIGURE 1

A typical collapse function



rely predominantly upon purely speculative forms of financial activity: the merger-and-acquisition mania, junk bonds, and derivatives.

The post-Bretton Woods period

On Aug. 15, 1971, President Richard Nixon effectively terminated the original 1944 Bretton Woods world monetary system, which was based on fixed exchange rates and the promotion of real economic growth.

Before, in the 1950s and most of 1960s, there were basically two reasons to buy a foreign currency: first, if you were travelling, or, second, if you were importing or exporting goods. In 1970, just before the collapse of the fixed-exchange rate system, foreign exchange trading worldwide was about \$12 billion a day, or \$2.9 trillion a year. World trade in 1970 was almost \$600 billion. So, there was about six times more foreign exchange trading than there was actual foreign trade. Today, this proportion has completely changed. Less than 1% of foreign exchange transactions today are related in any way to the trade of goods and services, which would include currency hedging. That is, 99% of all foreign exchange transactions are purely speculative. According to the latest statistics by leading central banks, the worldwide volume of foreign exchange transactions has reached \$1,500 billion each day.

During the late 1980s, derivatives emerged, as the prime vehicle for a qualitatively new type of financial speculation. Derivatives are futures, options, swaps, and other exotic instruments with which one bets on oscillations of currency and interest rates, stocks, bonds, and indices of stocks and bonds. Derivatives are synthetic financial instruments, because they are not based on production or transaction of goods. Derivatives are the result of a major shift of strategic thrust in the West's dominant economic, financial, and monetary policies

since the early 1970s:

1. National financial markets were submitted to deregulation and liberalization;
2. Floating currency rates were introduced, replacing the fixed gold-reserve-based monetary system of the postwar period;
3. Financial markets were "globalized" through 24-hour electronic data links, which radically changed the character of the basic policy axioms of banking, beginning in the United States, and then extending into Europe and Japan;
4. The IMF's monetarist, neo-liberal axioms were made internationally hegemonic in the form of the IMF's "structural adjustments" and "conditionalities" policies.

These four factors have led, inevitably, to greater and greater volatility in currency and interest rates, in stock and bond markets internationally. This global financial volatility is, metaphorically speaking, the "oxygen" that allows derivatives speculation to "breathe." The Thatcher government in Britain and the Reagan/Bush administrations in the United States, phased out the successful economic policies of Kennedy, Adenauer, and de Gaulle, and replaced them with radical neo-liberalism, first in Great Britain and the United States, but later also in Japan, Germany, and France.

Today's global economy can be correctly called a global casino, where financial gambling is the prime activity, and where the production of real goods, investments in infrastructure, education, health, and so on, are increasingly being pushed to the fringe of economic life.

The stock bubble

The nominal capitalization of American stocks on all U.S. stock markets, including the New York Stock Exchange, the American Exchange, and the NASDAQ, reached \$12.96 trillion in 1998. Now, at the end of the first quarter 1999, total U.S. stock capitalization stands well above \$15 trillion (**Table 1**).

From Jan. 1, 1999 to May 3, 1999, the Dow Jones stock index increased from 9,181 to 11,004 points, that is, 20% in four months.

Europe shows an almost identical dynamic. For example, between 1978 and 1993, the Frankfurt DAX stock index needed eight years to double, reaching 1,000 in 1985, and

TABLE 1
U.S. stock market capitalization
(trillions \$)

| | | | |
|------|------|------|-------|
| 1980 | 1.52 | 1994 | 6.24 |
| 1988 | 3.10 | 1995 | 8.33 |
| 1990 | 3.53 | 1996 | 10.06 |
| 1992 | 5.46 | 1997 | 12.96 |
| 1993 | 6.28 | 1998 | 14.55 |

2,000 in October 1993. In January 1997, the DAX stood at 3,000; just six months later, in July 1997, the DAX stood at 4,000 points. In March 1998, the DAX index crossed 5,000. Currently, it stands at 5,400.

From the beginning of 1997 to April 1998, stock price indices rose 78% in Frankfurt, 63% in Paris, 80% in the Netherlands, 63% in Belgium, 52% in Sweden, 42% in Britain, and 83% in Switzerland. According to Deutsche Bank's subsidiary DWS, during 1997 the volume of German equity funds increased 80%, of Italian equity funds 124%, and of Spanish equity funds 388%.

Besides central bank liquidity pumping, begun in spring 1995 and dramatically escalated since October 1998, so-called index funds have been driving up stock indices. In addition, a stock buying frenzy by small investors, reaching levels of mass hysteria, has been bloating the stock bubble. The incomes of 41% of all U.S. households depend on "capital gains" from their stock investments, mostly through mutual funds. This has led to an extreme form of the "money illusion," through which fictitious capital gains translate into consumer spending, not investment into the economy's physical capital and infrastructure base. This is the background to the United States' merchandise trade deficit, estimated to be around \$300 billion for 1999 (\$248 billion in 1998).

September-October 1998: near-meltdown

In its spring 1999 Quarterly Review on "International Banking and Financial Market Developments," the Bank for International Settlements summarizes the near-meltdown in late 1998: "Global financial markets suffered from extremely volatile conditions in the fourth quarter of 1998. The flight to safety and liquidity which developed in the wake of the Russian debt moratorium in August reached a climax in October. Benchmark yields and equity prices retreated, while credit spreads widened markedly. Massive deleveraging and, in the process, the near-collapse of a major hedge fund, added to price swings and further contributed to a drying-up of liquidity in a wide range of markets and instruments." These events "created the risk of a systemic failure," writes the BIS.

In late September 1998, the Federal Reserve had made an unprecedented intervention, by coordinating the bailout of the Long Term Capital Management hedge fund. LTCM owed not only \$120 billion to the 16 American and European banks which had injected about \$4 billion into the hedge fund, after trading losses had all but wiped out LTCM's core capital (estimated at \$2-3 billion); the real exposures of LTCM, including its notional value off-balance-sheet derivatives obligations, was \$1.25 trillion. However, as alarming as such enormous leverage is in one single hedge fund, it was the banks tied to LTCM, which had a much larger exposure, in which the real systemic risk lay. In early October 1998, in addition, BankAmerica took a \$357 million loss write-off because of its participation in the D.E. Shaw & Co. hedge fund, and bought \$20 billion in outstanding securities and

derivatives contracts from that hedge fund, in order to bail it out.

Financial asset inflation

In this near-meltdown condition of the world financial system, the G-7 governments and central banks engaged in an unprecedented series of interest rate cuts, liquidity pumping, and various bailout schemes. The aim of the so-called "Alan Greenspan miracle" — successive U.S. interest rate cuts on Sept. 29, Oct. 15, and Nov. 17, 1998, plus massive repurchase of U.S. Treasury bills held by private banks, in return for short-term cash, and similar ways of injecting liquidity into the banking system — was to postpone for some time the inevitable systemic breakdown. The U.S. interest rate cuts were followed worldwide. The Bank of England has cut rates six times since, and in Japan, short-term interest rates presently stand at 0.23%! The events of September-October 1998, demonstrated that the financial crisis had fully hit the G-7 core financial systems, not just Asia, Russia, Brazil, and other "emerging markets."

Since October 1998, G-7 central banks have triggered a massive inflation in financial asset prices in the G-7 sector, which we have sketched above. The "boom" in stock prices is simply the symptomatic expression of monetary and financial asset price inflation — hyperinflation, to be more precise. This inflationary crisis management is designed to buy time in postponing the financial collapse. However, the financial asset price inflation is, in reality, accelerating the disintegration process.

Since the summer of 1997, and in particular since the autumn of 1998, the global and systemic nature of the financial crisis has become obvious for anyone who cares — or dares — to look at reality. Moreover, the global financial crisis has become a world economic crisis. The world's physical economy — production, capital investment, infrastructure expenditures, employment, living standards, and trade — has been in accentuated decline since 1997. In 1998, the dollar value of global merchandise trade shrank by 2%, and in 1999, world trade in goods is expected to decline at least by 5%. Were present trends to continue, the global economy would head into a full-blown depression. Much more should be said about the accelerating decline of the world's physical-economic potential since the 1970s, and since 1997 in particular, but that is not possible here for time reasons.

The financial crisis and war

There is a fundamental causality behind the British-American-Commonwealth (BAC) power group's drive for strategic confrontation with Russia and China, and for escalating military conflicts, in the Balkans, the Middle East, and elsewhere. I must emphasize here, that the BAC should not simplistically be confused with "the United States"; the BAC has influence within the Clinton administration, but is not in control of the U.S. government.

To understand why the financial crisis became an eco-

conomic crisis, and then a military-strategic crisis as well, one must comprehend the Clausewitzian transposition of the financial-economic crisis into a military-strategic crisis. Economic-financial problems, which governments are politically unwilling and/or incapable of resolving effectively, by means of economic and financial policy changes, tend to get “resolved” by “other means.” During the October-November 1998 turning point in the global financial crisis, the BAC’s current confrontation/war drive was enacted. First came the undeclared war against Iraq, using the faked Butler report as a pretext. Second came the drive to qualitatively transform NATO, by ramming through the neo-imperial “New Strategic Concept” for NATO. Then, came the current war in the Balkans, which could have been diplomatically averted, if Russia’s and the United Nations’ involvement had not been deliberately obstructed, before March 24.

For the current global strategic situation, the Clausewitz dictum, that “war is the continuation of politics by other means,” remains as valid as ever. “Politics” is the totality of political, economic-financial, social, and cultural factors. The content of politics is primarily determined by the existence or absence of economic, social, and cultural development. Ultimately, what decides if there is war or not, is whether there is development or not. A politics of development does not need a continuation “by other means.” A strategy of development is “self-sufficient,” so to speak, because it can achieve its aims by economic, political, and cultural means. A politics of economic, social, and cultural decline, erosion, and disintegration, however, necessarily leads to its continuation by other means—confrontation, pressure by force, and war. And war may take many forms: conventional war, civil war, irregular war, or war with weapons of mass destruction. A strategy of non-development inevitably leads to an “entropic quantum jump” into the regime of war.

What needs to be done?

The salient question at this point is, will the Clinton administration, in cooperation with continental Europe, China, Russia, and India, as well as others, muster the will to dump the disastrous “crisis management” policies, in favor of a radical reorganization of the world financial system? Will they go for a New Bretton Woods system, as designed by LaRouche? Will they create national banks, like Germany’s postwar Kreditanstalt für Wiederaufbau, providing low-interest, long-term credit for great national and transnational infrastructure projects, like the Eurasian Land-Bridge, revitalizing the world economy? Were the United States and continental Europe to fail this test of history, then the task of leading the world out of the crisis would fall to the large nations of the once-developing world, most emphatically China and India.

The fundamental issue before us, therefore, is, what will life be like after the inevitable financial breakdown? What emergency measures will have to be adopted to ensure that the financial breakdown will not bury the real economy under

it? It should be clear, that there exists no magical “post-collapse reorganization kit,” but there are basic principles that need to be followed:

- Sorting-out fictitious capital. Speculative, fictitious financial paper must be written off by governmental action, if it has not been wiped out beforehand by the market collapse. Financial paper of an unclear nature must be frozen. State debt must be frozen, so as not to impede the continuation of basic state functions.
- Financial paper backed by productive, physical economic assets must be protected. The financial resources of pension funds, health insurance, and other vital social services or educational institutions must be protected. The citizens’ “regular” savings must be protected. Private banking functions directed to these real economic and social areas must be preserved.
- By way of exercising national financial sovereignty, the state must issue low-interest credit which is to be exclusively directed toward reactivating and expanding industrial, *Mittelstand* (i.e., small and medium-sized firms), and agricultural production and infrastructure, on the technological level of the “Third Industrial Revolution.” To that end, the private banking system—with its account management and customer expertise—is to be used.
- The state provides low-interest credit for large-scale, high-technology infrastructure projects on a national and multilateral scale, as typified by the Eurasian Land-Bridge. These projects will be the key catalyst for overall economic reconstruction and regeneration.
- A new, stable, fixed-exchange rate, gold reserve-backed world monetary system must be established by governments.

Let me conclude with a quote from LaRouche: “I would recommend to people who want to understand what I am saying, to look back at what a senior economist of the United States, John Kenneth Galbraith, said about the great crisis of 1929-31. Galbraith made a famous statement in saying that you have to realize that ‘It’s only paper,’ which has been collapsing on financial markets. . . . If stocks pertain to an industrial company, so what? As long as the company functions, we don’t care what the price of the stock is. . . . We have to protect the nations; we have to protect the integrity of the currency, and securities of governments. We must protect industries, keep them functioning. We must protect agriculture. We must maintain the continued functioning of basic economic infrastructure, and we must do all the things which defend the lives and well-being of the people. The main thing is to get back into real economic growth, and say, with a sigh of relief, ‘It’s only paper, it really wasn’t value anyway. It was only fictitious value.’ Let it fall, but let it be done in an orderly way through government bankruptcy reorganization of the relevant institutions,” in the United States, continental Europe, China, Russia, India, and all others who are willing to collaborate in the effort to work ourselves out of this crisis of civilization.

Study the American System of economy

Professor Jirasek is honorary dean of the Czech Management Center in Celakovice, and an adviser to the president of the Czech Management Association. He has participated in several missions of Czech entrepreneurs to the United States and Asian countries. The following are his remarks at the CMA-EIRNA-Schiller Institute press conference in Prague on May 13.

I should perhaps explain the role of the Friedrich Schiller Institute, and why this institute bears the name of Friedrich Schiller, whom we know as a unique poet and playwright. If such an institute focusses on the global and general problems of the world and civilization, we should perhaps be aware that Friedrich Schiller also is known as a philosopher, and he may also be known by his famous quote, that truth very often triumphs through morality and beauty.

The Schiller Institute also draws on the findings of the famous philosopher G.W. Leibniz, known as the inventor of the theory of the monad concept, as well as an expert in the field of mathematics. Yet, it may be less well known, that he was the first person who focussed on the role of the individual in society, as well as on the individual's freedom.

It is an amazing experience to see experts arguing on both scientific and artistic grounds, and, indeed, we would find no comparable institute in this country.

Another significant asset of the Schiller Institute is the fact that it promotes knowledge based on the economy of the American Revolution, that is, the physical or material side of the economy, focussing on the *real* developments in the field of industry, agriculture, and infrastructure. It is not so well known in this country, what contribution the American Revolution had made to worldwide economic theory, and indeed, this theory would help us to understand the low rate of growth that we are seeing. This is the economy based on the theories of Alexander Hamilton, Friedrich List, and others, which run counter to the traditional British economic theory based on the thinking of Adam Smith and others.

I should perhaps emphasize, that this American Revolution economics basically denied the heritage that we are now espousing [i.e., globalization]. And, indeed, it focussed on the fact, that between the spontaneous forces in the economy, or the private forces, there should also be some kind of central

or national forces, and very often they emphasize the role of state influence in the overall national economy. And, unfortunately, hardly any of us know about the contributions Alexander Hamilton made to worldwide economic theory; we might know him only from the novel of Aaron Burr, who shot Hamilton.

The Schiller Institute focusses on the global problems of today, one of them being how to get out of the current worldwide financial crisis. We had heard about the causes of the current crisis, highlighting especially the fact that the financial market developments are divorced from the reality of physical economy, and this was described with the triple collapse curve of economic indicators. If we take global production as one unit, we can see that the worldwide trade value is about twice that amount, yet the total volume of financial transactions is 15 to 20 times higher. So, we can see how financial indicators are divorced from physical economic reality.

The economy could collapse any day

We do not focus very much on these aspects in the Czech Republic; yet, we see how almost ridiculous the economic analytical forecasts are. The situation might change very quickly, and none of us can predict what might happen in a few months' time. Our national bank is well aware of the fact that most professionals speculate and bet on the general decline of the financial economy, and that is why it has implemented measures to protect our currency and to adjust interest rates accordingly. I use this as an example only because the huge bulk of finances that are available in the world, can cause a collapse in our economy on any day.

The current crisis started in Asia, moved over to Russia and South America, and I believe that it is going to proceed to Europe and finally to the States, where we shall see the strongest defense against that crisis. But, I believe that this defense is not led by governments, but rather by strong financial groups, and indeed, there are also gains to be talked about in that respect.

Therefore, the market has started trading in derivatives, where in fact you do not trade with any real goods, but rather with nothing but speculative indicators. We might, for example, make a bet with our friends on how high oil or wheat prices will be next June; yet, the winner is not the person who is better at forecasting these developments, but rather the one who is best at *influencing* them.

Among the main themes the Schiller Institute has focussed on is also the creation of European and Asian infrastructure, incorporating the countries of Europe, as well as Russia, China, India, and others, along what Marco Polo discovered as the silk trade routes. Nowadays, these routes should be represented as highways or rail routes.

Two approaches to globalization

I believe that the dominant trend in the physical economy nowadays is globalization. This is logical, because we are

better at using our resources more intensively, adding value or creating value at a much faster pace.

There are two approaches to this situation. The first is dominated by the focus on the physical economy and government cooperation, whereas the second one is focusing on deregulation, liberalization, and moves like that. The latter is the dominant approach in this country, and this is an approach in which not only the strongest always win, but also the weakest are in a rather difficult situation.

If you follow worldwide developments, and the search for what we call the new world order, you will have noticed that there are trends toward domination by the large countries, large economies, and forces trying to accumulate or incorporate the smaller countries, with some of their autonomy or assets protected. Yet, at the same time, they are being driven by the larger forces in the economic arena. Therefore, if we look at what the Schiller Institute, which is fighting inhumanities, can offer us in the fields of politics, philosophy, science, ethics, and aesthetics, we need to emphasize that it stands against conservative liberalism in the economy, which unfortunately is the theory that our country has espoused. And, therefore, even if the influence of the ideas of the Schiller Institute is limited today, we can only be inspired by them.

Prof. Zbynek Pitra

We should focus on 'adding real value'

Professor Pitra is Deputy Director of Sindat Consulting, and vice president of the Czech Management Association. He has taught in universities, and has worked for companies in the United States. The following are his remarks at the CMA-EIRNA-Schiller Institute press conference in Prague on May 13.

Let me welcome you to this conference, and I do hope you will be taking away from this conference the feeling of hope that we get from our way of approaching current trends. Let me focus on the Czech Republic and the real problems that the CMA is currently encountering and trying to tackle, especially the revitalization of Czech industry. I believe that the situation of most of our companies is far from favorable, yet a local solution is not sufficient; we as well have to take part in the global economy, joining the fleet of the global economic drivers, to get ourselves through the crisis.

And I believe that where our country should participate is definitely not in the world of financial markets with derivatives, but rather in the world of real economics, as we have heard from the representatives of the Schiller Institute, as well as from Professor Jirasek. We should focus on the areas where *we can add real value*, thus changing the life of humanity for the better. And I am very well aware, that the CMA's representatives focus on the current task faced by the managers of companies, which involves value creation and looking at not only what we call "the invisible hand of the market forces," but also the real situation, trying to transform the forces into real value and real goods.

And therefore, our position, that is, the CMA's position, concerning the current governmental program on revitalization of industry, is as follows. First of all, we have several objections to raise: We believe that the government program is based too much on financial restructuring. And I believe it indeed is basically characterized by the delusion which we heard described by our guests, the delusion that a poor performance of companies can be solved through financial means. And, we have heard what this delusion caused in several more advanced economies: It led to a crisis.

Therefore, we believe that businesses are not entities which consume money, but are entities which create value, and therefore, the economic injection should focus not only on providing financial means, but on investment and produc-

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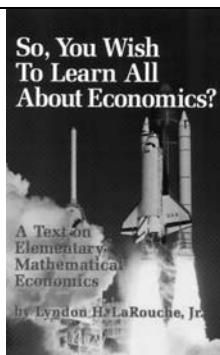
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ing real value. And, I am very glad that we can draw inspiration and support from the Schiller Institute. This leads me to conclude with a motto that we have concerning the development of the Czech economy. We believe that we should not focus on ownership-related strategies, but rather on real business strategies in real, existing companies and business entities.

Discussion

The IMF has harmed the Czech Republic

Q: My name is Winter; I represent WMC Marketing Co. I would like to ask, where the crisis actually is? That is my question, because we specialize in the Vietnam region, and we heard from our business partners there, who say, sorry, unfortunately our GDP has only grown 5%. Yet, our Czech economists say, that our Czech economy is in recession, and Gross Domestic Product is at zero growth. And we are a free and democratic country, and yet we have received only \$7.4 billion in direct foreign investment. This is remarkable, compared to Vietnam, which is a socialist country run by a communist regime, which over nine years has received \$31.2 billion in direct investment, that is, more than four times as much as we did. I would like to ask, where is the crisis? Where do you think it is?

Liebig: All that I can say is that the world financial crisis on its Asian front has devastated all the countries which did not have basic capital- and currency-control safety mechanisms. China is affected by the crisis, but it is not devastated by it; its economic growth figures are declining, but its massive domestic infrastructure stimulus programs offset many of the external effects that have hit other Asian countries. Also India, which has capital and currency controls, has been able to avoid the worst impact. You mentioned Vietnam, and we should also mention Malaysia, which courageously, on Sept. 1, 1998, introduced capital and currency controls, after the country had more or less fully liberalized its financial markets.

So, I think there are basic principles of defending and protecting the national economy in those countries, which is not at variance with the promotion of international trade. It has worked. This is reality, and it can be contrasted to the devastation which we have in Indonesia, or worst of all, in the Philippines, or also in South Korea. Whatever is being said, that we have supposedly turned the corner; we have not. Nor has it been turned in Thailand. And then, just look at

the devastating situation in Japan, where you have a bailout situation not seen in financial world history; the dimensions of trying to deal with this \$2 trillion bad debt problem. The Japanese economy is contracting; in the first three quarters it has had a 4.5% negative growth in industrial output.

Pitra: I understand that your question was meant to be thought-provoking. I can imagine, that it seems rather paradoxical to say that countries whose GDP has started rising, are in crisis. Yet, our economists claim that our economy, which shows no growth, is still in a recession. It may well be that they believe that it has hit bottom, yet perhaps our country might still get into a rather worse situation.

Moderator: Before you think about your other questions, I wonder if this current economic crisis might have a solution, that Mr. Liebig might foresee?

Liebig: The concept of the New Bretton Woods, as outlined, designed by Mr. LaRouche, is not something that is unknown. The basic principles are very clear: We have to return to a stable currency system, which is solely focussed on real economic growth and international trade. We have to take measures in a New Bretton Woods of sorting out what is fictitious paper, and what is paper that is backed by real physical assets. We have to make sure that the basic social infrastructure is being protected, even under the worst imaginable crisis conditions, and that the savings of the vast majority of the population, the core savings, are being protected as well. And, simultaneously, we have to initiate a physical economic stimulation program, which indeed has to be a sort of globalized program; it has to be an agreement among sovereign nation-states, beginning with the United States and China, and including whoever would want to participate, with a maximum effect not only of job creation, but of creating net economic value through maximum scientific and technological progress.

Now, for all of these things, the designs are on the table. They are known to most governments—the United States Treasury knows it, the relevant finance ministries and economic ministries know them, in western Europe, in Russia, in China, there is nothing mysterious about it. We don't have to reinvent the wheel. There are many examples in economic history, notably economic reconstruction in western Europe after World War II, which was *not* a free-market experiment. In Germany in the 1950s, or the economic reform in France under de Gaulle in the 1960s. So, the policies are available.

What really is the issue, is one of *political power*. Where is the political power, where is the *will* to implement it? There you have to make a very sober assessment. Where is the willingness to recognize the crisis, and the determination to find a way out?

I can only repeat myself: Malaysian Prime Minister Dr. Mahathir bin Mohamad should be an example, how a tiny country had the nerve and the determination to do what is banned and vetoed and vilified more or less by the rest of the

world. He did it, and others can do it as well. So, really, it is not a question of economic theory, or economic plans, but it is the question of will and determination and political foresight.

Pitra: Just to re-word this, in drawing on a metaphor used in a Czech folk song about a broken stove. The question is raised, who is going to repair the stove? I believe, we should roll up our sleeves and repair it ourselves.

Q: My name is Drinek, I work at the college of economics in Prague, and I would like to ask Mr. Liebig what his view is of the introduction of the euro, and what role might the euro play in the current financial and economic crisis?

Liebig: We have been exceptionally negative on the euro, because western Europe, since 1979, had a well-functioning monetary system, the European Monetary System, which was introduced in 1979 and which basically had established currency stability, functioning perfectly for more than a decade, and it was only in 1992, when George Soros attacked the Italian lira and the British pound, with the purpose of blowing up this *system*, not just the lira or the pound, that it stopped functioning. Now, why did it stop functioning?

I claim here, that there was collusion between Soros and the principal European central banks, because they had to demonstrate that the old EMS system no longer functioned, *not* for economic or monetary reasons, but for strictly political purposes. The euro was introduced as one of the not-so-secret conditionalities for German reunification. Kohl was given—the documents are out, this is not my hypotheses, these are documented facts—Kohl was told in November-December 1989, by François Mitterrand and by George Bush: If you want to have our agreement to German reunification, the Deutschmark has to be abolished. And Kohl has revealed how, at various meetings, he was totally ripped apart, and he accepted the euro. That is how the euro came about, as a political lever, and not as an organic financial and monetary process. Kohl afterwards said: Well, I accepted it, so I'll try to make the best of it. But, how weak the underlying reality of the euro is, you can see in the past four months. The euro has lost almost 12% of its value, and I foresee that a great many more problems will arise with the euro; and I say that, knowing perfectly well that there is a lot of paranoia, especially in the United States and on Wall Street, who see this as a great threat to the U.S. dollar—that is really a different story.

Q: I would like to ask, how you see the factors influencing stability. It seems to me, that world history is like a film, in which we are unable to learn from past experience, and this leads me to be rather pessimistic about the developments in humanity, which seem to be rather uncontrolled, where all efforts are concentrated on relieving pain rather than tackling the causes for the problems. And, therefore, I would like to ask, what could stimulate the economic and political potential to get ourselves out of the crisis which has been marked by

many wars?

Liebig: I think it is very simple. History, and learning from history, can be as depressing as it can be encouraging; it depends, on where you look. There are in history, in European history and recent history, lots of examples that give us the sense that a turnaround is possible. Look at the situation in the United States during 1932-34, in terms of the Great Depression—and that crisis *was* turned around. It was a complicated process, but under President Roosevelt it was turned around. And, I should also emphasize, that Professor Jirasek went through the philosophical inspirations of Mr. LaRouche; for example, Leibniz, his grounding in the American System of National Economy of List, of Hamilton, of the Careys. But I think it is also very important, if you want to understand LaRouche, you have to look at the inspiration he gets from President Roosevelt. In the same way, I would say, in terms of continental European history, look at what was possible after the devastation of the war, in terms of building. And the enormous reconstruction in the 1950s and 1960s. What was done in France under General de Gaulle.

So, I think, if you look at history in *this* way—yes, I do not want to belittle the crisis one bit, quite the opposite. But, I think that there exist in history enough precedents that encourage us and give us confidence. It is going to be extremely difficult, but it can be done.

Q: My name is Jirsa, I work at the Czech Technical University. I would like to make one suggestion, that the Schiller Institute should also focus on the unjust redistribution of wealth among not only the countries of what we call the First and Third Worlds, but also vis-à-vis the Second World, or, in other words, the post-communist countries. Because, if you look at the example of this country, the IMF, back in 1990, basically dictated the exchange rate for the Czech crown, which was not market-based, and which bore no relation to the purchasing power in this country. So, our country not only did not receive help, but in fact was harmed by this measure. I believe that the Schiller Institute should also look into these aspects.

Liebig: We will, but we also have done quite a bit of work on that, which we can make available to you. But your advice is well taken.

Q: My name is Chilar, I work for the Gradus Consulting Co. My contribution is not a question, but a remark. I was very glad that the Schiller Institute also focusses on the aspects related to the position of the IMF and the World Bank and the way they deal with the financial and economic crisis. Because, indeed, when we provide consulting services to managers of companies, we not only have to be state of the art and apprised of the the most up-to-date developments, but we should also foresee future trends, and that is why your presentation has been of great value for us.

Backlash grows against Gore's Cox Report hoax

by Jeffrey Steinberg

Johnny Foster and Harold Agnew, who directed the Lawrence Livermore National Laboratory and Los Alamos Scientific Laboratory at the time that the labs developed the W70 and W88 nuclear warheads, told the *Washington Post's* Walter Pincus recently that the "information allegedly stolen by China through espionage was not as valuable as portrayed by a House select committee that published a report on security lapses last week."

Foster and Agnew's remarks are but the latest evidence that the Cox Commission, formally known as the House Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China, has produced a piece of willful scientific fraud, aimed at fueling a new "Yellow Peril" Cold War with China, at precisely the moment that President Clinton needs to urgently expand his ongoing commitments to forge a strategic partnership with both China and Russia. Such a partnership is required to deal with the looming threat of a global financial catastrophe, and to defeat British schemes to provoke a string of regional wars which could easily trigger a global conflagration.

Signalling that he has no intention of kowtowing to the China-bashers, on June 3, President Clinton sent a formal letter to the U.S. Congress, renewing China's Most Favored Nation status for another year. Both Houses of Congress have 90 days in which to vote, by a two-thirds majority, to reject the President's MFN authorization.

Gore's treachery

While the President has shown, in many ways, that he intends to stand by his commitment to pursue the "strategic partnership" with China, the same cannot be said for his Vice President, Al Gore. Indeed, it was Gore's personal House Whip, and the chairman of his Washington State Presidential campaign committee, Rep. Norman Dicks (D-Wash.), who

was the driving force behind the Cox Commission hoax (see *EIR*, June 4, 1999, "The Cox Reports Is a Gore, Inc. Pack of Lies").

According to Dicks's own account, in October 1998, he learned from Department of Energy intelligence officer Notra Trulock, about information obtained from a "Chinese intelligence officer," indicating that China had stolen secrets on U.S. missile designs from several national weapons laboratories. At the time of the Trulock "revelation," the Cox probe of leaks of U.S. missile technology by two defense firms, Loral and Hughes, and the probe of Chinese government covert funding of the Democrats in the 1996 elections, had run out of steam.

It was, by all accounts, Dicks, who then seized on the "spy" revelations and breathed new life into the "Get Clinton" China-bashing effort, first begun by then-Speaker of the House Newt Gingrich in July 1998.

The Gore-Dicks perfidy was ostensibly sparked by the revelations about a Chinese "intelligence walk-in" to a U.S. embassy in the mid-1990s, with incriminating documents that had been heisted from U.S. weapons labs. Since the declassified version of the Cox report was released to the public on May 25, there has been a great deal of media speculation and confusion on the subject of the "walk-in." Why would the Chinese military have sent one of its own agents to alert the United States to the fact that China had sent spies into the heart of the U.S. nuclear weapons complex?

EIR has learned from several well-placed administration and intelligence officials, that the whole "walk-in" story was a hoax from beginning to end. In fact, the United States has been spying on the Chinese military-industrial complex, just as China—like every other industrialized nation, from Britain, to France, to India, to Israel—has been spying on the United States.

But what would it have done for the China-bashing venom of the Cox Commission, if the only so-called “smoking gun” revelation had to be acknowledged as the fruit of *American* espionage against *China*?

The ‘grand old men’ speak out

Dr. Harold Agnew, who headed the Los Alamos Scientific Lab from 1970-79, made precisely that point in a letter to the editors of the *Wall Street Journal*, published on May 17—one week prior to the release of the declassified version of the Cox report.

Under the headline “Looking for Spies in Nuclear Kitchen,” Dr. Agnew wrote, “In regard to the alleged spying and security violations of Los Alamos (‘Senate Panel Approves Two Measures to Fight Espionage in Nuclear Labs,’ May 4): In my opinion, those who are screaming the loudest in Washington have little knowledge or understanding with regard to the issues at hand. The Chinese nuclear establishment, most of whom have studied in the West, are extremely competent. They may indeed be curious as to what the U.S. has developed with its technology, but we also have been curious as to what *they* have developed and fielded. From time to time they have been in our kitchen looking for recipes and we have poked around in theirs. Our general public has no knowledge as to how successful we have been, and their population is also in the dark with regard to their successes.”

To make matters even worse, for Gore, Cox, Dicks, and company, almost every living former director of an American national laboratory has come out with a stinging denunciation of the quackery underlying the report: Namely, the Cox Commission asserted that access to computer “legacy codes” and other schematics was the equivalent of accessing all the secrets needed to build nuclear weapons based on American designs.

Foster, who headed the Lawrence Livermore Laboratory in 1952-65, and served as a defense science adviser to Presidents Johnson, Nixon, Bush, and Clinton, in a phone interview with the *Washington Post*, downplayed the significance of information about the W70 and W88 warheads, allegedly obtained by China. “We showed them what’s possible, and they probably learned that some time ago when the size and shape of the reentry vehicle [which carries the nuclear warhead] and its [explosive] yield [were first made] public.” Foster added that the Chinese have shown “they are smart,” when it comes to the designing of nuclear weapons, but that the real challenges involve the fabrication of the nuclear material metals and the purity of the plutonium, which are far more difficult.

Agnew made similar remarks to the *Washington Post*’s Walter Pincus. Pincus reported that “Agnew said that much of the information alleged to have been stolen by China was made public decades ago, although still considered classified within government. He said he attended a public lecture a year ago given by the Natural Resources Defense Council, which first published its *U.S. Nuclear Forces and Capabilities*

handbook in 1984. The speaker was so detailed with what was still considered classified, Agnew told him it ‘would be appropriate for all new hires at Los Alamos.’ ”

Pincus reported that he had interviewed two other former national laboratory directors who had joined with Foster and Agnew in criticizing the hype of the Cox report. “Because the former directors have had to deal with Congress on their budgets,” Pincus wrote, “they all respect the fact that legislators ‘are trained to simplify,’ as one put it. In this case, however, ‘politicians with little knowledge have had a knee-jerk reaction on what should be done,’ the former director said.”

The Chinese respond

The Chinese government well understands that the motives behind the Cox hoax are far more dangerous than a Congressional impulse to “simplify.”

Wang Fei, a nuclear scientist with the Chinese Defense Scientific and Technical Information Center, said on June 3, in Beijing, that the accusations of the Cox report are not only “ridiculous, but an intentional insult designed to show contempt for Chinese scientists.”

According to the Chinese news agency Xinhua, Wang stated that U.S. nuclear threats and blackmail in the early 1950s had forced China to development the atom bomb, and the H-bomb, and to launch its own satellites long before establishing diplomatic relations with the United States. “The strict blockade at the time made it impossible for China to acquire the nuclear technology from the United States,” Wang explained, “and we relied solely on our own strength to develop limited self-defense nuclear power.” He stated that China has many excellent missile experts and nuclear researchers, and that China has never in the past, nor will it in the future, base its development of nuclear weapons on foreign technology.

Wang described the Cox report as containing outrageous fabrications, and he repeated that the information on the performance of the nuclear warheads in question was available in published form in the United States, so that theft was both impossible and unnecessary.

Capping a week of reactions to the Cox report insanity, the Chinese State Council, the nation’s cabinet, on May 31, publicly demonstrated that the overwhelming majority of data that China has been accused of stealing, is available on the Internet. In front of a gathering of reporters, Fang Nan, of the China Internet Information Center, a government agency, used a Compaq Presario computer and Microsoft Internet Explorer software, to churn out a mountain of data on U.S. nuclear warheads—from a series of open web sites, including the sites of the Federation of American Scientists and the Natural Resources Defense Council.

Zhao Qizheng, a spokesman for the State Council, told reporters, “In recent years, performance data about various types of nuclear warheads . . . can easily be found on the Internet. They are no longer secrets, so there is nothing to steal.”

Senators critical of China embassy bombing

by Suzanne Rose

On May 27, the Senate Foreign Relations Committee on East Asian and Pacific Affairs held a hearing to examine the effects on U.S. China relations of the NATO bombing of the Chinese Embassy in Belgrade on May 8. The news that a NATO bomber had dropped three precision-guided bombs on the embassy, killing three journalists, severely damaged U.S. relations with China. The Chinese government has suspended cooperation with the United States on most joint projects until the matter is fully investigated and the culprits punished.

The Chinese are not buying the explanation from U.S. spokesmen, that the bombing was an accident which occurred because of U.S. pilots had outdated maps. Chinese Premier Zhu Rongji said: "Claims of a so-called 'mistake' cannot convince the Chinese people, and foreign public opinion doesn't believe them either. We demand a complete and thorough investigation, followed by full publication of the results, and severe punishment of the schemers and troublemakers who engineered the attack." Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr., issued a statement immediately after the attack, demanding a thorough and rapid public investigation, and the initiation of court-martial proceedings against all of the NATO and U.S. military command personnel involved. He warned that there would be grave consequences for the Clinton administration, and for the future of the Eurasian region, without such a response.

The Senate hearing, which featured testimony from Stanley Roth, U.S. Assistant Secretary of State for Asian Affairs, and Frank Kramer, Assistant Secretary of Defense for International Security, was held amid U.S. media coverage highlighting only the angry demonstrations in China over the bombing, rather than the legitimate questions the incident raises. The hearing also occurred two days after the release of the fraudulent Cox report, May 25, which has further angered the Chinese (see previous article, and *EIR*, June 4, 1999).

Senators Gordon Smith, (R-Ore.), Craig Thomas (R-Wyo.), and John Kerry (D-Mass.) questioned the witnesses. Kramer outlined the actions which the Chinese have taken since the bombing, including refusal to allow U.S. Navy ships to dock in Hong Kong, cancellation of military contracts, cancellation of all military-to-military activities planned for June, closing of visa offices, postponement of non-proliferation talks, and cancellation of the latest trip planned

by Defense Secretary William Cohen to the country. Roth said the Chinese are intently focussed on the investigation, waiting to get briefed on the results. The Chinese want punishment of those responsible, he said, and until this happens, these activities will remain suspended.

Senator Kerry made a lengthy opening statement, which was in part a response to the Cox report. The bombing was a terrible accident, he said, but he dismissed as absurd the idea that it could have been deliberate. Correctly stating that the incident has unleashed anti-Americanism in China, Kerry nonetheless gave credence to the cynical media spin that the Chinese leadership is exploiting the bombing for its own purposes.

In reality, however, the pro-U.S. Chinese leadership, far from benefitting from the incident, is undermined when its pro-U.S. policy is threatened. The only beneficiaries are those in the British-American-Commonwealth financier oligarchy who would destroy U.S.-China relations, in their insane pursuit of new imperialistic world order, policed by NATO.

Kerry also stated that some people in the United States are exploiting the Cox report for political gain. The U.S. has spies, so no one should be surprised if others do, too. However, he said, much of the exchange of technology with China has been through a traditional process, through universities, and so on. Emotional responses to these events on both sides are dangerous, he concluded. "We don't want this [the spying charges] to cause China to become our enemy."

'We owe them an apology'

Interestingly, Smith, who is a self-described conservative Republican, spoke from his experience of having just returned from China, which he had visited along with subcommittee chairman Craig Thomas. He said he had met with students there, and he was surprised at the level of hostility they expressed about the embassy bombing. It was tragic and stupid, he said. The necessary maps would have been available in most bookstores. "We owe them an apology, and whoever did this should be disciplined."

Secretary Kramer told the Senators that we are "kidding ourselves," if we think the reaction to the bombing in China was all orchestrated. He said he had met with Chinese academics, who are outside of the government, and they are thoroughly enraged about the embassy bombing. "They clearly don't think it was an accident," he stressed. These responses elicited a further remark from Kerry: "I think we are owed a thorough explanation. There has to be accountability. It was a huge mistake with major consequences."

When Kramer was asked whether the currency crisis is over in Asia, he responded with another dose of reality. The financial crisis is over, he said, but not the economic crisis, and he stressed the great social and development implications from what has happened—the severe unemployment conditions in Korea and Thailand (complicated further by the fact that unemployment insurance will soon end).

The Iraqi opposition, ‘made in Britain,’ descends upon Washington

by Scott Thompson and Michele Steinberg

Each day, flying out of bases in Kuwait and Turkey, U.S. and British planes, with French support, fly sorties over partitioned Iraq, and periodically drop bombs on Iraqi installations. The gruesome, daily forays, are reminiscent of the nightmare depicted in Hollywood’s Vietnam War screen orgy “Apocalypse Now,” where soldiers in their trenches could not remember where they were or who started the war. The present actions against Iraq are an extension of the “New World Order” of George Bush, Mikhail Gorbachov, and Margaret Thatcher, which resulted in “Desert Storm” from late 1990 to January 1991.

On April 11, 1999, Democratic Presidential pre-candidate Lyndon LaRouche issued a strategic memorandum, “The Clapham Common Committee,” warning President Clinton to abandon this lunacy. LaRouche wrote: “At present, the world is being pushed toward World War III. The sole cause for such a World War is Her Majesty’s present government of Prime Minister Tony Blair, the actual author of: a) The presently ongoing war against Iraq, b) The presently ongoing war against the rump state of Yugoslavia, and c) The effort to eliminate all capable military forces from this planet, to a “new NATO” controlled by Her Majesty’s Commonwealth empire, in concert with a U.S. government controlled by London’s Wall Street ‘cousins.’ ”

But while Clinton did, as LaRouche insisted, embrace the kind of “exit strategy”—a southeastern Europe reconstruction plan—that could end the Balkans fiasco, the President has taken no such action yet to stop serving the British war in Iraq.

In the meantime, the commanders of the 1991 Desert Storm “experience,”—Gen. Sir Colin Powell, the Desert Storm head of the Joint Chiefs of Staff under President Sir George Bush; Gen. Sir Norman Schwartzkopf, Commander of the Desert Storm forces; and Gen. Sir Brent Scowcroft, Sir George’s National Security Adviser—have come out blasting Clinton for resisting the pressure from Her Majesty’s Blair government to send ground troops into Kosovo for a protracted war.

Iraqi ‘Contras’ hit Washington

The Iraqi war policy was foisted on President Clinton by the adoption of the so-called “Iraqi Liberation Act,” rammed

through Congress in October 1998, based on disinformation from British/Israeli intelligence asset inside the UN inspection committee UNSCOM: Scott Ritter, a former U.S. Marine who fancies himself the next Ollie North. The legislation mandates that U.S. policy should be to overthrow Saddam Hussein, and awards \$100 million to so-called democratic Iraqi organizations; clearly it should have been vetoed by Clinton, but it slipped through in the chaos of the rush to impeachment.

From May 25-27, representatives of this Iraqi opposition descended on Washington. The delegation, which consisted of a seven-member interim Executive Presidency of the London-based Iraqi National Congress (INC), together with such affiliates as the Pretender to the Throne of Iraq, met with State Department officials, Congressmen, and National Security Council staffers. The trip, made at the urging of Congressional sponsors of the “Iraq Liberation Act,” was coordinated by the British Foreign Office. The delegation leader, Dr. Ahmed Chalabi of London, had once been a CIA asset, according to one British lord, who knows him well. Chalabi was fired several years ago, this source said, after he was repeatedly found misusing funds to feather his own nest, and, because he was so ineffective that other Iraqi opposition groups refuse to affiliate with any organization headed by him—even if it meant turning down \$100 million from the United States.

Dr. Chalabi’s new patrons came from high in the British command structure, including: terrorist-controller Lord Eric Avebury; Foreign Office operative Derek Fatchett (recently deceased); and former U.S. Defense Department official, Richard Perle, now part of Conrad Black’s “British-American-Commonwealth” flagship company, Hollinger International, Inc.

Like many things with the “Made in Britain” label, the INC representatives of the interim Executive Presidency were sent to Washington, like pigs at the trough, to see if they could collect upon the \$97 million set aside for them by the Conservative Revolutionaries in Congress. While in Washington, the INC lobbied their interlocutors to expand “the rules of engagement” against Saddam Hussein in a way that Lyndon LaRouche has warned could provoke an escalation toward World War III.

‘The LaRouche Doctrine’

The following excerpts from “The LaRouche Doctrine” (see *EIR*, April 7) explain how the British Empire is able to foist its Iraq, Kosovo, and similar anti-American strategic policies on the United States. “The U.S.A. and NATO involvement in this series of wars [now under way], was made possible through corrupt U.S. accomplices of the British monarchy’s respective Thatcher and Blair governments. These accomplices are the U.S. component of what was created under U.S. President Theodore Roosevelt: a British-controlled faction inside U.S. official and other powerful institutions. . . .

“This entity within influential U.S. official and other strata, was originally known as the faction assembled, through British monarch Edward VII’s assets Cassel and Schiff, to become the Wall Street-centered Federal Reserve System. During World War I, this Wall Street set . . . became known as the U.S. component of a ‘British-American-Canadian’ (BAC) formation. . . .

“The roles of outright BAC lackeys, including such members of the Principals Committee as Vice President Al Gore, Secretary William Cohen, and Secretary Madeleine Albright, and also of certain Anglophile assets of Israel as Leon Fuerth, are notable in respect to the way in which the currently ongoing war against Iraq was launched. . . .

“Just as the British monarchy’s provocation and conduct of its Malvinas War against Argentina was deployed as a precedent for establishing what was known, in 1982, as ‘NATO out-of-area deployment’ (aggressive warfare conducted by NATO outside the area designated for NATO defense), ‘Desert Storm,’ ‘Desert Fox,’ and the currently ongoing war against Yugoslavia, have been selected as pretexts for establishing a ‘new NATO’ . . . which will award total control over deployment of NATO forces to the BAC, that is, to the British Commonwealth of Tony Blair’s Elizabeth II and its BAC stooges within the U.S.A.’s Wall Street BAC establishment.

“For that reason, each of these latter wars—‘Desert Storm,’ ‘Desert Fox,’ and the current war against Yugoslavia—are to be recognized as nothing but the intended detonator for a form of World War III.”

The INC Exposes Itself

The INC and its retinue made a public appearance at the BAC flagship institution, the American Enterprise Institute. With the AEI’s Middle East Director David Wurmser as moderator, the press conference was dominated by Chalabi, who is also a board member of INDICT, which is lobbying to receive a piece of the Iraqi Liberation Act funds, despite the fact that its chairman is a British Member of Parliament, Anne Clywd.

Dr. Chalabi is no stranger to the Anglo-Israeli gang of neo-conservatives at AEI. One of his chief BAC controllers, is Dr. Richard Perle, former Assistant Secretary of Defense

for International Security Policy, who is a Resident Fellow at AEI. Perle had been a suspected member of the “X Committee,” which was believed by high-ranking U.S. intelligence officials to have steered the espionage of Israeli spy Jonathan Pollard. Dr. Chalabi himself has previously addressed the Jewish Institute for National Security Affairs (JINSA), also a part of the “X Committee” operation. Further, Chalabi has participated in three of meetings of Lady Thatcher’s New Atlantic Initiative, which is headquartered at AEI.

The INC delegation’s schedule included:

May 25: Meeting at the State Department hosted by Assistant Secretary of State for Middle Eastern Affairs Martin Indyk, who conveyed the “warm greetings” from Secretary of State Madeleine Albright. This was supposed to have been a working meeting, which a number of civilian and military personnel from the U.S. government attended.

May 26: The delegation held a long meeting with Sen. Joseph Biden (D-Del.), and then attended the press conference and reception at AEI.

May 27: Meetings were scheduled with members of Congress.

The following Congressmen, whom the delegation met with, had made the invitation to the delegation on May 4: Senate Majority Leader Trent Lott (R-Miss.), Senate Foreign Relations Committee Chairman Jesse Helms (R-N.C.), Sen. Joseph Lieberman (D-Conn.), Sen. Robert J. Kerrey (D-Neb.), and House International Affairs Committee Chairman Benjamin Gilman (R-N.Y.). Gilman was one of the leading co-sponsors of the Iraqi Liberation Act.

Expanding the rules of engagement

The INC delegation members stated that throughout their meetings, they had called upon the Clinton administration and Congress, to broaden “the rules of engagement” against Baghdad, so that if Saddam sought to move armored columns into the northern and southern “no-fly zones,” U.S. and U.K. planes would attack the columns. So far, the United States and the United Kingdom have limited their air attacks to command-and-control (C3) and anti-aircraft sites. The delegation also asked to be trained and equipped. Perhaps the most dangerous of its requests was that it be given U.S. support to hold a 300-member General Assembly to elect a new, “representative” leadership of the INC on Iraqi territory itself.

Conspicuously absent from participation with the INC, was the Supreme Council for the Islamic Revolution in Iraq (SCIRI), which is based in Iran and may have up to 15,000 armed forces prepared to wage war in the Shi’ite-controlled marshlands of the southern “no-fly zone.” Chalabi explained SCIRI’s non-participation as temporary, saying that it wanted a clear statement from the United States that it would broaden the rules of engagement to protect civilians, in the event that an INC—armed under the Iraqi Liberation Act—should engage in guerrilla warfare with Iraqi forces.

Talk show host quotes LaRouche against the British oligarchy

by Marianna Wertz

Empower the People: A Seven-Step Plan to Overthrow the Conspiracy That Is Stealing Your Money and Freedom

by Tony Brown

New York: William Morrow and Company, 1998
hardbound, \$25

If for no other reason, you should read Tony Brown's book, because he has the courage to quote Lyndon LaRouche at length, and to defend LaRouche's writings on the "British Conspiracy." As Brown told me in the accompanying interview, he thought LaRouche was a "kook" until he started comparing what LaRouche had written, with actual events. "After I got into the investigation for the book, some of his claims did not seem that preposterous, and many of his claims . . . that I used in the book seem to have a lot of merit to them," Brown said.

Brown, host of the public television program "Tony Brown's Journal"—the longest-running public affairs program on PBS—and the syndicated radio call-in show "Tony Brown," says up-front in his book that quoting LaRouche can get you in trouble: "Although Lyndon LaRouche and anyone who dares quote him has been ridiculed by the media for exposing the aristocratic English cancer on world history, its tradition of evil and occult Illuminism is a fact."

We first became aware of Brown, when an *EIR* reader alerted us to *Empower the People*, which he said "is full of LaRouche, together with a lot of crazy stuff." The reader asked that we review it, to sort out what's real from the rest. In speaking with Brown, it became clear that the man's pursuit of truth, which led him to the British conspiracy, is real. He's willing to put in print statements which, though true, only a real truth-seeker—like LaRouche—would dare publish. For instance, "No country's leadership, including that of Nazi Germany, has committed more evil in the world than England's."

Brown's problem, which our reader identified as his "crazy stuff," results from his embrace of libertarianism, and his admitted lack of knowledge of the fundamentals of economics, particularly regarding the "American System of National Economy." The two are related. If Brown had a better grounding in economics, and a better appreciation for the history of our Founding Fathers' fight against the British oligarchy, for the right to develop as an industrial nation-state, he would not as likely have fallen for the libertarian nihilism.

'Seven Step Plan'

Empower the People is devoted to giving Americans the tools to defeat the British conspiracy, but it fails to deliver a real solution. "Perhaps the most far-reaching issue before us today," Brown writes, "is what we plan to do about the Illuminati Ruling Class Conspiracy. The Conspiracy is not impregnable, and we, the people, have the numbers on our side. The main purpose of this book is to help you to arm yourself with a plan to remain free. . . . Are you ready to look into the eye of that conspiracy and make a demand? And are you ready to look into your soul and expose the inner conspiracy that exists there? Are you ready to cast off the selfishness and sense of entitlement that has created the fertile soil for the Conspiracy's ascendancy? And are you ready to assume responsibility for yourself and for your community?"

After reading such passages in the first half of the book, and his repeated quotations from LaRouche on the substance of that conspiracy, the reader is primed to act. But the "what to do" section, the "Seven Step Plan," is essentially a scheme for making Brown and his readers rich—despite his predictions that the stock market bubble is going to crash any day now—by investing in a series of Internet-connected local ventures. The reader who takes Brown seriously, who wants to defeat that British-run conspiracy, is left scratching his or her head. "Just another scam," is about the only thing one can think.

But Brown is quick to deny that his intent is simply to make money. He really does want to change the world, he

says, even if he also wants to make money. He writes: “On the way to high self-esteem, straightening out the government, fixing the schools, making more money, and lifting the yoke of the Illuminati Ruling Class Conspiracy, there are two main lessons to be learned: (1) your wealth is worth far more than your money; and (2) spiritual empowerment is the only way to build wealth.”

Lyndon LaRouche recently wrote that the principal problem we face in organizing the American people to understand and fight the British oligarchy is the problem of “my money”—that Americans are willing to commit almost any evil act, including sanctioning the ongoing bombing campaigns in Iraq and Yugoslavia, to preserve the illusion that “my money” is safe. Tony Brown exemplifies this problem, though he is better than most of his fellow Americans, because he is also willing to tell the truth. He should just listen to LaRouche more carefully.

Interview: Tony Brown

Tony Brown is the founding dean and former professor of the School of Communications at Howard University. He was interviewed on May 26 by Marianna Wertz.

EIR: I was alerted to your book by a subscriber, who asked me to review the book. So, I’d like to ask a couple of questions about LaRouche to begin with. On page 51, you say that you were “susceptible to media lampooning of LaRouche as a kook,” but that you have found that he has “one of the best private intelligence-gathering operations in the world.”

Brown: Number one, I think generally the opinion that people have of Mr. LaRouche is that he’s a kook, because I don’t think anybody—I know I had never done any research, I had never compared what he said with actual events. On the face of it, it sounds preposterous. When one hears charges that very wealthy, rich and famous people can be involved in some of the activities that he alleges. So, on the face of it, that’s why I said what I did.

After I got into the investigation for the book, some of his claims did not seem that preposterous, and many of his claims—I’m not talking about his record, because I’m not an expert on his record—but those claims that I used in the book seem to have a lot of merit to them.

EIR: And that would be claims particularly with respect to the British oligarchic conspiracy.

Brown: Yes. I think the most recent charges, by Dodi Fayed’s father, Mohammed Al-Fayed, the ones that were in the London *Times* the Sunday before last [May 16]—you’re familiar with that because they quoted your magazine, as the Internet source, and so forth—I think with this, it seems to me that Mr. Fayed has found out something, through his own

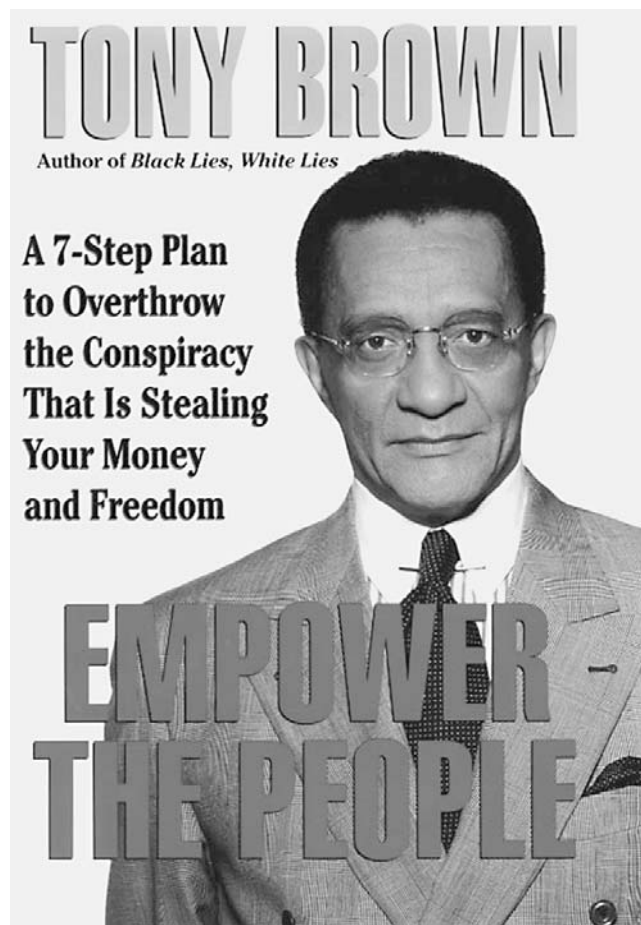
private investigation. I don’t think he’s saying what he found out, at least that’s how I read it, but he’s, in effect, blaming the MI6 and that British Establishment for the death of his son and Princess Di. . . . I’m not an expert on any of this. I cannot empirically prove any of this. But I can stand by one unalterable fact, and it’s a stubborn fact. There are just too many coincidences for me not to suspect that there is some form or some type of conspiracy. I can only draw two conclusions: That there *is* a conspiracy, or everything that is happening is just coincidental.

EIR: You say in your book that “although Lyndon LaRouche and anyone who dares quote him has been ridiculed by the media for exposing the aristocratic English cancer on world history, its tradition of evil and occult Illuminism is a fact.” Have you been ridiculed by the media for quoting him or for your exposé?

Brown: Oh my God! I’m sure you know you didn’t need to ask that question!

EIR: Well, for our readers I do.

Brown: Number one, I have been ridiculed with the most potent weapon they have, and that’s the conspiracy of silence. They kill you behind your back. I knew, going into this book,



that this would happen to me. In one of the sections I even say, to some extent, I know what's going to happen. It happens to you in a way that you can never point a finger at anyone. You can never prove anything. But my book has been *completely* ignored.

If I may, all this stuff about the Chinese and Clinton getting the money: I've got a section in here on the Chinese and giving money and about the secrets that have been stolen. The [Cox Committee] report that came out yesterday, I have all of that in this book [pp. 59-60]. I wrote this book two and a half years ago.

EIR: But the Cox report specifically, and the others, are British-inspired intelligence operations aimed at stopping the U.S. relationship with China, which is crucial to the future of humanity. Also, the bombing of the Chinese Embassy was deliberate and it was done in order to break off the U.S.-Chinese relationship. If this occurs, then the future of humanity is that the British will run the United States, as they are doing through this Cox operation.

Brown: What do you mean "will run" the United States?

EIR: We have a fighting chance for survival still!

You say in your book—and I have to applaud you for your courage in saying this—that “no country's leadership, including that of Nazi Germany, has committed more evil in the world than England's.” Are you aware that similar charges are now being levied against the Blair government's war for “human rights” in Yugoslavia, and that LaRouche himself said that if Blair were honest and wanted to stop human rights violations, he would start by bombing Buckingham Palace?

Brown: I have no comment on that. That's beyond my purview. I have to stick with what I have researched, and I don't draw a lot of conjecture into current events. I don't know anything about British involvement in terms of the bombing of the Chinese Embassy.

But I will tell you this, and I've said it publicly: There's no way in the world you're going to convince me, or is there anyone who can convince me, that the CIA did not know where the Chinese Embassy was. Maybe they made a mistake and aimed at a building down the street, but you can't tell me they hit that building because they didn't know where it was. There's no way in the world that I'm going to believe that the people who run the CIA are that incompetent.

Nor do I believe that the Chinese got all of these secrets, and I believe they have these secrets, I don't think they got these secrets, because the people who guarded the secrets didn't know. Somebody just opened the door and walked out. I don't think these things are coincidental.

I don't believe they're incompetent at all. I think they're very good at what they do. The intelligence community has destroyed many black leaders who they felt were threats.

EIR: And killed.

Brown: That's a possibility too. So there's no way in the

world you can tell me they don't know how to do their job. I know they know how to do their job.

EIR: I'd like to take up economic policy, because there are some real divergences between our view and yours. Your critique of the Federal Reserve as the instrument which the City of London has used to take over the U.S. banking system is accurate. Yet, you oppose a national bank, which was the instrument that Alexander Hamilton used to build the American economy, in direct opposition to the British plan to destroy our country in its early years. Are you familiar with the history of the National Bank under Hamilton and particularly with what was called the “American System” of economics, which Lincoln used during the Civil War to rebuild the country?

Brown: I know Lincoln came up with something. I'm not an expert on it. I can give you the genesis for my statement, and that is, that I don't trust government, period. In that respect, I'm very libertarian. I don't trust government. I don't think that the Chinese government is any better than the British government, or it's any better than the American government. I don't think any of them are any good. They're all controlled: 356 people in the world control 45% of the wealth. That means 356 people in the world have more money than perhaps 3 billion people.

So I don't think that we can live in a world in which, before we cast one vote in the year 2000, we're down to two men—either Gore or George W. Bush.

EIR: Which is no choice.

Brown: Well, there is a choice. We've already had a money primary. We've already had a primary. You and I didn't vote in it. I know I didn't. Because I don't have that kind of money.

EIR: The Democratic Party changed the rules yesterday on the primary race, on who can qualify to run for President. They made one new rule, which is, that you have to have been eligible to vote in 1996 to run for President in 2000. And Lyndon LaRouche was on parole in 1996 (and had lost his right to vote). That's how the rules are made.

Brown: First of all, it's nearly impossible for the average person to even become a candidate in the Republican primary. That's the way that's done. There's no chance of the average person getting elected through the Republican primaries. The Democrats are simply moving toward their position.

EIR: Back to your book. You cite Ludwig von Mises for your readers to study as a competent economist. . . . But von Mises, with von Hayek, is a leader of the Swiss Mont Pelerin Society, which are the leading advocates of the free-trade doctrine, that is, the British doctrine, and opposed to the rights of the nation-state to defend itself against free-trade looting. Do you support that Mont Pelerin position?

Brown: The question might be a false syllogism, because it doesn't mean that everything that Britain does is evil. A good

lie is 90% true. It doesn't mean that because one supports free trade and Britain supports free trade, that free trade is bad. I think von Mises, if the world were close to perfect, which it would have to be for a free-trade system to work—you can't have free trade or even capitalism where you have violence, and hatred is a form of violence. So, whenever you have an institution such as slavery, which means you've introduced violence into a market system, then the market system is corrupted, because there is no such thing as supply and demand. It's been perverted.

The economic system in this world is a system run by 356 or more people, who control the country. Now, you people have been behind, what's the Prime Minister of Malaysia?

EIR: Mahathir bin Mohamad.

Brown: Now the IMF and the Western economists are eating crow, aren't they? . . . Because he's got a fast-growing economy. They said controls wouldn't work. But they did work, didn't they? . . . Any economy will work if you close your borders and share your money with the people in your group! You don't have to be a PhD in economics to know that. That's the only defense against people who come in and raid your country, destroy your currency, and then take over your businesses for a penny on a dollar.

EIR: Do you see your Seven-Step Plan as essentially doing the same thing as what Mahathir did in Malaysia?

Brown: I have my own money: the Freedoms. I have a money system.

EIR: But you're not a nation! You don't have an army!

Brown: No, I don't have to be a nation. But I want to be free. My formula for being free is that we have to organize as communities, in order to keep the government from controlling our lives. In other words, I want to benefit from the fruits of my labor. My money is my property. The government has no right to my property. Now, I'm going to pay my taxes, because if I don't pay my taxes, they'll put me in jail. It doesn't mean they're right, it simply means that they have the Army and the Navy and I don't.

EIR: This is a fundamental difference between this view and the view that *EIR* and LaRouche express. . . . *EIR* and LaRouche take the view that the sovereign nation-state is the instrumentality that was created in Western civilization to defend the rights of individuals, created in the image of God.

Brown: I wouldn't argue with that. I would, however, amend it by saying that that intent is a wonderful intent, and I say it all through my book. But that is not a part of modern-day reality. We have run God out of America, which is why we have young people killing each other. And what kind of young people are killing other young people? The very best that materialism can produce. The privileged whites. Why are

they doing that? Because they are not filled with any spirit of God. . . .

EIR: I'd like to go to another question. You say that a Wall Street collapse is inevitable, as LaRouche and others have said as well. LaRouche's forecast is based on how wealth is created, of physical economy, that if you fail to invest in the manufacturing and agricultural development of your economy, and you allow financial instruments to grow like a cancer, as they have done since 1971, when we went off the gold standard, that the explosion of these financial instruments is inevitable, because there is no real wealth backing them up.

But, you say that we have left the Industrial Age and are moving into an Information Age. How can you have an Information Age with no manufacturing base?

Brown: But that's not *all* I'm saying. All through my book I even call for a gold standard, and I say that what they call the American dollar is simply an IOU or an instrument of debt. I agree that our money should be tied to gold and silver. But the other area that you mention, in terms of creating wealth: Wealth is mostly now being created through the transfer and distribution and accumulation of information. That's how we're creating wealth. It doesn't mean we're not doing any manufacturing. Obviously somebody's got to build houses, somebody's got to build cars.

EIR: But the question is, whether that wealth is real wealth, or is it just paper?

Brown: No, no. The use of the human talent is the essence of wealth in any society. . . . Therefore, if we are using human talent to build cars, and houses, and even guns, then that is wealth. In today's New York papers, you see where 67% of New York City fourth graders cannot read. They can't read! Now, that means that you are not producing wealth in New York, because it's just a matter of time before that catches up with you.

EIR: That's for sure. Let me add one thing to your definition. It is true that the source of wealth is the use of the human mind, but—and this is the center of LaRouche's economic analysis: It must be for the purpose of the reproduction at a higher level of culture or living standard of the human species that that mind is used. That is the production of real wealth. Not just anything. In other words, if the mind is used to produce garbage, it's not real wealth.

Brown: I think we're into economic theory, at which Mr. LaRouche is obviously much better than I. My positions are not intended theologically. They are intended in terms of practicality. If I produce a gun, as destructive as it is, you can't say I haven't produced wealth, because somebody will buy it. It doesn't have value. So I have produced wealth.

But wealth comes in three forms. Money is one form of wealth. Social capital, the ability of people in a community or in the world or nation to work together for the common

good, to build institutions, is a form of wealth. That's social capital. The third and the highest form of wealth, of course, is human capital, and that is your formal education and your work experience, which gives you the ability to create and produce. So, in order to have wealth, it isn't being rich. Some people confuse being rich with wealth, or having money with wealth. That's one form, and there's no doubt that if a person has money, they can get other people to do other things. But that doesn't mean I'm wealthy, because if you take their money, they don't have any wealth at all.

EIR: Here's the loaded question for you—

Brown: You mean another one, right?

EIR: LaRouche has declared his candidacy for the Democratic Party nomination for President. Would you like to endorse his campaign?

Brown: No. And it's got nothing to do with Mr. LaRouche. I just don't see anything happening through that system. That's Mr. LaRouche's business and I don't meddle in that. I'm libertarian to a very great extent and I think we should have all points of view expressed. My defense of Mr. LaRouche is the same defense I use of Clarence Thomas among many blacks who don't feel he has a right to exist.

I, for example, coordinated the largest civil rights march

ever held in America, in Detroit, Michigan, with Martin Luther King. He was the attraction, I was the coordinator. I did not organize that march so Jesse Jackson could be liberal. I organized that march so that any black, no matter what he or she believes, had a right to express that point of view. This is my position on Mr. LaRouche. I don't take a position for or against him. I think he has as much right to his point of view as Bill Clinton has to his point of view, which includes his running for President in the Democratic Party.

First of all, I'm a Republican. . . . But I'm a libertarian Republican. And I am a moderate Republican. I am not into that right-wing crazy stuff. Republican principles will work, if given a chance, but most of the people who are calling themselves Republicans, the Buchanans and the rest of them, are simply people who have another agenda, who are using the Republican vehicle. So I don't take any position on who's going to run and who's not going to run.

I take a position, as my book said, in empowering the people, if the people have the power transferred to them, by transferring back to them their wealth, that the people will run America. And it doesn't matter what party's in power. It doesn't matter who the President is. If the central government is still siphoning off and stealing the money, which means they steal the freedom of the population, we're not going to have a democracy.

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EIR's Jeffrey Steinberg (left) and Gail Billington interview Cambodian Ambassador Var Houth.

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Wellstone takes on welfare 'reform'

Sen. Paul Wellstone (D-Minn.), often a maverick in the Senate on social issues, lost an attempt requiring the Secretary of Health and Human Services to issue a report on what happens to families after they leave welfare. His move came on an amendment he offered to the defense authorization bill on May 25, which was defeated by a vote of 49-50.

In his remarks, Wellstone took issue with those who boast that welfare reform has been a success, because 1.3 million families have left the welfare rolls since August 1996. Seeing the welfare rolls reduced "does not mean necessarily that we have reduced poverty in this country. It doesn't mean these families have moved from welfare to self-sufficiency," he said. The drop in caseload "doesn't tell us what is really happening," whether families are better off now or have fallen further into poverty, or whether their children have access to adequate health care. "No one seems to know what has happened to these families," he said. "I call them 'The Disappeared.'"

He cited numerous charity organizations' reports that former welfare families are, on average, worse off now, and that these families are also having more difficulty gaining benefits that they are still entitled to, such as food stamps. "The data show," he said, "that people who stopped getting welfare are less likely to get food stamps, less likely to get Medicaid, more likely to go without food for a day or more, more likely to move because they couldn't pay rent . . . more likely to say 'my life is worse' compared to six months ago."

Edward M. Kennedy (D-Mass.) was the only other Senator to speak to Wellstone's amendment. "We do not know enough," about how former wel-

fare recipients "have fared, and states should be required to collect this information," he said. No Republicans took to the floor, perhaps reflecting Wellstone's comment that "we don't know what we don't want to know," though four did cross the aisle to support it.

GOP in disarray as House adjourns

The House adjourned abruptly on May 27, after the GOP leadership yanked a resolution establishing the rules for debate on the fiscal year 2000 defense authorization bill. The resolution included two provisions with the effect of angering not only Democrats, but also enough Republicans that the leadership decided to withdraw the bill rather than risk seeing it defeated in a roll call vote.

Many conservative Republicans were angered because the resolution actually amended the underlying bill, removing a provision prohibiting the expenditure of funds for U.S. military operations in Kosovo, which had caused the White House to threaten a veto. Ron Paul (R-Tex.) argued that the rule "strictly limits a serious debate with regards to our national defense and our involvement in war." He added that the decision of the International War Crimes Tribunal to indict Yugoslav President Slobodan Milosevic "indicates to most of the world that there is no attempt whatsoever on the part of NATO to attempt any sort of peace negotiations. This is a guarantee of the perpetuation of war."

The resolution also blocked some amendments by Democrats, including one by Norman Dicks (D-Wash.), dealing with security at Department of Energy nuclear weapons plants, and another by John Dingell (D-Mich.)

that would have stricken GOP language transferring control of those DOE plants to the Department of Defense.

When the process fell apart, the GOP leadership blamed the White House for failing to deliver 50 promised votes in return for striking the Kosovo spending prohibition. This caused Minority Leader Dick Gephardt (D-Mo.) to reply that the GOP was blaming Democrats "for not fixing the problems they themselves created" when they decided to block the Democratic amendments.

And, as if the GOP did not already have enough problems, six Republicans signed a Democratic discharge petition on campaign finance reform during the week. That brings the total number of signatures to 202 of the 218 required.

House passes 'Social Security lock box'

On May 26, the House GOP succeeded in passing its "Social Security lock box" plan. The bill prohibits the Congress from passing any budget resolution that would "increase the on-budget deficit for any fiscal year," except with a majority vote. The vote was 416-12.

The near unanimity, however, belied Democratic dissatisfaction, which was revealed in the debate on the rule. This was indicated by Joe Moakley (D-Mass.), the ranking Democrat on the Rules Committee. He told the House that "although this bill will probably not make things any worse, it also will not make things any better." The rule allowed the Democrats to offer one motion to recommit the bill back to the House Ways and Means Committee, but did not allow any

amendments, and it was passed by a largely party line vote of 223-205.

The Democratic motion required the addition of an amendment to prohibit the Congress from considering any budget resolution that would use any portion of the budget surplus, as reported by the Congressional Budget Office, "until there is both a Social Security solvency certification and a Medicare solvency certification." Charles Rangel (D-N.Y.) argued that the GOP bill puts the budget surpluses into a lock box and "gives the key to the majority," when what is needed is a bipartisan commitment to reforming both Social Security and Medicare, in order to keep both programs solvent for the foreseeable future. However, the Democratic motion failed, also by a largely party line vote, of 222-205.

One day later, Senate Majority Leader Trent Lott (R-Miss.) told reporters that the Senate would soon take up a bill that uses the House bill as a starting point, but includes a provision lowering the debt ceiling and, therefore, would also "tie the hands" of the President.

Hyde, McCollum push GOP youth crime bill

On May 25, House Judiciary Committee Chairman Henry Hyde (R-Ill.) and Crime Subcommittee chairman Bill McCollum (R-Fla.) described for reporters the process by which they planned to bring a juvenile justice bill to the House floor immediately following the Memorial Day recess. Hyde began by announcing that he was "supportive" of the measures passed by the Senate in a torturous debate the week before. However, "we must exercise some care," he said, "in avoiding unseen consequences," such as re-

voking the right to gun ownership of anyone convicted of a gun crime as a juvenile, without requiring states to make available juvenile delinquency records.

The bulk of the Hyde-McCollum provisions increase the power and the authority of the Justice Department in prosecuting juvenile crimes. McCollum complained that "we have a broken juvenile justice system where, if a youngster vandalizes, slashes tires, rips a car off . . . frequently, they are not getting punished." The proposal includes a grant program to states to expand their juvenile justice programs, providing "they assure the [U.S. Attorney General] that there are going to be consequences" for juveniles committing crimes. Seven of the remaining eight provisions include increased penalties for committing gun crimes on school property, increased enforcement of existing gun laws, instant background checks at gun shows, mandating the provision of gun safety devices, and so on. The last provision, which McCollum could not provide specifics on, will deal with violence in video games, movies, and TV.

A couple of days later, House Minority Leader Dick Gephardt (D-Mo.) suggested that the House ought to pass the Senate-passed bill, adding that "there ought to be a follow-on bill or bills that begin to address" issues concerning the media and the internet.

Agriculture funding bill gridlocked

On the second day of debate, the House gridlocked on the Department of Agriculture appropriations bill. The bill provides \$13.99 billion in discretionary spending levels, about \$531 million below the President's request, and \$47 billion in mandatory spend-

ing, about \$890 million below the administration's request. Agriculture appropriations subcommittee chairman Joe Skeen (R-N.M.) complained that the administration is proposing to pay for requested increases with user fees that require legislation. "Once again the administration has favored budget gimmicks over reality because the main component of this legislation [user fees] has been strongly opposed by consumer groups, industry, and the authorizing committee for several years," he said.

While the Republicans favored partisan attacks on the Clinton administration, the ranking Democrat on Skeen's subcommittee, Rep. Marcy Kaptur (Ohio), let a little bit of reality shine into the debate. She reminded the House that "food is not produced at the local grocery store." Kaptur called the bill "an exceedingly limited response to an extremely serious situation afflicting . . . the farm economy across our nation." She reported that "people are borrowing against their accumulated equity to make up for their lack of ability to receive a price for their product in the market." Kaptur lamented the fact that the bill has no provisions for any emergency assistance to farmers.

The bill became the victim of "filibuster by amendment," however. Tom Coburn (R-Okla.) brought about a half-dozen amendments to the floor reducing funding levels for specific individual programs. At one point, during debate on an amendment to reduce funding for peanut research by \$300,000, Jack Kingston (R-Ga.) complained that Coburn's real purpose was not to debate the merits of the programs he was attacking but simply to "cut spending." The GOP leadership ended up yanking the bill in order to deal with these internal disputes behind closed doors.

Editorial

Reconstruction must start now!

The achievement of a preliminary peace accord in the Kosovo crisis has created a promising, if fragile potential in the world strategic situation. The Clinton administration has succeeded in shaping agreement between the Russians and the continental Europeans on a deal which will be implemented through the United Nations, and not the unilateralist hawks of NATO. The complex agreement has many possible pitfalls, but it does include a commitment to national sovereignty, and reconstruction in the Balkan region, indispensable elements in a lasting peace.

But, watch out! The British government, including Her Majesty the Queen, is displeased at this turn of events. The calming of tensions between the United States and Russia and China, is the last thing that the British and their allies in the United States want to occur, and we can be assured that the British-American-Commonwealth crowd will be looking for each and every opportunity to blow up the deal—literally, or in effect. And the British will have many opportunities, including with their soldiers on the ground, to carry out some real dirty work.

The critical ingredient toward ensuring that a peace process, instead of a brief cessation of hostilities, takes hold in the Balkans, is the implementation of a reconstruction plan—specifically, Lyndon LaRouche's reconstruction plan, and not some cheap imitation.

At a press conference held in Washington, D.C. on June 2, LaRouche's Presidential campaign spokeswoman, Debra Hanania Freeman, outlined the essential steps that must be taken to realize the hope of peace. First, she said, the Clinton administration must take care of the unfinished business of putting relations with the Chinese government back on track. This means that the President must tell the truth about the British orchestration of the May 7 bombing of the Chinese Embassy in Belgrade.

Second, the President must adopt a reconstruction plan along the lines proposed by LaRouche.

Freeman outlined the crucial aspects of that plan, which, she stressed, would cost in the range of \$1 tril-

lion, if it's to be effective. But it's not necessary to pour that amount of money into a fund, she explained. The process, which must start immediately, could be begun with seed money of about \$1 billion in public and private investment, put into an independent, self-credit-generating monetary authority, which might be called the Southeast Europe Reconstruction Fund.

Then, rebuilding must begin. The first priority should be to clear the Danube River, which has been blocked by the debris from the bombing. The disruption of this international waterway is hindering economic operations for all the countries in the region.

The second priority is a crash effort to clear out the land-mines, which must be done so that the population can safely return. Failure to take such measures after the war in Southeast Asia has contributed to ongoing devastation in such countries as Cambodia.

The third immediate priority should be modelled on the only part of the Dayton Accords that did work after the end of the fighting in Bosnia. That was the home reconstruction plan, whereby every household received \$5,000 to rebuild their home. Such a measure is very important, because it's necessary to overcome the trauma of the refugee experience, and engaging people in the rebuilding process helps to do this.

Freeman expressed hope that President Clinton might adopt LaRouche's plan, and that it would become the cradle of the new monetary system that LaRouche has called the New Bretton Woods. But the time is very short. Therefore, LaRouche's Presidential campaign has been carrying out a two-week mobilization, in which it is circulating more than a million broadsheets containing LaRouche's Balkan reconstruction plan, and is seeking out discussions with every U.S. Congressional office on the need to support this program.

The United States not only can afford to join in such a reconstruction effort with European and other nations, Freeman said, but it can't afford *not* to do so. The constant threat of war cannot be stopped, unless an unstoppable process of economic development is set into motion. There is no time to waste.

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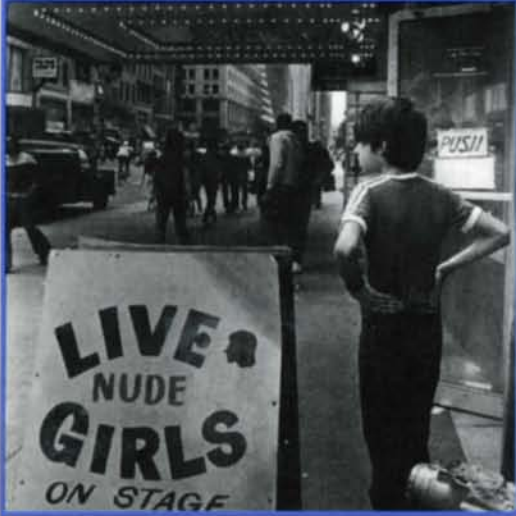
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