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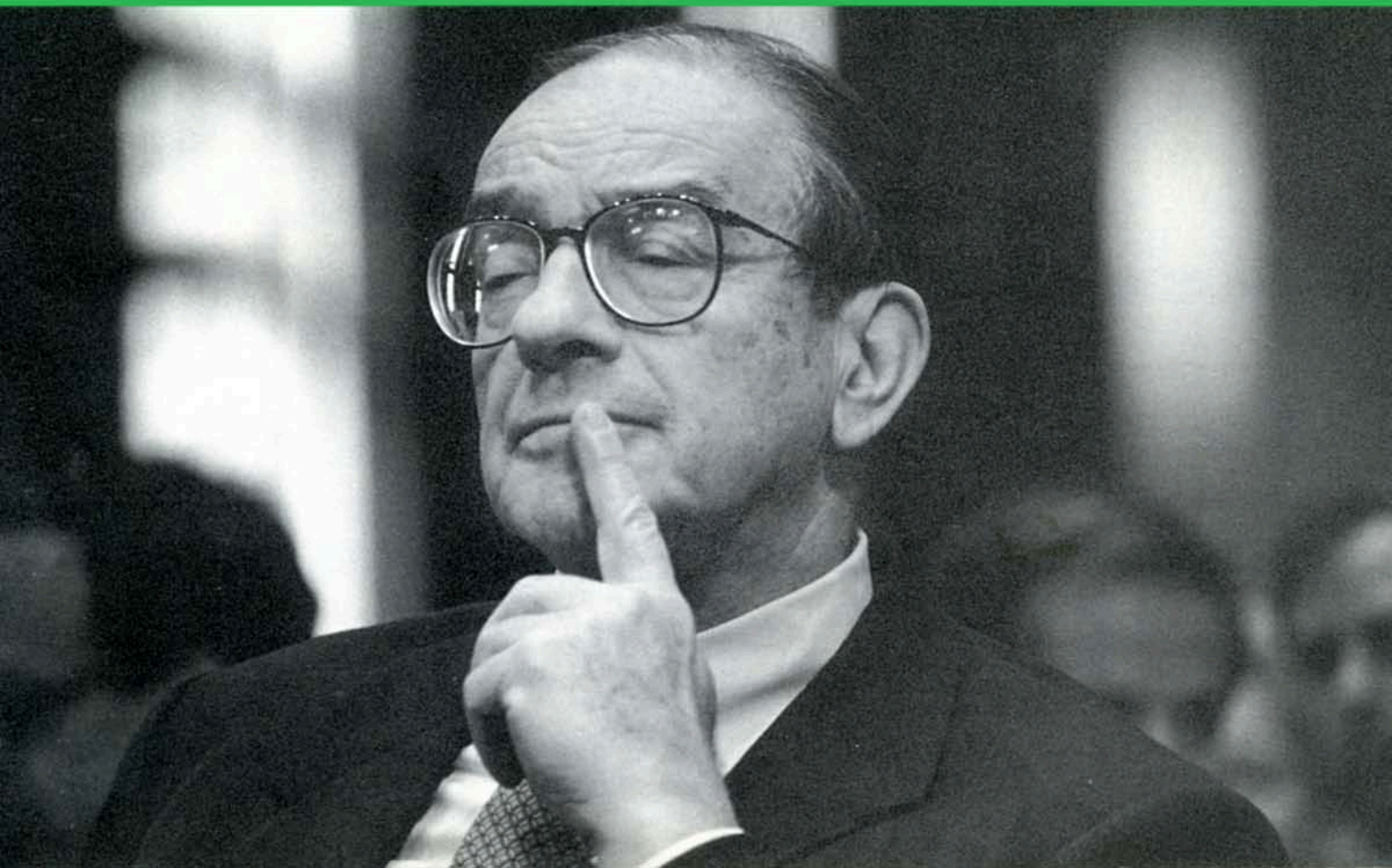
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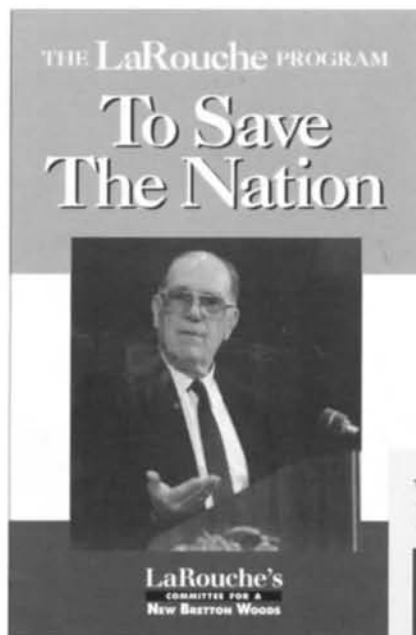
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**The suckers bet again,
against LaRouche, and lose**



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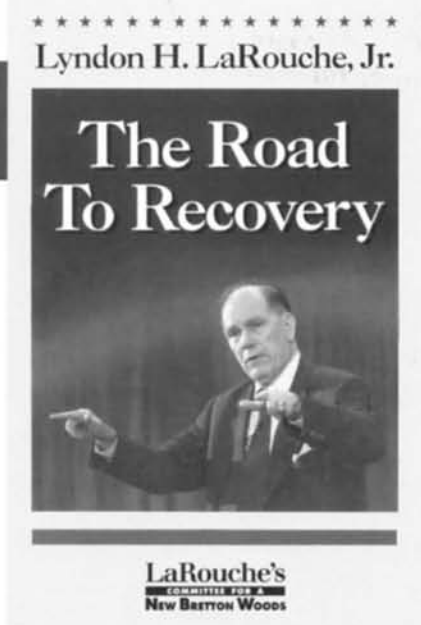
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From the Associate Editor

Some people have the same reaction to the word “economics,” that they do to Al Gore: Their eyes glaze over. Maybe they are remembering their Economics 101 teacher, who used to drone on about supply and demand curves and other meaningless formalisms.

In the case of Al Gore, that’s a natural human reaction (except, he’s not just boring; he’s also *evil!*). But in the case of economics, it’s time to get serious. Throw out Economics 101 and the “free trade” blather, and listen to LaRouche.

Addressing *EIR* staff in a recent memorandum, LaRouche emphasized that “financial subjects become subjects of economic reports only when financial reporting is functionally subordinated to a multiply-connected (e.g., triple-curve) functional relationship among economic, monetary, and financial processes. In other words, do not let reports on ‘what is going on in the markets’ slip by for publication. The monetary and economic processes, especially the physical-economic, must always dominate. . . . This means collaboration among those working in the sundry aspects of the Triple Curve function, with all economic features reflecting the product of the interplay of the three functional aspects.”

In this issue of *EIR*, you will find many reflections of this interplay of processes that are determining whether or not your children and grandchildren will have a future worthy of human beings, or whether the world will plunge into a Dark Age.

Our *Economics* lead illustrates LaRouche’s “Triple Curve,” and shows how Fed Chairman Alan Greenspan is leading the suckers (investors: you and your neighbors) to the edge of the cliff. Also in *Economics*, we have a lengthy report on the welfare “reform” in America, documenting what an utter, tragic disaster it has been.

Our *Feature* takes up the strategically vital issue of the reconstruction of the Balkans. President Clinton, seconding Britain’s Tony Blair, says there will be no economic help for Yugoslavia until Milošević is out—only “humanitarian” aid. What foolishness! *Only* economic aid is humanitarian aid. If a serious, Balkan-wide effort is not launched, linked to LaRouche’s worldwide reconstruction program, then the fuse is lit for new wars—and not only in the Balkans. If you doubt that, read Rachel Douglas’s report on what’s going on in the Russian military (*International*).

Susan Welsh

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GREENSPAN IN A BARREL

The suckers bet again, against LaRouche, and lose

by William Engdahl

The most bloated asset bubble in world financial history was created, in its present incarnation, last September-October, when Alan Greenspan's Federal Reserve acted with record speed to pump liquidity into the banking system, to prevent the occurrence of what is now being admitted was an imminent global systemic breakdown. The unprecedented creation of easy money by the Fed, not surprisingly, went directly into fuelling even more frenzied speculation in the already dangerously inflated stock market, in order that banks — facing insolvency, in some cases, or devastating trading losses after the September collapse of Long Term Capital Management (LTCM), in other cases — could quickly book paper profits to offset their huge losses.

The bill for that money printing by Greenspan is now coming due, or, in the words of the late President Lyndon Johnson, “the chickens are coming home to roost.” The small investor, the foolish “ordinary Joe” who has been convinced by his broker or by CNBC or Internet propaganda to pour his vanishing savings into stocks, now faces the wipeout of his entire life savings, possibly in hours. As one seasoned veteran of the 1973-74 bloodbath on the New York stock market put it, “The end of the greatest suckers’ rally in history is nigh.”

Economist Lyndon LaRouche had clearly warned that papering over the autumn 1998 crisis was not going to work. In a Sept. 27 action memorandum circulated broadly in the United States and internationally at the time, LaRouche identified the danger of collapse of the global derivatives markets, and warned of Greenspan's folly:

“Under the rules of the game as perceived by U.S. Federal Reserve Chairman Alan Greenspan, and many other desperadoes in governments and financial institutions around the world, the only alternative is a desperation-driven, reckless

hyperinflation, like that which crushed Weimar Germany in 1923. This has been the desperation-driven folly of the government of Japan, since the close of 1997. The recent proposals of circles such as Britain's Prime Minister Blair, or even the cautiously similar proposals of the circles of Germany's former Chancellor, Helmut Schmidt, will, if attempted, have similar effect to those taken by Japan's Obuchi government, or, more recently, Wall Street's hysterical Alan Greenspan.

“In such circumstances, equivocation, sometimes called euphemistically, ‘crisis management,’ can be fatal to entire nations.

“There is no time remaining to continue those infantile games of shilly-shallying, called ‘crisis management,’ which are typified by what has been just exposed, this past week, as U.S. Federal Reserve Chairman Alan Greenspan's prolonged, duplicitous, and reckless cover-up of the Long-Term Capital Management situation.”

The last nine months have not seen any improvement.

The real economy is evaporating

The bitter irony is that, while stock markets have been soaring to stratospheric heights, the world's physical infrastructure has been collapsing at an accelerating pace, on the model of Lyndon LaRouche's Triple Curve, or Typical Collapse Function (**Figure 1**). Since May 1997, the once-booming “tiger economies” of East Asia have been mired in the worst collapse of industrial production in history. Japan, the world's second-largest industrial economy, despite politically suspect recent Gross Domestic Product data, is in its worst economic depression since the late 1920s.

The most revealing index of the global physical economic reality is the state of the world's machine-tool production. In

March, new orders for Japan machine-tool builders fell 27% year-on-year. North American imports of Japanese machine tools alone collapsed 43%. Japanese machine-tool exports to South Korea in March compared to a year ago were off 75%. Germany, the world's second-largest machine-tool producer, saw new orders plunge 10% in the first quarter, year-on-year. In the United States, according to latest data from the Association for Manufacturing Technology, machine-tool consumption in the first quarter plunged 48% compared with the first three months of 1998.

Instead of a global economic growth in per-capita and per-hectare output of real physical wealth, the central bank liquidity being pumped in is going directly to prop up a rotted, brain-dead banking system that is sucking the wealth out of the real economy globally. Per-capita food consumption levels across most of the former emerging market economies, from Brazil to Mexico, South Korea to Indonesia, are dropping to alarming levels, as unemployment soars.

A consumer bubble

Since Greenspan turned on the U.S. monetary spigot full force last autumn, what Vice President Al Gore recently referred to as "our strongest economy in history" has been artificially pumped up by record levels of new consumer indebtedness. The nominally strong U.S. consumption, in turn, has been the main prop of the entire global economy.

Average American households, not grasping the point of Greenspan's bailout of his banker friends via easy money, have used the record-low interest rates to take out home equity loans. This new debt has been used to finance everything from new car purchases, to washing machines, to children's college education. Similarly, government tax incentives encourage families to pour their life savings into 401-K retirement schemes, which, in turn, invest in various stock mutual funds. Families have the illusion that they have a "security cushion" against bad times, and continue to rack up record debt, with savings at the lowest rate since the 1930s depression a result.

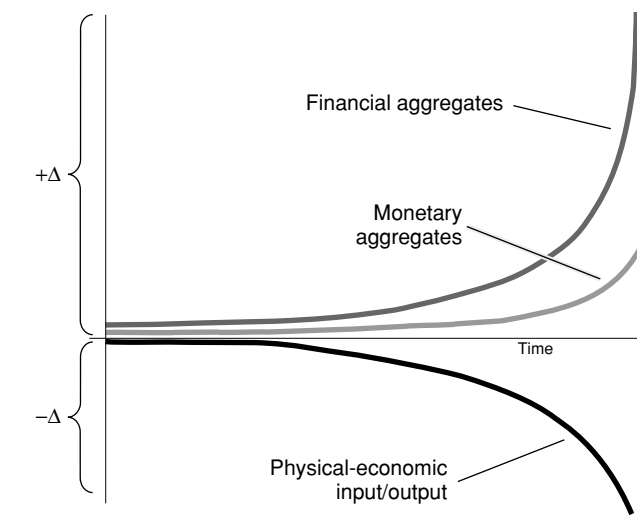
This unprecedented spending boom in America, at a reported annual clip of 7% growth for the first quarter, has led to record levels of imports, for everything from TVs to Japanese or German cars. Consumer installment debt in April reached the record high of 22% of personal disposable income. In turn, this debt-driven consumer spending binge has led to a soaring balance of payments and trade deficit for the United States. At the present annual rate, the trade deficit in goods and services will be an estimated \$204 billion for this year. Once the stock market cracks, and the paper wealth in it simply vanishes into thin air, interest rates will soar and home mortgage loans will end, all bringing the illusory U.S. economic boom to a screeching halt.

A secret Fed talk?

The global financial edifice is now at the edge of collapse. The red warning signal flashed on June 11, when the U.S.

FIGURE 1

A typical collapse function



Treasury bond market went into free-fall. A TV news item on June 10 reported that the world's second-largest hedge fund, Julian Robertson's Tiger Management LP, was in secret talks with the Federal Reserve about its insolvency crisis. Market reports are that Tiger, a hedge fund with \$13 billion in assets, had to pay \$3 billion out in redemptions. One year ago, Tiger Management was listed at \$20 billion.

A Tiger official denied as "nonsense," rumors that the Fed had organized a secret meeting to rescue the fund. Reportedly, Tiger had bet heavily on the direction of the Japanese stock and bond markets in the past month, and got it wrong. The Tiger Fund (incorporated in the Netherlands Antilles, where George Soros also hides his money), also had losses of more than \$1.5 billion last October, in the wake of the collapse of the LTCM hedge fund and a sharp rise in Japanese yen interest rates.

The mere rumor of the Tiger Fund's distress triggered a panic selloff in 30-year U.S. Treasury bonds on June 11. Interest rates soared above 6.12%. A month earlier, the rate had been 5.5%. A Fed spokesman issued a cryptic statement: "As a matter of policy we don't respond to rumors." The following week, the U.S. Labor Department released data for the Consumer Price Index which showed a suspiciously low 0.1% rise in core inflation from the month before. That dramatically eased fears of inflation, and interest rates eased slightly, ahead of the next Federal Open Market Committee meeting of the Federal Reserve on June 29.

The point is not whether fudged Labor Department statistics helped keep the bubble in the world stock markets intact a few hours longer. "There is no smoke without fire," noted City of London bond strategist S.J. Lewis of London Bond Brokering Ltd. "The Fed knows the state of hedge funds. It is highly likely Tiger and perhaps other hedge funds had huge

losses from the recent swings in the Japanese market. If so, we could see a repeat of last September-October when the Fed stepped in to prop up the system with large liquidity to the banks. That would mean no rate hike, maybe even more covert liquidity pumping by the Fed.”

The danger has not passed

The illusion of calm in world financial markets, amid the deepening global depression, is beginning to show cracks. No less prominent an authority than the president of the Basel-based Bank for International Settlements (BIS), the world’s central bank, has issued a stark warning of the fragility of the global financial system.

In a speech to the June 7 BIS annual meeting, Swedish Riksbank Gov. Urban Baeckstroem referred to the widespread view that Brazil and other major crisis spots have been “contained.” “These favorable developments should not lead us to conclude that the danger has passed,” Baeckstroem warned. “Indeed, the principal risk at this point is that the sense of urgency in the need to both manage current problems and to prevent the emergence of new ones, will be lost. This would be irresponsible, since there remain some evident threats to international financial and economic stability, and, perhaps more importantly, there may well be vulnerabilities that are not so evident. . . . At this meeting last year, no one had anticipated the extent of the turmoil in financial markets

that would be generated by the Russian devaluation and moratorium.”

Baeckstroem focussed special attention on the balance of payments vulnerability of the United States, expressing “concern that equity markets, particularly in the United States, but also elsewhere in the industrial world, might fall back rapidly and in a disorderly manner.”

Referring to the trend of central bank easy money since the collapse of Russia and the LTCM hedge fund last August-October, Baeckstroem said, “Such policies can themselves contribute to turbulence in financial markets. Easy and low-cost financing over an extended period may drive up the price of financial assets, even at times when the rates of return on the underlying real assets are declining. . . . The buildup of excessive leverage sets the stage for the type of market turbulence seen in the wake of the Russian moratorium.”

Baeckstroem is not a lone voice expressing alarm at the precarious state of global leverage. In an interview with the German daily *Frankfurter Allgemeine Zeitung* on June 15, International Monetary Fund Managing Director Michel Camdessus warned, “We must be able to react rapidly and decisively in the case of a systemic crisis.” The IMF’s new financial emergency mechanisms, the Special Reserve Facility and the “pre-emptive” credit line, are very important, said Camdessus. “However, there still exists a big hole in our toolbox. *For the extreme emergency case, for a global credit crunch, we are not prepared*” (emphasis added).

This admission by the head of the IMF is even more significant as it comes just seven months after the IMF got an added \$100 billion fund increase to contain future crises. It warranted barely a peep in world media.

Camdessus continued, “Last autumn, shortly after Russia’s unilateral debt moratorium, the situation had been very, very serious. Once again we were able to overcome that, but in the future we should be better prepared.” He said, “The catastrophe last October was so close, the shock so deep, I am convinced, the responsible persons will act very rapidly in the case of a temporary liquidity crisis.”

The voice everyone in the financial markets is listening to most carefully, however, is the chairman of the Fed, Alan Greenspan. In testimony before the U.S. Congress’s Joint Economic Committee on June 17, Greenspan declared that to keep the overall economy growing, “It is useful to pre-empt the forces of imbalance before they threaten economic stability. When we can be pre-emptive, we should be.” Greenspan was signalling that the Fed is going to raise interest rates. At that point, by all accounts, the \$14 trillion speculative bubble called the U.S. stock market will go into reverse leverage, as Wall Street firms and investors rush for the exits. Once the process starts, the size of this bubble is such that the entire global system is likely to come down with it. One can only imagine Alan Greenspan standing on the bank of the Potomac watching the system sink, muttering under his breath, “*Après moi le déluge.*”

LAROCHE ON THE NEW BRETTON WOODS

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

It can not be reformed, it
must be reorganized.

This must be done in the
manner of a reorganization
in bankruptcy, conducted
under the authority
not of international
institutions, but of
sovereign governments.”

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Greenspan's 'irrational exuberance' and the Dow

by Marcia Merry Baker

On Dec. 5, 1996, Federal Reserve Board Chairman Alan Greenspan warned of "irrational exuberance" in the stock and other asset markets, in a speech to the annual dinner lecture of the American Enterprise Institute, in Washington, D.C. His remarks were widely reported, and the next day saw wild gyrations in the U.S. stock markets. What was the level of the Dow Jones (formerly) Industrial Average index at the time? A mere 6,400. Since then, as of this spring, the

Greenspan's 'bubble' talk

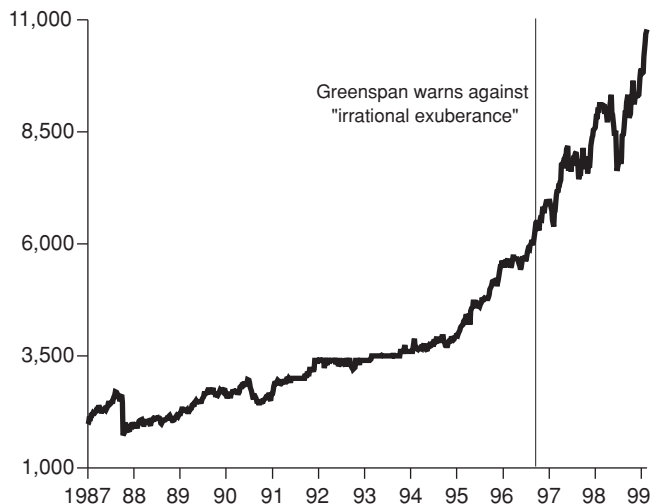
On June 17, Federal Reserve Chairman Alan Greenspan testified before the U.S. Congress's Joint Economic Committee, praising America's prosperity, and then admitting the existence of a "bubble" problem in U.S. financial markets.

What to do? Leave it to the Fed, he said.

"While bubbles that burst are scarcely benign, the consequences need not be catastrophic," Greenspan said. Echoing his December 1996 "irrational exuberance" warning, he said that the Fed can take "preemptive actions" which "can obviate the need of more drastic actions at a later date that could destabilize the economy." He hinted at an imminent hike in interest rates. Greenspan tried to talk down the scale of the bubble, saying, "Bubbles generally are perceptible only after the fact."

He did not reference such obvious facts as that, when he took office in 1987, as Fed chairman, the capitalization of the U.S. stock market was \$2.7 trillion, and there were approximately \$3 trillion in derivatives outstanding in the United States. Today, the U.S. stock market capitalization is \$16 trillion and total U.S. derivatives are \$55 trillion. He said, in his Fed-speak, "The 1990s have witnessed one of the great bull stock markets in American history. Whether this means an unstable bubble has developed in its wake is difficult to assess."

FIGURE 1A
Dow Jones Industrial
(Average weekly closings, 1987-99)



Source: Dow Jones.

Dow Index has hit 11,000.

In December 1996, Greenspan stated, "But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade? And how do we factor that assessment into monetary policy? We as central bankers need not be concerned if a collapsing financial asset bubble does not threaten to impair the real economy, its production, jobs, and price stability. Indeed, the sharp stock market break of 1987 had few negative consequences for the economy. But we should not underestimate or become complacent about the complexity of the interactions of asset markets and the economy."

Greenspan's 1996 statement was seen as an attempt to prick and draw some of the air out of the inflating U.S. stock market bubble. The Dow Jones Average had risen by 40% over the prior 20 months. Even at the time, Greenspan's jawboning to get a controlled, limited deflation of the stock bubble was seen as a highly dangerous move under the circumstances, because it could produce a blow-out, given the highly leveraged nature of the markets.

If it was a danger then, it is a guaranteed blow-out today.

Greenspan's other message at the time, was on the threat of chain-reactions of financial payments failures, and systemic financial crises. Speaking of the Fed's intention to avert instability, he said, "Doubtless, the most important defense against such crises is prevention. Recent mini-crises have identified the rapidly mushrooming payments system as the most vulnerable area of potential danger. We have no toler-

ance for error in our electronic payment systems. Like a breakdown in an electric power grid, small mishaps create large problems. Consequently, we have endeavored in recent years, as the demands on our system have escalated (we clear \$1.5 trillion a day on Fedwire), to build in significant safety redundancies. . . . Along with our other central bank colleagues, we are always looking for ways to reduce the risks that the failure of a single institution will ricochet around the world, shutting down much of the world payments system, and significantly undermining the world's economies. Accordingly, we are endeavoring to get as close to a real time transaction, clearing, and settlement system as possible. This would sharply reduce financial float and the risk of breakdown."

Thus, Greenspan made reference to real underlying problems, while offering ridiculous non-solutions. Today the problems have intensified to the breaking point.

Brazil's 'virtuality pact' about to pop

by Lorenzo Carrasco

There exists among the main communications media and public and private institutions in Brazil, a kind of "virtuality pact," a sort of fairy tale that nothing is wrong, that everything has returned to normal despite the crisis that followed the Russian debt moratorium of last Aug. 17, and then the Brazilian maxi-devaluation of January 1999. Just a panic, nothing more. "Nobody talk about the crisis, and it won't come back," seems to be the idea behind the pact.

But the reality behind this "virtuality pact" is that it is a calculated part of the environment created by the decision of U.S. Federal Reserve Board Chairman Alan Greenspan to hyperinflate the world economy, by reducing primary interest rates, as a means of simply postponing the explosion of the global financial bubble. Thus, the "rapid recovery of Brazil's credibility," which the Cardoso government insists on presenting as its great victory, is about as solid as the hyperinflated bubble that sustains it. The truth is that no government has spent as much of the country's shrinking public revenues as President Fernando Henrique Cardoso has, in trying to hide the undeniable truth of the bankruptcy of Brazilian public finance. In fact, the more he tries to hide the truth, the more it seems to surface.

According to Brazilian Central Bank figures, the liquid debt of the public sector, both public and private, reached a half-trillion reais (Brazil's currency, more than \$300 billion) in April, which is four to five times more than the public-

private sector debt by that same period in 1995. If we take the most optimistic estimate of an annual interest rate of approximately 25%, the cost of interest on this debt will still be \$75 billion in 1999—\$6.5 billion a month, or significantly more than 80% of the tax revenues collected in 1998.

But this is a best-case scenario, which supposes an exchange rate of 1.7 reais to the dollar by the end of 1999, an average annual interest rate of 27%, and the general assumption that Greenspan will keep the primary interest rate at the Federal Reserve frozen. Even if Greenspan's hyperinflation madness could be indefinitely sustained, the situation in Brazil might still enter a new phase of collapse in August, when the enormous task of rolling over a half-trillion reais has to be faced.

The scenario grows worse in view of the fact that the early 1999 devaluation of the real did not produce the expected rapidly increasing the trade surplus, thereby reducing the balance of trade deficit. The agreement with the International Monetary Fund (IMF) assumed an \$11 billion trade surplus in 1999, but if even \$3 billion is reached, it will be a miracle. This, of course, will increase the pressure for more foreign capital, and the emission of more public bonds, which are today largely indexed to the dollar.

An IMF 'virtual reality' pact

To hide this calamity, the agreement struck with the IMF draws a veil over the issue of how this debt will be paid, presupposing a flow of eternal and unlimited foreign capital. It concentrates instead only on the demand that the Brazilian government must produce a *primary* fiscal surplus (that is, before payment of interest on the public debt) of 3.5% of Gross National Product, in order to keep from further worsening the debt picture. The IMF is no longer concerned with the so-called *nominal* deficit, because this includes interest payments on the public debt, which they expect to remain quite high. Maintaining a primary surplus means cutbacks in every public budget line without exception, and an intensified dismantling of public companies and concessions, through privatization. It also means implementation of so-called "structural reform," which includes an increase in taxes, reduction of pension and retiree funds, and massive layoffs of still more public workers.

This policy has created conditions of accelerated social disintegration. For example, unemployment in the state of São Paulo, the most industrialized in the country, was 17.8% in January, 18.7% in February, 19.9% in March, and 20.3% in April. This means that nearly 1.8 million heads of families are without incomes.

Despite IMF Managing Director Michel Camdessus's denials that the IMF has ordered cutbacks in Brazilian social spending, the reality is that, by the end of this February, the Cardoso government had already slashed the 1999 anti-poverty budget by an addition 2.04 billion reais, leaving just six of the original 31 federal programs still with their budgets

intact. Concretely, daycare aid for needy children, housing aid for the elderly, food distribution for the hungry, have all suffered drastic cutbacks.

This collapse in income and living standards is directly reflected in a decline of sales in nearly every real economic sector. For example, sale of automobiles fell 51% in the first half of the year, compared with the same period the previous year; electrical and electronic appliance sales fell 38% in the first quarter; telecommunications, machine tools, metals, and transport sector sales fell 12%, and so on.

The situation in agriculture is equally serious. Despite harvesting what the government is calling a super-bumper crop, the price of grains is so far below the cost of production that all Brazilian growers can see in their immediate future is generalized bankruptcy.

Prospects increase for Russian, Ukrainian debt 'default'

by Rachel Douglas

No one has pretended that the Russian Federation might be able to make all of its \$17.5 billion in foreign debt payments, due this year. But, with several large Russian payments due in June and July, European banking sources are publicly expressing nervousness about the size, explosive charge, and worldwide impact of Russian "default." Finalization of International Monetary Fund (IMF) refinancing of one portion of the Russian debt was delayed by the May 12 ouster of the Primakov government, which had made the arrangements. Restructuring of the Soviet-era London Club (commercial) and Paris Club (state-to-state) debt is likewise on hold.

IMF Managing Director Michel Camdessus, who confessed on June 15 to the *Frankfurter Allgemeine Zeitung* about the persisting worldwide lack of preparedness for "systemic crisis," attended the St. Petersburg Economic Forum in Russia the week of June 14. There he again admitted that, since 1997, "the global economy has suffered the greatest threat to its stability in the past half-century." Camdessus also exhibited his terrible political judgment, by lecturing the leading members of the Russian cabinet that they ought to recognize in Alexander Pushkin, the Russian national poet whose bicentennial is this year, an advocate of free trade—a serious misreading of famous ironical verses by Pushkin about Adam Smith.

After talks with Camdessus on June 16, Premier Sergei

Stepashin expressed hopes for Russia to receive "a rather large tranche" of International Monetary Fund aid in July. The package, negotiated by former First Deputy Premier Yuri Maslyukov in April, provides for \$4.5 billion in IMF refinancing, to be used exclusively for the approximately equivalent payments, owed by Russia on IMF loans this year. Roughly \$800 million is due in July. If the IMF conditionalities are not finalized, said Stepashin, with reference to revenue-raising bills currently before the State Duma (lower house of Parliament), "our country could become a world pariah."

The previous week, Prime Minister Stepashin pleaded with the Duma, raising the possibility of his calling a no-confidence vote that would precipitate a new government crisis or dissolution of the Duma. On June 17, the Duma voted 219-101 to reject the most controversial law, a tax levy on gasoline filling stations.

Another \$8.5 billion of 1999 debt service is associated with London Club and Paris Club debt. The Primakov government determined that these payments could not be made, and sought to restructure these debts, writing off as much as 75% of the Paris Club portion. Negotiations on the Soviet-era debt have awaited finalization of the IMF arrangements, as a go-ahead.

Some hedge funds are pushing default

London Club payments, due June 2, of \$855 million on PRINs and IANs notes (previously restructured London Club principal and interest, respectively), were not made by Russia. Despite pressure from a group of Wall Street hedge funds among the London Club creditors, seeking a declaration of default on the entire \$26 billion Russian London Club debt and a chance to grab Russian assets (see *EIR*, June 11, p. 9), it was reported on June 11 that the steering committee of the London Club had granted the six-month reprieve on the PRINs payments, which was sought by the Russians.

The June 14 Eurobond column in the Swiss daily *Neue Zürcher Zeitung* reported growing worries about the possibility of defaults on Eurobond payments by Russia or other East European countries. To date, Russia has made all payments on its post-Soviet, foreign currency-denominated bond issues. The newspaper, however, suggested that declaration of technical default on the London Club debt—for the IANs, only 25% of the holders have to agree to seek a declaration of default—could precipitate a wave of defaults on the Eurobonds.

Even more urgent than Russia's situation, wrote the *Neue Zürcher Zeitung*, is the danger of default by Ukraine. The objections of one large foreign holder of Ukrainian debt, against the Ukrainian government's debt restructuring plan, may cause Ukraine to default on its Eurobond debt of \$2.5 billion. "The dams have not yet broken," said the Swiss banking newspaper, "but they appear to be ever more porous."

America's missing in action: Al Gore's genocide vs. the poor

by Michele Steinberg

On May 25, Sen. Paul Wellstone (D-Minn.) exposed the myth of welfare reform, and coined a new term, "The Disappeared," referring to the American families, mostly with children, who were thrown off the rolls of public assistance when the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) passed in August 1996.

Wellstone was proposing an amendment to the Defense Authorization Act for fiscal year 2000 that would require, for the first time, states to maintain follow-up information on former welfare recipients. In describing that amendment, Wellstone said, "Since August of 1996, 1.3 million families have left welfare. They are no longer receiving welfare assistance. That is 4.5 million recipients . . . the vast majority are children. On the basis of these numbers, too many people have deemed welfare reform a success. . . . No one seems to know what has happened to these families. Yet we keep trumpeting the 'victory' of welfare reform. . . . I am worried that they are just disappearing and this amendment is all about a new class of citizens in our country. I call them 'The Disappeared.'" The fact that the amendment nearly passed, losing by only one vote, 49 to 50, indicates that many Senators know the extent of the problem, but prefer to sweep it under the rug.

The following report is unique. To start with, *EIR* has for years, exposed the myth of the "booming" U.S. economy, and the bogus claim that 10 million new jobs have been created in the past nine years—which is the premise for those who say, "Anyone can find work."

For this report, *EIR* has documented that the former welfare recipients did *not* find work. *EIR* interviewed officials and investigated the studies, such as they exist, at the city, state, and county level, about the whereabouts, and the living standard of those thrown off welfare by PRWORA, the bill that terminated Franklin Delano Roosevelt's guarantee of a Federal safety net for America's poor. That 1996 legislation, which began as the Personal Responsibility Act (PRA) in Newt Gingrich's fascist "Contract on America," ended the Federal program Aid to Families with Dependent Children (AFDC), and replaced it with a state-run, patchwork mess

called Temporary Assistance to Needy Families (TANF).

Cross-gridding these state, city, and county follow-up reports with Congressional and Federal government information, *EIR* confirmed that the situation is worse than what Wellstone described—and with "time limits" set for a maximum of 2-5 years lifetime receipt of public assistance, there are millions more people who will be thrown off welfare in the next one to two years.

Under TANF, not only are states *not* required to account for former welfare recipients, but also the states are paid bounties, bonuses, and rewards for reducing the welfare rolls more quickly; so, the incentive is to keep America's poor "disappeared" and "missing in action." Immigrants have been particularly hard hit and terrorized. In the original 1996 bill, *all* non-citizens, including people with permanent resident (green card) status, were excluded from public assistance. In 1997, when public assistance was restored to immigrants at the initiative of President Clinton, many were too terrified to reapply.

Under TANF, education has been eliminated, in favor of "job training and life experience" for as little as four weeks. Many states provide no exemption for the age of a child, including newborn infants, forcing the mother to work as long as child care can be arranged by the state—the parent will have no say in the quality of the care. In several states, including South Dakota, a TANF recipient must be in a job within two months of receiving welfare. After two months, welfare recipients are thrown into "community service," like prison work programs, where they receive nothing more than their monthly grant, far less than minimum wage. If the adult recipient protests, some states punish the worker by cutting the benefits for the whole family.

States also use "subsidized jobs," which are sweetheart deals with private companies or government agencies, where the company or agency receives the recipient's entire monthly welfare check, and pays the "difference" of a set salary to the worker—sometimes as little as \$1 an hour. Pioneered in 1994 in Mississippi as a "pilot project," this modern-day slavery has become widespread.

Nazi economics

EIR is singularly qualified to fight this battle against the Nazi-style thinking behind the welfare reform. For decades, *EIR* founder Lyndon LaRouche, the renowned economist now running against Al Gore for the Year 2000 Democratic Party Presidential nomination, has campaigned against the policy of “labor recycling” that forces welfare recipients to compete to replace low-paid workers. Cropping up under various names such as the “work incentive program” and “workfare,” LaRouche defeated the policy in the 1970s, by exposing it as the same labor policy developed by Hitler’s Finance Minister, the banker Hjalmar Schacht (see box).

When the scheme surfaced again in 1995, LaRouche led the national movement to defeat the Newt Gingrich/Phil Gramm “Conservative Revolution.” As LaRouche correctly characterized, Gingrich’s Contract with America was a “Contract on America.” In 1996, LaRouche warned the Democratic Party that the so-called welfare reform bill would be another ratchet down in the U.S. economy which directly attacks the future labor force by destroying the family.

LaRouche sounded the alarm again in his study, “The Economics I.Q. Test” (*EIR*, May 14, 1999). There, LaRouche

exposes the consequences of America’s blind worship of the stock market bubble:

“If anyone tells you that a rising Dow-Jones stockmarket index proves that the U.S. economy is growing, your reply ought to be: ‘Oh, you mean that the cancer is growing. Tell me, Doctor: How is the patient doing. . . ?’

“During the coming six months, more U.S. citizens, especially the poor and the elderly, will die of the worsening economic sicknesses caused by current Federal Reserve Board Chairman Alan Greenspan and related *Wall Street Journal* policies, than of illnesses such as heart disease and cancer. Indeed, many of the preventable deaths from heart disease and cancer are the result of those financial and related budgetary policies.

“That is simply an actuarial fact; it is not the kind of deliberately misleading index which so many foolish Americans quote so triumphantly from the large-circulation mass-media. The present trends in U.S.A. general welfare policies, especially those of Wall Street’s carpetbagging HMO and related pilfering of health-care standards, are notable in this connection. No decent person would argue, that the present U.S. economy, which successfully increases the sickness and

The LaRouche movement’s record vs. welfare slave labor

In 1973, the young LaRouche political movement cut its teeth in the fight against Richard Nixon’s infamous “Phase Three”—the attempt to use welfare recipients as a slave-labor, union-busting force under the Work Incentive (WIN) program. Thousands of welfare recipients were being forced to work under WIN, being placed in municipal and private jobs, often replacing other workers who were laid off to make way for the welfare slave laborers whose “wages” were subsidized by tax incentives and reimbursement procedures, much as they are today under the Personal Responsibility and Work Opportunity Act.

In April 1973, LaRouche organizers intervened to turn the National Welfare Rights Organization into a vehicle to fight Phase Three, only to find that the leadership was prepared to herd welfare recipients into the low-paid jobs which Nixon and his cronies had planned (including Sir Caspar “Cap the Knife” Weinberger, who, as Nixon’s Secretary of Health, Education, and Welfare, had designed and implemented the workfare programs).

NUWRO formed

It was clear that a new organization was required, to unite the employed and the unemployed against workfare,

and for a program of real job creation. Thus was the National Unemployed and Welfare Rights Organization (NUWRO) founded in Philadelphia, in April 1973. Coordinated political campaigns were launched around the country, to intervene in ghetto and union ferment against Phase Three to defeat the slave-labor plans.

A key part of this battle was against the Communist Party U.S.A., an asset of the FBI, which was deployed against LaRouche and NUWRO to wreck their efforts. The founding NUWRO conference in Philadelphia itself was the target of a violent, FBI-orchestrated assault. The CPUSA set up a picket line, calling the LaRouche organizers “racist” and “fascist,” in an attempt to provoke a race riot. The conference participants refused to be provoked. They marched through the picket line into the hall, without incident, and the conference successfully launched NUWRO.

Over the next year, NUWRO organizing exposed the slave-labor programs at every turn, including the betrayal of the common interests of the employed and the unemployed by the AFL-CIO, which cooperated with Nixon’s labor-recycling policy by placing thousands of welfare recipients in unionized jobs.

The LaRouche movement’s fight resulted in the ultimate defeat of workfare, which died politically, together with Nixon. Only in 1996, with the emergence of “Newtzi” Gingrich and his “Contract on America,” did the forced-work programs reappear.

death rates of its people, especially among its elderly and poor, is a healthy economy.”

Gore and the ‘Contract on Americans’

In August 1996, the only reason that the hated welfare bill passed Congress was because Vice President Al Gore, working in tandem with White House “Rasputin,” Republican mole Dick Morris, protégé of Roy Cohn of McCarthy-era notoriety, supported it. Gore and Morris teamed up with a strategy to “out-Gingrich Gingrich,” by preempting the GOP’s program of fiscal austerity, balancing the budget, cutting welfare, and eliminating government jobs.

To Democrats like Henry Nicholas, International Vice President of the American Federation of State, County and Municipal Employees (AFSCME), the act was a death sentence for the poor. Nicholas (see interview) became one of the foremost advocates for “repeal” of the welfare bill, even fighting against the policy at the 1996 Democratic Party nominating convention.

Gore’s commitment to Gingrich’s dirty work was no accident. Gore’s “Third Way” and “Reinventing Government” programs are just repackaged versions of Gingrich’s “Contract on America.” Since 1978, shortly after Gore and Gingrich were first elected to Congress, they collaborated in the “futurist” organizations in Congress created by futurist guru Alvin Toffler. In the 1970s, Toffler groomed Gore and Gingrich to implement his radical population-reduction agenda, which includes overturning the American Declaration of Independence and U.S. Constitution. In a 1980s book for which Gingrich wrote the introduction, Toffler writes a “letter to the Founding Fathers,” telling them: “The system of government you fashioned, including the very principles on which you base it, is increasing obsolete, and hence increasingly . . . oppressive and dangerous to our welfare.”

Without Gore doing the “inside job” in 1996 in the administration, the welfare bill would have been *dead*. Gingrich and company had no ability to pass the welfare act through Congress with enough votes to override a Presidential veto.

Now, thanks to Gore, after nearly three years, 4.5 million poor Americans have been thrown off public assistance, many of them also without food stamps and Medicaid. The rapid 35% decrease in the number of people on public assistance, from 12,241,489 in August 1996 to 7,954,955 in September 1998 (see **Table 1** for states where the cuts have been greatest), has led hard-core Conservative Revolutionaries, such as racist Senate Majority Leader Trent Lott (R-Miss.), to call for eliminating welfare altogether. At a speech to the U.S. Chamber of Commerce on Jan. 27, Lott called for “Welfare Reform 2.” “Welfare reform has worked,” Lott said. “Let’s go to the next step; let’s keep this train moving. Let’s get everybody off of welfare and into a real job, and we’ll all be better off because of it.”

But, welfare reform *has not worked*. Of those 4.5 million cut off from assistance, *less than 1 million adults*, by EIR’s

TABLE 1

America’s ‘Disappeared’ families: reduction of welfare recipients under TANF, August 1996 to September 1998

States with highest percentage reduction		States with highest number reduction	
Alabama	48%	California	673,414
Colorado	52%	Florida	287,610
Florida	54%	Georgia	158,237
Georgia	48%	Illinois	193,198
Idaho	85%	Louisiana	106,343
Kansas	48%	New York	281,800
Mississippi	64%	Ohio	229,400
South Carolina	54%	Pennsylvania	185,107
West Virginia	61%	Texas	302,786
Wisconsin	77%	Wisconsin	114,857
Wyoming	84%	Total U.S.	2,532,752

*Temporary Assistance for Needy Families
Source: Administration for Children and Families, Office of Public Affairs, U.S. Department of Health and Human Services, January 1999.

At the time of this report, the total number of TANF recipients was 7,954,955, representing about 2,970,160 families. That was a 35% reduction in the number of welfare recipients in those two years.

best estimate, have jobs. And, according to a 1998 study by the Children’s Defense Fund, a private organization, the gruesome truth is that only 8% of those who *do* have jobs have an income above poverty level. The remaining 92% of the working welfare families — some completely off welfare, and some still receiving partial cash assistance — still live in poverty, are uneducated and under-educated, and now are forced to shove their children into hastily created child-care barns so that they can be put to work. That is the fate of the so-called “welfare-to-work” success stories.

Even more frightening is the fact that *no one knows* what has happened to the other 3.5 million people. No one knows how many former welfare recipients are working, or even if they’re alive. Studies from Los Angeles County, California; Cuyahoga County (Cleveland), Ohio; Philadelphia, Pennsylvania; and Mississippi which are presented here, are just the tip of the iceberg of devastation.

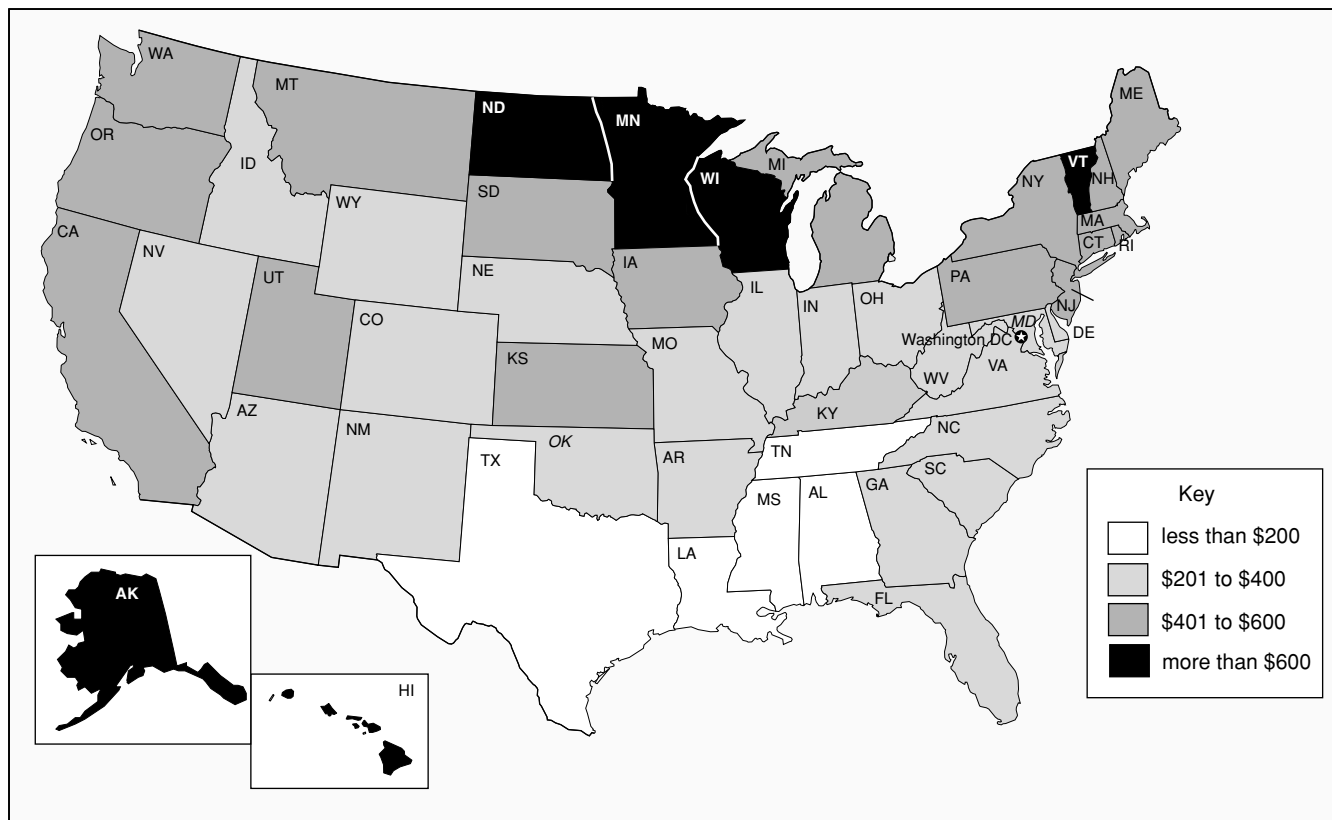
Contrary to the media “big lies,” such as the May 27 *Washington Post* headline “Most Adults Find Jobs After Leaving Welfare,” the reports show:

- In Ohio, nine months after exiting welfare, 44.8% of the adult recipients had no income, 78.2% of those who left the welfare rolls live below the poverty level, and 12% of those who worked were earning less than \$4,000, which is *less than one-third* of the official (1996) poverty level of \$12,516 for a family of three.

- In Los Angeles, 10% of people thrown off general relief survive by selling their blood for plasma, and 6% survive through prostitution and drug dealing. Some 19% of those

FIGURE 1

Maximum monthly TANF* benefit for a single parent with two children and no outside income, October 1997



*Temporary Assistance for Needy Families
 Source: The Urban Institute, Summary of State TANF Decisions, October 1997.

who exited the welfare rolls obtain their daily food from dumpsters.

In the May 25 *Congressional Record*, Sen. Edward Kennedy (D-Mass.) revealed that as of 1997, the year after the PRWORA “reform,” 675,000 low-income people, 62% of whom are children, had lost Medicaid coverage, even though many of them were still eligible for Medicaid. Under the state-by-state TANF administration system, poor families are simply being misled—in some cases deliberately—to conclude that they are not eligible for the Federal health coverage. This has led to alarming health problems and lack of immunization for children.

Kennedy also pointed out that, according to reports from agencies in Massachusetts and from the U.S. Conference of Mayors, cities are experiencing an increase in requests for emergency food in 1998, yet the participation in the Food Stamp Program has fallen to fewer than 19 million people, down from 28 million participants four years ago. As in the

case of Medicaid benefits, families that are excluded from cash assistance because they are diverted to jobs, or turned away from joining the welfare rolls, are also wrongly turned away from food stamp assistance.

Poverty and welfare

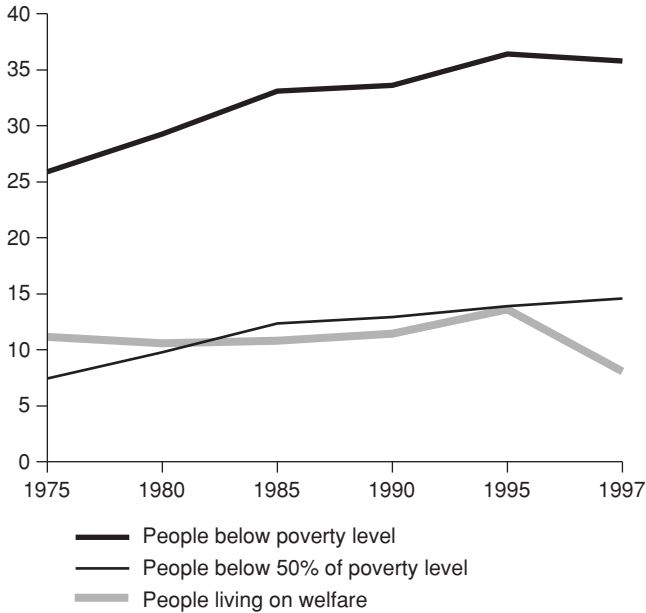
One of the big lies with which the Conservative Revolutionaries ran their anti-welfare campaign, is that jobs are plentiful and welfare recipients are too well-paid to take them. In reality, the average TANF grant for a family of three is less than \$400 a month, including non-cash benefits, and does not even reach 50% of the 1996 poverty level of \$12,516 (see **Figure 1**).

And, far from being a “success” as Third Way Democrats and the GOP’s neo-conservative fanatics claim, the problem of poverty is worse than ever. **Figure 2** shows that the official number of Americans living in poverty in 1997 was 35.8 million (down slightly from the 1995 figure of 36.4 million),

FIGURE 2

Poverty in America: 'Most Poor' group is increasing

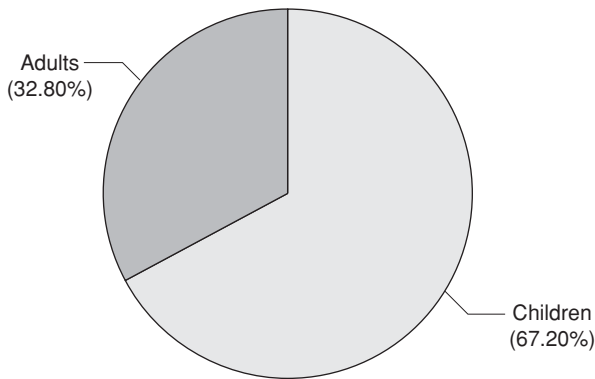
(millions)



Source: Bureau of the Census; Administration for Children and Families, U.S. Department of Health and Human Services.

FIGURE 4

Percentage of adults and children in families receiving TANF benefits

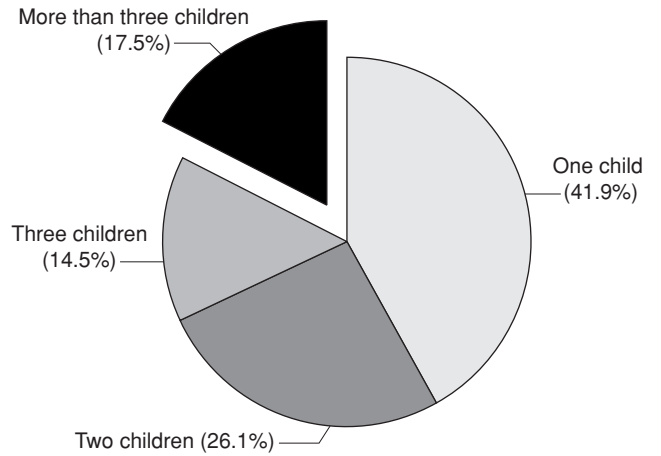


Source: U.S. Department of Health and Human Services, 1997.

but the number of Americans living on an income of less than \$6,258 (50% of the poverty level) for a family of three, is 14.59 million, a figure which increased from about 600,000 in 1995, the year that the Gore-Gingrich welfare reform crusade was launched. Figure 2 shows that the number of Americans

FIGURE 3

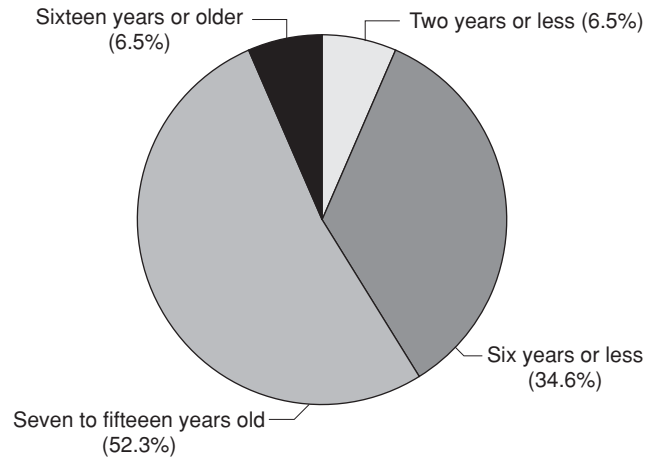
Average number of children in TANF families, October 1997



Source: U.S. Department of Health and Human Services, 1997.

FIGURE 5

Average age of children in TANF families, October 1997



Source: U.S. Department of Health and Human Services, 1997.

on TANF was 8.1 million in 1997, far below the number of families that require assistance to survive. Yet, under PRWORA, the states are required to reduce the number of people on the welfare rolls further every year, or face loss of their Federal grants.

In March 1995, *New Federalist*, the weekly newspaper of the LaRouche movement, presented a devastating exposé of the Contract on America, including how the Personal Responsibility Act slated poor people for extinction. (See "Phil

Gramm's Contract on America Is Out to Get *You!* How the Conservative Revolution Crowd Plans to Destroy America.") The Contract made the simple, false argument that all welfare recipients were failing to take "personal responsibility," and could be gotten into line if they were forced to work under pain of losing all benefits for themselves and their children, including food assistance. Gingrich's plan had two aspects: in conjunction with the balanced-budget efforts, the PRA proposed to cut \$140 billion by the year 2001.

The rationale for this big lie stereotype, is that welfare recipients with big families cause the budget deficit. *New Federalist* revealed the blatant racism found in the Contract on America's own briefing book for the 104th Congress, entitled "Issues '94." For example, the briefing book reports, "Prof. C.R. Winegarden at the University of Toledo found that half the increase in black illegitimacy in recent decades was caused directly by the perverse incentive effects of welfare."

New Federalist showed that, in reality, when the drumbeat

was sounding in 1995 to throw the welfare poor overboard to balance the budget, 42.5% of all welfare families had one child, and another 30.2% had two children. In 1997, a year after the 1996 repeal of FDR's welfare protection, 41.9% of TANF families had only one child, and another 26.1% had two children. Only 17.5% of the families have more than three children (**Figure 3**). In welfare families, adults comprise 32.8% of recipients, and children, 67.2% (**Figure 4**). The average age of adult recipients is 30 years, and the average age of children is 8 years, but about 35% of those children are actually under 6 years (**Figure 5**). As the accompanying case study on Philadelphia shows in some depth, child care for pre-schoolers is straining social services to desperation levels.

Labor recycling

The major provision of the Contract on America's welfare plan is slave labor. At a Schiller Institute conference in 1995, Richard Freeman of *EIR*'s Economics staff explained that this

FIGURE 6

The jobs aren't there: net new (low-skilled) jobs as a percent of the number of former welfare recipients seeking jobs, 1997-98



Source: Cochrane, Horst and Koropecy (1997), cited in *Welfare Reform: The Jobs Aren't There*, by Mark Weisbrot, for The Preamble Center for Public Policy, 1997.

was nothing more than “labor recycling,” a term used by Nazi Labor Front coordinator Robert Ley.

Freeman explained how it works: “Take a worker who makes a moderate wage of \$30 per hour, including benefits, and force him or her, either by firing or busting his union, into a job (perhaps even the same job) that pays \$15 per hour, with reduced benefits. Then, from there, force him into a \$5 or \$6 per hour job at Walmart, and from there, into below-minimum-wage slave-labor. . . . A desperate pool of cheap labor consisting of prisoners, welfare recipients, those earning the minimum wage is being built up.”

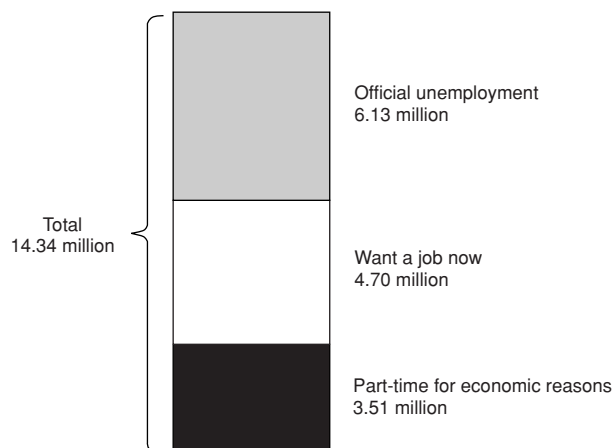
The workfare adopted under the Gore-Gingrich plan has completely confirmed what *EIR* and Freeman forecast. Major national companies such as United Parcel Service, Federal Express, Marriott Hotels, Gateway 2000 computer manufacturers, Cessna, Burger King, and so on, are signing up in droves to take advantage of the forced labor pool created by the welfare law. Unionized and full-time workers are being shoved out in favor of desperate former welfare recipients, who have to stay on the job, no matter what, or their children may lose all benefits as a “sanction” or punishment allowed under the new welfare reform. In some cases, the state will use funds provided through the Federal block grants to *subsidize* the salary of the worker from the welfare rolls. Or, the state may provide child care to force the welfare recipient to take the job. In some areas, the TANF workfare office arranges free bus fare and other transportation, only for the workforce assigned through welfare. Without similar child care and transportation guarantees, the non-welfare recipient forced to compete for the same low-paying job will end up on unemployment, or even on welfare, where, with luck, he or she might get their old job back at welfare wages.

There are not enough jobs. According to the 1997 study, “Welfare Reform—The Jobs Are Not There,” authored by Mark Weisbrot and put out by the Preamble Center for Public Policy in Washington, D.C., the national economy was projected to create only about half as many net low-skill jobs as the first 1.298 million adults leaving the welfare rolls by 1998. With the projected normal growth in the labor force factored in, the ratio of job-seekers to jobs is nearly three to one, says Weisbrot. In the whole nation, only 13 states, representing only 9% of the nation’s welfare caseload, are projected to create enough jobs to absorb the former welfare recipients eliminated from the rolls (**Figure 6**).

The picture becomes even more dismal when one takes the real unemployment figures for the United States (**Figure 7**), which include former workers who have fallen out of the statistics in absurd categories such as “Too Discouraged To Look for Work” after their unemployment benefits ran out. The Preamble Center’s study also shows that densely populated states have an even more pronounced problem: There will be a shortage of more than 1 million jobs for six Midwestern states: Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. In these states, the competition for jobs at poverty wages (described by the Preamble Center as \$12,278 for a

FIGURE 7

Real unemployment, March 1999



Source: Bureau of Labor Statistics, U.S. Department of Labor.

family of three) is 22 workers for every one job; at the rate of 150% of poverty, 64 workers for every one job; and for jobs that pay “at least a livable wage” (\$25,907 for a family of three), there are 97 workers for every job.

Only by resorting to blatant lies have the advocates of the workfare slave-labor plan been able to cover this up. On May 26, House Republican leaders put out a press release, according to the next day’s *Washington Post*, which claimed that a report by the General Accounting Office (GAO, Congress’s research arm) showed “an unprecedented increase in labor force participation by low-income mothers.” The *Post* was complicit in the lie, writing that “between 61 and 87% of adults leaving public assistance have gotten jobs . . . according to a comprehensive review of welfare research . . . from 17 states.”

In fact, the GAO report, “Welfare Reform: States’ Implementation Progress and Information on Former Recipients,” is a masterpiece of “spin-doctoring.” The information in the study actually indicates that welfare reform has been a dangerous failure. In specific, the report shows:

- Forty-two out of the 50 states have *no* reliable or comprehensive information on the families that left welfare. Though the GAO gathered reports from 18 states, only eight of the studies had sufficient data to even vaguely represent the people who had left the welfare rolls.
- The job figures were so massaged and manipulated in these eight states, that they must be completely disregarded. For example, a fine-print footnote warns that families that returned to the welfare rolls have been taken out of the sample, thereby resulting in “higher employment rates.” Between 29% and 39% of the people who had been working at some point were *no longer working* when they were surveyed, so the maximum job success rate is only 61% to 71%, not the

mythical 63% to 87% being bandied about in Congress.

- The report gives estimated quarterly and annual earnings—still well below poverty levels—that are projections from an hourly wage. There is no evidence in the seven state reports used for the GAO study that these former welfare recipients actually worked 13 weeks in a quarter, or ever worked full time, let alone a full year.

Any reader, Congressman, or public official who fell for Trent Lott's, Al Gore's, and Newt Gingrich's "snake oil" spiel that "welfare reform" is working, has already failed LaRouche's "Economics I.Q. Test." But, now is the time to save yourself and the nation from the onrushing new dark age of this economic collapse.

Al Gore, Dick Morris: The unholy alliance

by Scott Thompson

This abridged article originally appeared in EIR, on Feb. 12, 1999.

During the 1996 Clinton reelection campaign, Lyndon LaRouche, then a candidate in the Democratic Presidential primary elections, warned President Clinton to purge the White House of so-called political consultant Richard "Dirty Dick" Morris. Morris, the cousin-once-removed and protégé of the late gangster attorney and closet homosexual Roy Cohn, slithered between the White House and his clients among the President's arch-enemies, the Republican Confederates, especially Sen. Trent Lott (R-Miss.), collecting and passing on bits of gossip and compromising information on Clinton.

For a time, Morris was President Clinton's chief reelection campaign strategist. Some in the White House labelled him a "GOP double agent" and a "Republican mole." In a June 27, 1995 Knight-Ridder story, Sandy Grady wrote that "some Clinton loyalists compare Morris to Rasputin, the 19th-century Russian mystic and faith healer who led the Tsar's family to destruction."

Morris was ousted as a campaign adviser in August 1996, during the Democratic nominating convention, when details of his affair with a call girl, and his foot fetish—especially sucking the toes of his sexual partners—broke in *The Star* supermarket tabloid and was then reported on the front page of the *New York Post*.

In two interviews with this author, corroborated by other published sources, Morris made a remarkable revelation: While he had a lot of opposition in the White House, he also had an ally—Vice President Al Gore, Jr.

Fact: Gore and Morris ran a "Mutt and Jeff" routine

against President Clinton, to force him to break with the "liberal wing" of the Congressional Democrats, who were engaged in political combat against House Speaker Newt Gingrich and his Conservative Revolutionaries.

Fact: Gore and Morris teamed up to ram through the 1996 Welfare Reform Act, over White House and Cabinet objections, in order to "out-Gingrich Gingrich." It was President Clinton's capitulation to this deal which jettisoned the Franklin Roosevelt coalition of traditional Democratic constituencies, and kept the Gingrichites in power in the Congress in both the 1996 and 1998 elections.

In listening to Morris, one is struck by the image of a "world class," deceitful self-promoter in action. Morris talks a lot. He maintains a toll-free phone number with a pager and forwarding function, so he can never miss a chance for publicity. But, *EIR* presents here only those things that we have been able to cross-check:

Q: From reading your book, *Behind the Oval Office*, it seems that you were being iced out by . . . the White House Staff.

Morris: Right. . . .

Q: And, you turned to Vice President Al Gore, who was suffering a similar problem, and made an alliance—

Morris: Yep. . . . I think the White House staff tried to sort of—froze Gore's staff out. And, one of the things I did [was to align] myself with Gore, and sort of reoriented the center of the White House back from staff toward the Vice President—

Q: You reoriented it back from the Congressional Democrats like Ted Kennedy—

Morris: Yep.

Q: Now, what issues did this exactly put on Gore's plate?

Morris: Well . . . the balanced-budget speech. The decision to give the balanced-budget speech was really the beginning of the period of Gore's ascendancy [starting in June 1995]. . . .

'The deal'

Morris repeatedly references the latest paperback edition of his book, *Behind the Oval Office: Getting Reelected Against All Odds* (Los Angeles: Renaissance Books, 1999), as the definitive source on how the Faustian bargain was cemented.

"Until mid-April 1995, I worked with the President without anyone outside the White House knowing about it. It was the happiest time of my life," Morris writes about being named chief strategist to the 1996 campaign.

But soon afterward, Morris writes (pp. 115-116): "I felt like a stranger. . . . I needed allies desperately, and *the vice president came to my rescue*."

"We met in mid-March in the office of Jack Quinn, Gore's chief of staff at the time and later White House counsel. . . . I explained my ideas and theories for about half an hour with little or no interruption. *I could sense that the vice president agreed with most of what I was saying*. He listened intently.

I stressed that I needed his help to get anything done and underscored how frustrated I had been.

“He grasped what I was saying and offered his full support, subject to two conditions: first, that I respect his priorities, such as the environment, and include them in my planning, and second, that I promise not to divulge anything related to the campaign to Lott. I readily agreed to both, and made clear that my talks with Lott were focussed on government issues, not on campaign issues.

“Gore told me that he had been increasingly troubled by the drift of the White House and badly shaken by the defeat in ’94. He said that he had tried, in vain, to move the administration toward the center, but the White House staff had shut him out. . . . But, he said, ‘We need a change around here, a big change, and I’m hoping and praying that you’re the man to bring it.’ We shook hands on our alliance” (emphasis added).

Morris confesses that he did tell Lott that, with the support he now had in the White House, the right-wing Republicans could push the welfare reform bill without fear of a veto, which, Morris said, is exactly what the Congressional Republican leadership did.

Documentation

They’ve taken out a contract on you!

The following is excerpted from a Special Report in EIR (Feb. 17, 1995), “Phil Gramm’s ‘Conservative Revolution’ in America,” p. 69. It has been slightly edited.

It is no surprise that in his Jan. 20 [1995] speech before the Republican National Committee, Newt Gingrich cast himself in the role of the chief prosecutor of the Jacobin Terror, Robespierre. Gingrich’s preference for the French Revolution is consistent with his faction’s “Contract on America,” a document that, if implemented, will drive down the living standards of more than 80% of the American people.

The crafters of the GOP’s “Contract” peddle a trashing of the living standards of senior citizens under the name “The Senior Citizens Fairness Act,” wipe out all civil rights and poverty assistance programs under “The Family Reinforcement Act” and “The Personal Responsibility Act,” establish a privatized prison slave-labor system under the name “The Taking Back Our Streets Act,” and dismantle the Federal government and force the states to administer draconian tax hikes under the misnomer “The Fiscal Responsibility Act.” Under the guise of “job creation and wage enhancement,” the

Contract delivers a whopping tax break to the richest 10% of the population.

Victims of the ‘Contract’

If you are a member of any of the following constituency groups, here’s what the Gramm-Gingrich Contract will mean for you:

Senior citizens. Forty-three million elderly Americans receive Social Security. Gingrich and his cohorts propose recalculating the inflation rate and thus lowering the cost of living increase (COLA), which could cost the elderly \$20 billion per year. There is talk of scrapping Medicare. The philosophy is expressed by Daniel Callahan in his book *Setting Limits*, in which he states, “Age-based standards for the termination of life-extending treatment would be legitimate.”

School-age children. There are 45 million children enrolled in primary and secondary public schools. Under plans such as House Majority Leader Richard Armey’s (R-Tex.) “Parent and Student Empowerment Act,” schools would be privatized as an interim step toward the elimination of public education. In some proposals, instead of being in the classroom, high school students would work at low-skill jobs, which would fulfill a significant share of their high school credits.

Prisons. The Contract hails prison slave-labor as a “growth industry” in America. Nearly 30% of all young black men between the ages of 20 and 29 are either in jail, on probation, on parole, or awaiting trial. America has the highest incarceration rate in the world. The model for the slave-labor policies is the Federal Prison Industries, Inc., or Unicor program, a private profit-making corporation run by the Bureau of Prisons of the Department of Justice. The pay is minimum wage, out of which have to be paid fines, prison room and board, upkeep of one’s family, and any victim restitution. The prisoner keeps what is left over, on average, \$1 per hour.

Poverty. Thirty-four million Americans are below the poverty level: 20 million whites, 9.5 million blacks, and 4.5 million Hispanics. Roughly 28 million of them use food stamps. Conservative Revolutionists plan to cut food stamp payments by 5-10% immediately and phase out the program entirely. Those people below the poverty line are seen as an ultra-cheap labor pool. In a pilot project in five Mississippi counties, the women are paid the minimum wage in sweatshops, in which the state turns their welfare checks over to the employer, comprising \$3.25 out of the \$4.25 per hour that the employer pays the women. If the women refuse speed-up or any feature of the job, they are fired, and lose both welfare benefits and food stamps.

Where are ‘The Disappeared’?

Sen. Paul Wellstone (D-Minn.) made the following statements to his colleagues in the U.S. Senate on May 25, 1999. He was given 20 minutes by the Senate Republican leadership to introduce an amendment, debate, and have a vote, which came within one vote of being passed.

Some observers described the action as the first step toward repealing the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. Senator Wellstone said:

This amendment speaks to the priorities of the Senate or lack of priorities of the Senate.

We have here a bill that really talks about authorization, leading to appropriation of hundreds of billions of dollars for defense, for the Pentagon.

I will talk about the priorities of some low-income families in our country. Their priorities are how to keep a roof over their children's heads. Their priorities are how to get food in their children's stomachs. . . .

Mr. President [addressed to the presiding officer of the Senate], two years ago we passed a welfare bill, and as we start to see more and more families slide deeper and deeper into poverty, and as we see around the country some of these families losing their benefits, I have not heard so much as a whisper of concern, let alone a shout of outrage, from the Senate. . . .

Current law requires the Secretary of Health and Human Services to provide an annual report to Congress. My amendment requires . . . [it] include information about families who have move off the welfare rolls. . . .

To see the welfare rolls reduced dramatically does not mean necessarily that we have reduced poverty in this country. It doesn't mean these families have moved from welfare to economic self-sufficiency. These statistics, the drop in the welfare caseload, which has been so loudly talked about as evidence of success by Republicans, Democrats, and by this Democratic administration, doesn't tell us what is really happening. . . . It doesn't tell us whether or not these families are better off now . . . or whether they have fallen further into poverty. It doesn't tell us if the mothers can find work. It doesn't tell us if they are making enough of an income to lift themselves and their children out of poverty. . . .

No one seems to know what has happened to these families. . . . I am worried that they are just disappearing and this amendment is all about a new class of citizens in our country. I call them "The Disappeared."

What is going on here? What is happening to these women and children? *Should we not know?* . . .

Below poverty wages

Speaking in strong support of Senator Wellstone's amendment, Sen. Edward Kennedy (D-Mass.) stated on the Senate floor on May 25, 1999:

The most important indicator of welfare reform's success is not just declining welfare caseloads. It is the well-being of these low-income parents and their children after they leave the welfare system. . . . Millions of families have left the welfare rolls. . . . The obvious question is whether former welfare recipients are doing well, or barely surviving, worse off than before. The data we do have about former welfare recipients is not encouraging. According to a study by the Children's

Defense Fund and the National Coalition on the Homeless, most former welfare recipients earn below poverty wages after leaving the welfare system. . . .

Gore defends attacks on the poor

On June 15, 1999, Vice President Al Gore, Jr. returned to his native Confederacy in Carthage, Tennessee, to launch his Presidential campaign. There he defended his welfare bill that kicked immigrants off public assistance, and condemned welfare families to slave-labor programs. In a complete cover-up of what has happened under his welfare "reform," Gore said:

I want all of our communities to be working communities. We have moved more than 6 million people off our welfare rolls; now we must make sure the jobs and opportunities are there. . . . I want to extend our prosperity to the unskilled and underprivileged, to Appalachia and the Mississippi Delta, to our farms and inner cities, to our new immigrants — *y tambien en las comunidades.*

Case Studies

California destitution rises as welfare ends

by Marcia Merry Baker

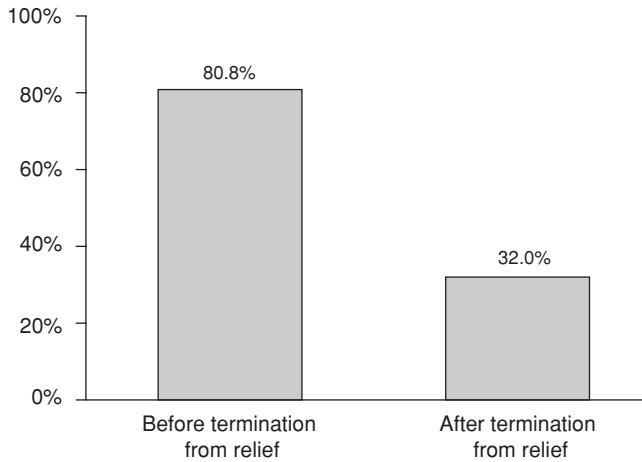
Beginning in July 1998, the County of Los Angeles began implementing a time-limit policy on eligibility for welfare payments, called "General Relief" (GR), for those designated as employable. The limit for receiving welfare was set at five months out of twelve. As of July 1, payments to the first group of 6,352 individuals were stopped, and over the subsequent seven months, to Feb. 1, 1999, a total of 15,000 individuals lost their GR benefits. Ninety-seven percent were between ages 20 and 64, and 63% were male.

A detailed follow-up study showed that, overall, the rate of hunger, homelessness, dependence, and criminal recourse increased measurably for these individuals. The study was done by Dr. Ailee Moon and Rebecca Hawes, of the UCLA School of Policy and Social Research, and published in April 1999. Summing up their report, they state, "In concluding, we believe that the adverse impact of GR time limits, especially in the areas of basic human needs, such as food and housing, is substantial enough to warrant re-examination of the policy."

The study approach sent interviewers to homeless shelters, social service offices, and food pantries, to canvass individuals about specifics of their circumstances during the last three months before termination of GR payments, and their

FIGURE 1

Eating at least two meals on most days declines in Los Angeles County



Source: UCLA School of Policy and Social Research, Ailee Moon, Ph.D. and Rebecca Hawes, MSW, April 1999.

circumstances after losing benefits for at least three months. Complete interviews were done for 174 individuals.

We here present specifics adapted from the report’s executive summary (subheads have been added).

Findings of the Moon-Hawes report

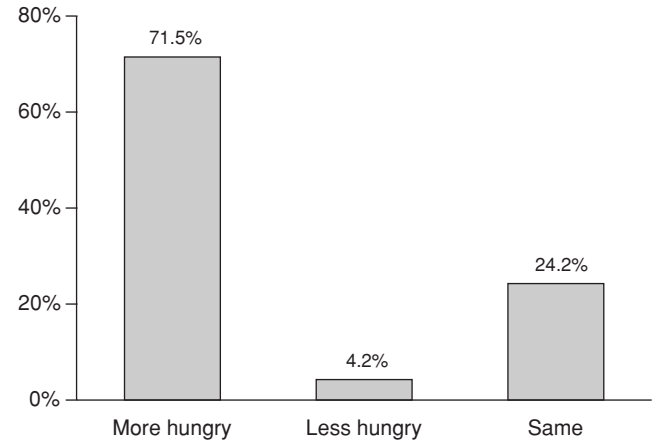
Food and hunger (Figures 1 and 2, and Table 1): Before discontinuance of general relief benefits, 81% of respondents reported having eaten at least two meals on most days. After losing benefits, the percentage dropped significantly, to 32%. Findings further suggest significant changes in the pattern of how respondents obtained food before and after the loss of GR benefits. For example, when respondents were asked to identify all sources of food, 81% reported buying and preparing their own food as one of several ways of obtaining food while receiving GR benefits. The percentage fell dramatically to 38% after losing GR. In contrast, the percentages of those who obtained food at missions or soup kitchens and homeless shelters rose considerably, from 42% and 30% prior to the cut-off, to 62% and 53% after the cut-off, respectively.

Food stamps (Figure 3): The percentage of respondents who received food stamps dropped from 86% before, to 30% after termination of GR benefits. Further analyses indicate that the loss of GR cash income has a greater adverse impact than the loss of food stamps on their ability to obtain two meals on most days.

Housing and homelessness (Figure 4): Changes in housing arrangements after the loss of GR benefits were common phenomena for more than two-thirds (68%) of respondents. Major changes occurred in the areas of increased homelessness, from 15% to 38%, and decreased living in single-room

FIGURE 2

Hunger increases in Los Angeles County after termination of welfare



Source: UCLA School of Policy and Social Research, Ailee Moon, Ph.D. and Rebecca Hawes, MSW, April 1999.

occupancy hotels, from 28% to 12%, as well as a decrease in rentals of houses, condominiums, or apartments, from 15% to 7%.

Current work-related activities (Figure 5): Forty-three percent of respondents were currently holding some kind of job, including part-time or “odd jobs.” Among those who had a job, the type and number of hours they worked per week

TABLE 1

Reliance on charities for food increases, after welfare payments terminate

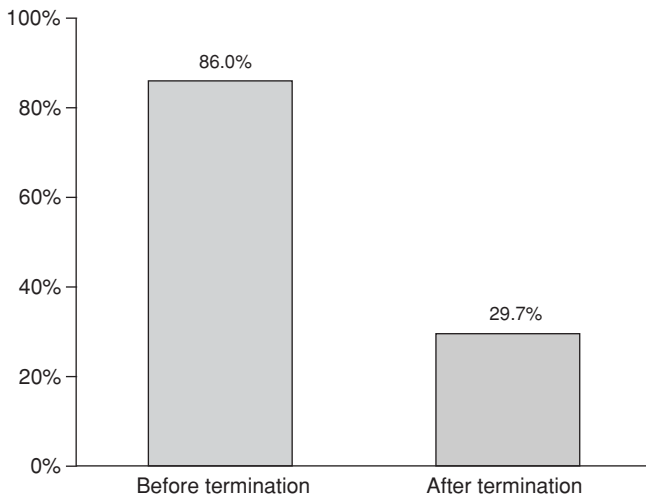
Food source	Percent of those using food sources*	
	Before termination	After termination
Buy and prepare meals	81%	38%
Fast food	48	26
Cars/trucks	28	37
Food pantries	41	43
Mission or soup kitchen	42	62
Homeless shelters	30	53
Street food programs	34	45
Dumpsters or trash	12	19
Free food from restaurant	13	15
Family or friends	47	53
Neighbors	24	23
Other	5	9

*Based on multiple responses

Source: UCLA School of Policy and Social Research, A. Moon and R. Hawes, April 1999.

FIGURE 3

Receipt of food stamps declines in Los Angeles County after termination of welfare



Source: UCLA School of Policy and Public Research, Ailee Moon, Ph.D., and Rebecca Hawes, MSW, April 1999.

varied widely, ranging from two hours of cleaning yards to 60 hours of recycling, from selling plasma two days per week, to prostituting all day. Specifically, 31% of the working respondents identified recycling as their primary job, followed by 25% in various kinds of construction and domestic work, including unloading trucks, house painting, gardening, and babysitting.

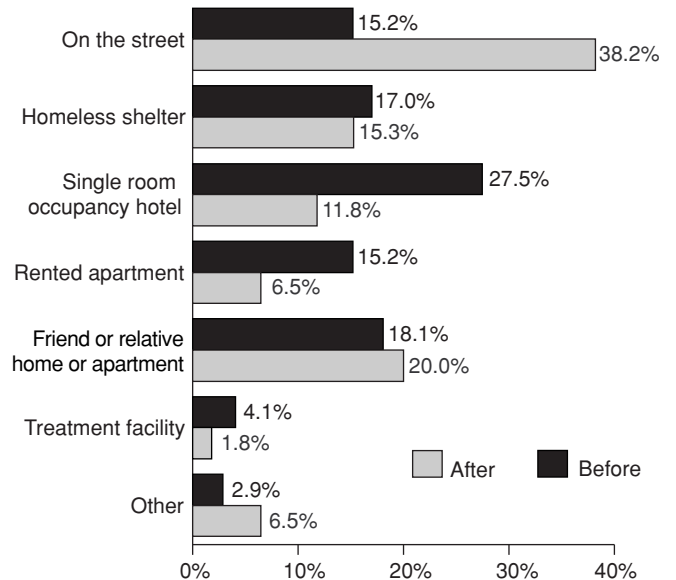
Barriers to employment (Figure 6): When asked to provide their experience with major barriers to employment, a multiple-response question, respondents frequently identified lack of education, training, or skills (44%), lack of transportation (36%), lack of housing and other resources (22%), and facing discrimination (18%) as significant barriers. To a lesser degree, 15% described the lack of hygiene or clothing, 11% health or disability issues, and 10% the lack of available jobs, as employment barriers.

Management of GR grant loss (Figure 7): Respondents have managed the loss of GR benefits through a variety of income-generating activities. In this multiple-response question, the most frequent activities (31%) were doing “odd jobs,” while 25% sought agency and community support, and 21% indicated asking for help from family or friends.

Family, friends, and community supports: After GR termination, respondents reported increased reliance on family and/or friends for both cash assistance, from 24% to 41%, and non-cash assistance, from 32% to 70%. The percentage of respondents who utilized services provided by churches or community organizations also rose, from 57% before losing GR, to 68% after (see also Table 1).

FIGURE 4

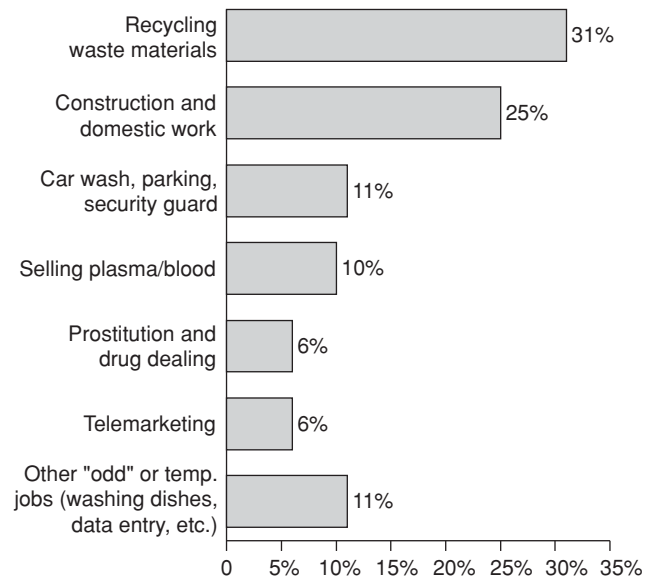
Housing arrangements worsen in Los Angeles County after termination of welfare



Source: UCLA School of Policy and Public Research, Ailee Moon, Ph.D., and Rebecca Hawes, MSW, April 1999.

FIGURE 5

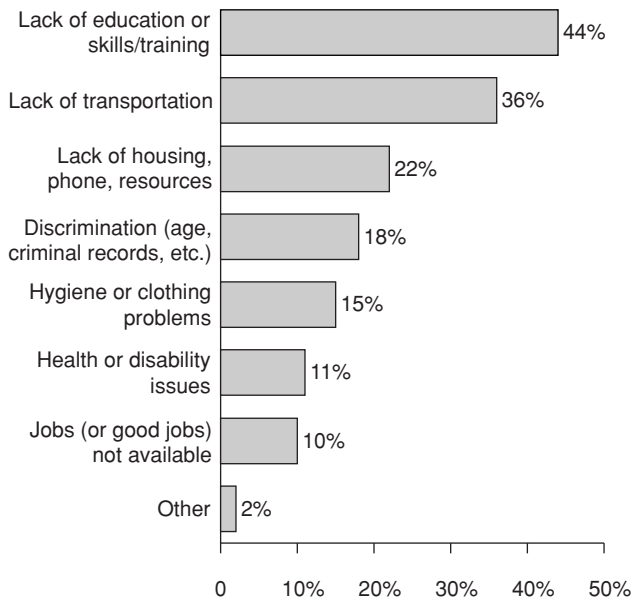
Types of current jobs, former general relief recipients, Los Angeles County



Source: UCLA School of Policy and Public Research, Ailee Moon, Ph.D. and Rebecca Hawes, MSW, April 1999.

FIGURE 6

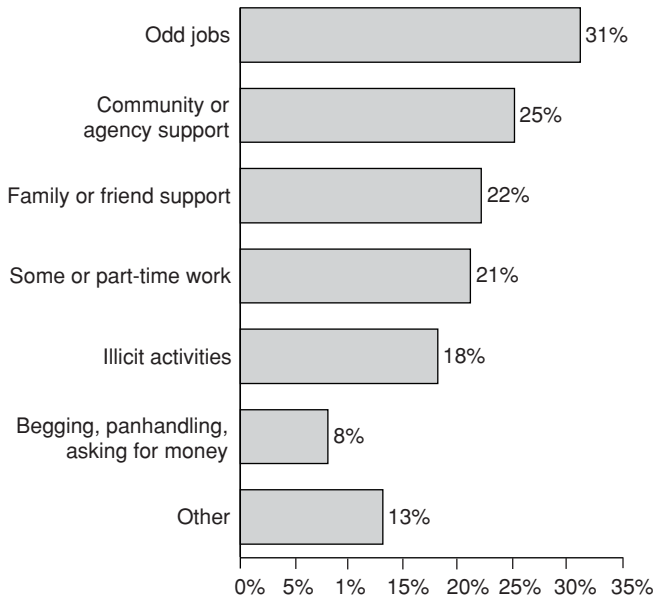
Barriers to employment, former general relief recipients, Los Angeles County



Source: UCLA School of Policy and Social Research, Ailee Moon, Ph.D. and Rebecca Hawes, MSW, April 1999.

FIGURE 7

Management of income loss, former general relief recipients, Los Angeles County



Source: UCLA School of Policy and Social Research, Ailee Moon, Ph.D. and Rebecca Hawes, MSW, April 1999.

How a crime against humanity worked in Philadelphia

by Marianna Wertz

As of March 3, 1999, two years after Gov. Tom Ridge's (R) draconian Act 35 became law, any Pennsylvania resident who has received 24 months of welfare cash assistance was required to be working or participating in a work activity for a minimum of 20 hours per week, or be sanctioned and potentially lose all benefits. A work activity may be unsubsidized work (i.e., slave labor), subsidized work, work experience, workfare, on-the-job training, or community service, but it does not include any educational component. When Ridge rammed through Act 35 in 1996, Lyndon LaRouche denounced it as a "crime against humanity," prosecutable under the Nuremberg Code, because it would eventually result in the death of thousands of poor, elderly, and sick Pennsylvanians.

An estimated 25-35,000 heads of household in Philadelphia will hit this deadline by December. With a majority of the Pennsylvania Temporary Assistance for Needy Families (TANF) caseload (Philadelphia has 61,000 heads of household and more than 130,000 children), the city's one comprehensive job-creation program, Greater Philadelphia Works, began in June 1998 and plans to move only 15,000 clients into the workforce over the next two years. Finding even those jobs, however, won't be easy. Since 1979, manufacturing jobs in the city of Philadelphia have declined 53%, and the city has lost a total of 250,000 jobs in the last 25 years, while suburbs—to which there is limited, if any, mass transportation—have gained 750,000 jobs in the same period. A significant number of jobs have been lost in the process of mergers and consolidations that have permeated the Philadelphia region, particularly affecting low-wage employment in the health and banking sectors.

Not only are there insufficient jobs available, but as Philadelphia City Councilman Angel Ortiz reported in January to the City Council's Joint Committee on Public Health and Human Services and Law and Government, those welfare recipients who are now in need of work are mismatched for the jobs available. About 30% of Philadelphia's TANF clients are functionally illiterate, 21% lack English proficiency, more than 50% lack a high-school diploma, 40% may be addicted to drugs or alcohol, and thousands have been victims of domestic violence. Despite this, both Federal and state laws place strict limits on the amount of time that a welfare recipient may spend on education and training without simultane-

ously having to meet a work requirement.

Ortiz's report noted that Pennsylvania is considering implementing the kind of Work Experience Program which New York City adopted. New York's WEP involves only unskilled labor, offers no training component, provides no vacation or sick leave, and requires no health and safety training.

Participants in the New York City program visited Philadelphia in 1997 to testify at the first round of City Council hearings after implementation of Act 35. They spoke of being forced to drop out of school in order to work the requisite number of hours, and of being used to replace former paid city employees who lost their jobs through downsizing. Ortiz's report stressed that "the state cannot pit TANF recipients against those already holding jobs. A program that provides no opportunity for training, education, or job-search will do little to prepare TANF recipients to become self-sufficient."

Inadequate child care

Welfare workers are also parents, and require adequate child care to move from welfare to work. Yet, of the estimated 38,000 children currently in regulated child care facilities in Philadelphia, approximately 16,000 receive subsidies to help with the costs of such care, and the waiting lists for subsidized care in regulated facilities are lengthy. Many regulated providers do not accept subsidized children, often because the Commonwealth reimburses child care providers at a rate well below that paid by private-paying families. Now, following the March deadline, an estimated 30-60,000 more children are being added to this already-overcrowded system.

A further monkey wrench was thrown into the child care crisis created by Act 35's implementation, when Governor Ridge, a couple of months ago, increased the amount of money that non-welfare mothers have to pay for state-subsidized

child care, so that mothers on welfare, who are now forced to go to work, can put their children into child care. Thus, the working poor are having to pay for the cost of child care for the welfare poor.

'On the backs of vulnerable citizens'

At March 2 hearings on welfare reform held by the Pennsylvania House Democratic Policy Committee, Philadelphia Mayor Ed Rendell denounced the Federal welfare reform law and said that he had urged President Clinton to veto it. The Personal Responsibility and Work Opportunity Act (PRWORA), as Federal welfare reform was called, was \$12 billion short of providing adequate child care, training, and jobs, and was simply a "measure to reduce the government's deficit on the backs of its most vulnerable citizens," Rendell charged.

Although Clinton later restored money for training and job placement, Rendell said, the program is still seriously deficient. There is already a surplus labor market in Philadelphia, especially light of recent mergers in the banking and health care sectors, Rendell said.

In addition, Rendell said, there's the cost to the city if even 14,000 of the estimated 25-35,000 heads of household—which is the approximate success rate in the most successful states' figures on welfare reform—fail to find even part-time work. Rendell cited the following increased annual costs: shelter system, \$36 million; foster care, \$1 million; health care, \$4.6 million; transportation to school, \$1.2 million. The total cost is \$42 million a year.

No tracking

At the time of the March hearings, *EIR* asked both Councilman Ortiz and the Pennsylvania Department of Public Welfare if there were any mechanism to track those who were

Philadelphia job loss facts, as of 1996

Philadelphia lost a total of 250,000 jobs in the 25 years prior to 1995.

From 1979 to 1995, Philadelphia lost more than half of its factory jobs, going from 143,400 down to 64,000. Among other trends:

Transportation, utilities, and communications jobs declined by 32%. Retail and wholesale trade jobs declined by 24%. Finance, insurance, and real estate jobs declined by 15%.

Job numbers that increased: government (11%); education, legal, and business service jobs (21%); and health services (51%).

From 1980 to 1995, the Commonwealth of Pennsyl-

vania lost 381,500 manufacturing jobs.

The nine-county area around Philadelphia also lost 19,000 manufacturing jobs from October 1995 to 1996.

In 1995, the Philadelphia region had the lowest growth rate of any major U.S. urban area.

Although health care was still big business in the Greater Philadelphia region in the mid-1990s, employing almost 234,000 in the area, there was a decline of 2,400 health care jobs in the city in 1995; and 1,300 fewer jobs in the suburbs in 1995.

As of 1996, it was calculated that work requirements in the new welfare legislation could add up to 57,000 welfare recipients to the job-seekers market, when it already contained 47,000 Philadelphians unable to find work.

Sources: Philadelphia Unemployment Project, Philadelphia, Pennsylvania. Statistics provided by the U.S. Labor Department, the Pennsylvania Department of Labor and Industry, and the *Philadelphia Inquirer*.

terminated from welfare. We were told the state does not track this, and therefore nobody knows what has happened to them.

On June 11, *EIR* re-contacted Councilman Ortiz's office to see whether, three months after terminations began, there is any information available on those forced off welfare. The answer is, no. Though the press is full of "success stories" about the drop in the welfare rolls, the "Disappeared" are just that — disappeared — we were told.

In the absence of adequate information from the Commonwealth, Councilman Ortiz's office is now taking a closer look at the issue of child care for the women leaving public assistance. Who will take care of the children? Are there sufficient child care slots available in Philadelphia for thousands of additional children, whose mothers work for meager wages, either very early in the morning or late in the evening, at jobs miles away in the suburbs?

Contacting the 'Disappeared'

Congreso de Latinos Unidos, a social service agency in Philadelphia, is one of a few such organizations to which the Department of Public Welfare, under pressure, has given the names of welfare recipients who are either about to be terminated from welfare or have already been terminated. *EIR* contacted Executive Director Alba Martinez, to ask what has happened with those recipients whom they have contacted.

Martinez told *EIR*, "From our experience, what we are finding is that a number of people are taking jobs that are very entry-level jobs, without necessarily having the skills and the training and the educational background that will help them stay permanently employed. So, folks are being pressured to move into the workforce in ways that don't necessarily help them become self-sufficient over the long term. That's one instance that we have seen.

"Another instance is that people who are required to comply with the rules don't do so because they have a lot of fear or they are in denial or they really don't feel supported in the process, so that they ignore the letters from the welfare office telling them to come in."

It's at this point that Congreso contacts the recipients, Martinez said, and tries to help prevent their termination, while helping them qualify and find a living-wage job, child care, transportation, and all the other elements of job-readiness which are not adequately covered by the city or state.

The reason for this, Martinez said, is that "people may get a job that doesn't pay very much and then they drop their welfare altogether, because they don't want to keep going back, and then they're not getting the health insurance that they're entitled to, or the food stamps. So, they end up becoming poorer than they were before."

While they have seen some "success stories," Martinez said, Congreso believes that "we need to build a different approach to this altogether. We want to see that there are training opportunities and educational opportunities for every adult in our neighborhood and that's really what we're going to aim for. This is not only about helping people who are on

these lists, which we want to do. At the same time, we're involved in a coalition that's trying to come up with an economic plan for our neighborhood that revolves around people, not around business. What are the kinds of educational programs that our people need. What are the training programs that they need and want. And then we're going to try to get them. Because training and education is really what they need."

The population served by Congreso has the additional problem that many are immigrants, most of whom are not eligible for welfare in the first place. For those who are eligible, Martinez said, "the language barrier is very important and needs to be taken into account in three ways. One, is that perhaps they don't always *get* the rules that they're being asked to follow. Secondly, it's harder to find a job when you don't speak the language that most employers require. Thirdly, there are hardly any educational training and support programs that meet their language needs. Three strikes and you're out."

The next several months will test whether the proponents of Act 35 and PRWORA can be forced to provide a humane solution to the crisis that their "welfare reform" legislation has created, or whether those who survive it will have to seek juridical remedy, as LaRouche had warned, for the crimes against humanity which are unfolding against America's "Disappeared" today in Pennsylvania and other states across the nation.

Interview: Henry Nicholas

Repeal welfare repeal, and then begin reform

Henry Nicholas is International Vice President of the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO; President of the National Union of Hospital and Health Care Employees, AFSCME; and President of District 1199C, Philadelphia, Pennsylvania. He was interviewed by Marianna Wertz on June 8.



EIR: I want to ask you about the situation regarding workfare and welfare recipients in the third year since the Federal welfare law passed, particularly

given the amendment which Sen. Paul Wellstone (D-Minn.) introduced last week. It was defeated, but he had asked the Congress to conduct a study to see what has happened to what he called “the disappeared” people on welfare. Can you fill us in on the situation with people who have been dropped from the rolls and nobody knows where they are or what they’re doing?

Nicholas: I’m as much in the dark as anyone else on what is happening. Clearly, the situation is too political to get any inquiry, because it goes against the will and the desire of the states.

Such an inquiry would be socially responsible, but the legislature itself is not socially responsible. So, I don’t think you can look forward to getting any relief in that regard. The first public group of eight people in Pennsylvania was dropped last week. That’s the public group. But, there obviously are more that are not public.

EIR: What is AFSCME’s approach to the situation with workfare?

Nicholas: I’m not speaking for AFSCME. I’m an advocate on the issue within the AFSCME organization. I don’t set policy for the international. That would have to come from them.

EIR: What are you an advocate for?

Nicholas: I have been the foremost advocate across the country on this issue. I’ve criss-crossed the country about 60 times, since Aug. 26, 1996, when the President signed his welfare repeal. I’ve argued that it’s not welfare reform. It was indeed welfare repeal, and history teaches us that that’s what we’re headed to. When you reform something, you fix it. When you repeal it, you eliminate it.

EIR: So, in your view, this basically eliminated the safety net for people.

Nicholas: Yes, in anybody’s view who understands reality. If they say, look, regardless of your station in life, once you’ve been in this system for five years you’re dead on arrival. Any sane person knows that there are not enough jobs to put to work the millions of people who are being replaced. There are jobs closures, workers with greater skills and current work record that get put out every day. So, these welfare repealers [recipients forced to work] have to get at the very end of the line, and I don’t know anyone [employers] dutifully looking for that population.

EIR: Most of those who are getting jobs are earning at or slightly above minimum wage.

Nicholas: But you can’t live on that. That’s imposing poverty. When you get the job, you give up your health care and your child care and all the other stuff that comes with it.

EIR: Are you seeing a growth in homelessness?

Nicholas: No, there is a transition in what is occurring, and

will occur. As we dump the poor, we increase the intensity of our industrial jail complex. Now, prisons are the fastest growing industry in the country. We are now the prison capital of the world. And, clearly, there is a moral breakdown, because those who understand the need for the quality of life issues are afraid to speak out for them.

EIR: It might be interesting to contrast the rise in the prison population to the fall in the welfare population.

Nicholas: You can begin to see it. And the criminal part of it is the flagrant human violation aspect of it; and nobody’s writing about it, nobody’s speaking about it, and that is the total privatization of prisons, and then turning prisoners into workers. If you call up to check on your credit cards, the computer part of it is in the prisons. They are working what could be a \$75,000-a-year job in prison [for poverty wages], and when they are out of prison, they can’t get employed.

In many states—Wisconsin and all those other states where prison work is commonplace—the socially minded journalists are not free to write about it.

EIR: Because of the governor?

Nicholas: I don’t know what it is. Probably because of editorial policy.

EIR: Where do you see a solution coming from?

Nicholas: You can’t get a solution on public policy unless you advance an agenda that carries with it quality-of-life issues. You can’t get that today as we enter the new millennium, with a stock market going through the roof. And, the suffering index is increased by the fact that we’re spending \$34,000 a year, minimum, per prisoner. If you gave a minimum wage of \$34,000 a year, 80% of the people wouldn’t be in prison.

EIR: If you gave that as a wage, instead of sending him to prison, he might be productive.

Nicholas: He would be productive, taking care of his family, paying taxes.

EIR: But there are a lot of companies which are invested in prison work and making a fortune from it.

Nicholas: I know. The government is working on it. That’s the problem.

EIR: Wellstone’s bill failed by only one vote, in demanding that there be tracking of welfare recipients who have been taken off the rolls.

Nicholas: Tracking is just one step. Once you track, so what?

EIR: Is there anything further you’d like to say?

Nicholas: I think there should be welfare repeal repealed. It was not welfare reform.

EIR: You mean there should be real reform?

Nicholas: No, no. It should be the repealing of welfare re-

peal, and then begin a program of welfare reform.

EIR: What would be in that welfare reform?

Nicholas: Obviously, you can't talk about welfare reform if you're playing so hard for vouchers and other forms of education that eliminate the basis of the poor getting a decent education.

Interview: George Zeller

Ohio: results so bad they won't print them

The peak welfare assistance caseload in Ohio was reached in March 1994, at 697,666. Reforms enacted throughout the 1990s (state welfare cuts began in 1994, and Federal cuts began in 1997) have steadily dropped the number of people on welfare in Ohio, including a reduction of 55,000 in the past year alone. Ohio's latest welfare reform was enacted in October 1997, limiting welfare benefits to three years for most people. The April 1999 figure, for Ohio Works First, is 271,456.

What is happening to those people, mostly women and children, who have been dropped from assistance? A January 1999 study by the Ohio Association of Community Action Agencies, representing the state's 52 local community action organizations that provide services to the poor, hit the headlines because it showed that most former welfare recipients are not moving to work and that the number of people removed from the food stamp program has exceeded job growth in most of Ohio's 88 counties at some point in the past three years. EIR asked George Zeller, a senior researcher for the Council for Economic Opportunities, who helped prepare the report, to answer that question. He was interviewed on June 9 by Marianna Wertz.

EIR: We are planning a feature article on what Sen. Paul Wellstone (D-Minn.) last week called "The Disappeared": What has happened to the people who have been dropped from the welfare rolls? He asked for a Federal study of this. You did a study of this in January for Ohio.

Zeller: Everything we're doing here, we're updating continuously. We have a variety of materials, mainly focussed on Ohio, or even more so on Cleveland.

One thing we did, was we compared the number of families losing welfare benefits to the total job growth simultaneously in every county across the state for the last three and a half years. In most of the counties, the number of families

leaving welfare exceeded the total number of jobs created.

There are two wage match studies that we have in Ohio. The Ohio legislation, which is very draconian compared to the other states on the welfare reforms, nevertheless has a provision in it that requires that the states do a report similar to what Senator Wellstone called for. They have to send a report to the state legislature showing the number of people who left welfare, whether or not they had jobs, and how much the jobs paid. The first month that they put the state's welfare reform into effect, they did that for one quarter. They took a look at everybody who left the first month, and matched them up with the complete jobs and earnings database that they have at the Ohio Bureau of Employment Services. The numbers came out so bad that they quit doing it.

EIR: Really!

Zeller: And they haven't filed this required report with the legislature. What they found was, that of the people who left—November 1997 was the first month that Ohio's system was in effect—36% showed up the quarter after that in the employment database. Then, they looked at three quarters subsequent to that. They went all the way to the fall of 1998, and they looked at people who stayed off welfare that whole time—so, that would be people who stayed off, not only *were* off, but *stayed* off for a year—and matched them up with that same job database, and found that 42% of them had jobs. So, somewhere between one-third and two-fifths of the people leaving welfare in Ohio have jobs, and the rest don't. The data were so bad, they ceased doing the match.

EIR: Were there any data on the wage level of the jobs, or how long they stayed in those jobs?

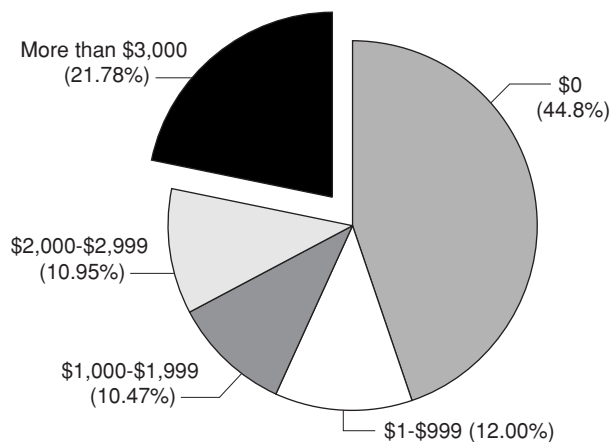
Zeller: That's the whole issue here in Ohio, because they are required to do that and they're not doing it. There was a separate effort done, that covered Cuyahoga County, which is Cleveland and its suburbs only. It was done by a professor [Claudia Coulton] at Case Western Reserve, under contract from the county here, rather than the state. She matched up everybody who left welfare here in Cleveland with the job database, and it did have earnings in it. Not only whether they had a job, but also how much they made. What she found is that 45% of them had no job; 12% of them had a job, but it paid less than \$4,000 in a year. [See **Figure 1**.]

EIR: That's below minimum wage.

Zeller: They may have been working at minimum wage or above, but they didn't work all year or full time. You put those two together, 45% making nothing and 12% making less than \$4,000—that's 57% were making less than \$4,000, which is the majority. About one-fifth did get jobs that actually got up to the poverty level or above. So, about one-fifth of them are succeeding here in Cleveland and four-fifths are still poor, and a large majority of that four-fifths are pretty near indigent if not literally indigent. That was consistent with the statewide

FIGURE 1

Thirteen-week earnings by former welfare recipients in 1996 after being off welfare assistance for three quarters, Cuyahoga County, Ohio



Source: Claudia Coulton, et al., Case Western Reserve University Center for Urban Poverty Table: GEOGC, 1996.

data, although they didn't put earnings with it.

Certainly, everybody who leaves welfare does not have employment. The large majority of them are still poor. The question the Senator is asking is: How do you survive under those circumstances? The first thing that happens to you, is you lose your housing. You can usually go to a food pantry to eat. You already have clothes — you don't have to buy more clothes. You can hustle a little bit. So, people can get by on most things. But the one thing you can't do when you don't have any money, is pay rent. There are mass evictions taking place with these people.

EIR: Can you quantify that?

Zeller: Well, no, because we don't keep good data on rents. We have excellent data on owner-occupied housing, but we have little or no data on rental transactions. That's not something that has to be reported. If you go rent an apartment this afternoon, nobody will keep track of it except your landlord. The one source of data we may have later on in the year, is the school district here in Cleveland keeps track of how often the students that live in the district move during the school year. That percentage has been shooting up.

Where do they move? They're basically going in with their support network, which is most often family. They move back in with their mother or their aunt or somebody like that. Then you've got a household with three generations or more that's poorer than it was before. That's basically what's happening, and why you don't see large numbers of homeless out on the streets.

EIR: There were reports coming out of Massachusetts of up to 20 people living in a two-bedroom house.

Zeller: This is the response that people are making. People think that the poor are somehow shiftless and they're not resilient. The poor are more resilient than most of the rest of us. They're not out rioting in the streets. They're not out living under bridges. They're doing what they have to do to get by, but they're certainly a lot worse off.

We do have measures of the size of the cuts here. We measured the degree to which the welfare benefits have been cut, both at the neighborhood level in Cleveland and also at the county level across the state. Here in Cleveland, we have a relationship between that and how much the total income is in the neighborhoods. In the very poor neighborhoods in Cleveland, we have three neighborhoods that lost more than 10% of their total income. So, that has had economic effects locally. Thirteen of the city's neighborhoods had at least a 5% aggregate income loss.

The total cut here in Cuyahoga County is \$262 million a year, so far, in benefits. That doesn't count administrative costs or anything like that. That's just the amount that benefits have been reduced in the last five years. Statewide in Ohio, it's \$1.5 billion.

What you have here is a large income transfer from very poor people. That's what the welfare reforms are about. We have measured that here locally, but it's happening everywhere, all across the country.

If they tried that against the elderly, they wouldn't last five minutes in Congress. The squawking would be immediate. Every time they try and cut Social Security, that drops like a hot potato. If they tried a large entitlement cut with the middle class, like if they tried to start eliminating mortgage interest deductions or something like that, again, the squawking would be enormous. But, when they carried out a large income transfer away from low-income people, it was very popular on a bipartisan basis.

EIR: They have no representatives to squawk for them.

Zeller: Well, maybe Senator Wellstone. But, it was very popular, and signed-off-on by both parties. The bill that went through the legislature in Ohio passed almost unanimously in both the state House and Senate. There was one guy who voted against it. All the others, both parties, voted in favor of it. It's very popular politically to take money away from poor people.

We have measures of the relationship between the labor market and welfare cuts. We've been looking at that carefully, as I mentioned, in these small studies that we've done here. What we're finding, is that there's very little relationship between the labor market and welfare. That's one thing you hear people saying: "It's a good thing they did the welfare cuts when the economy was good, because these people are getting jobs because the unemployment rate is low and the economy is good."

Well, it probably was better to do it during the upside of the business cycle than the downside, obviously; but the fact that the economy is good does not mean that all these people are getting jobs. In fact, large fractions of them aren't, and most of them are remaining poor, and many of them are poorer than they were before.

It did show up at the national level in one number. Once a year, they put the national poverty and income data out from the Current Population Survey. That's where the national poverty rate comes from, and the national median income. The latest out is 1997. They don't have 1998 out yet, that will come out in the fall. In 1997, you started to see the effect of this. The poverty rate went down in 1997, and the President had a press conference to take credit for it, and everybody was happy. The median income went up also for the country. But, although the poverty rate went down, they also measure it at different levels of poverty, one of which is 50% of poverty, that is, people who make only half of the poverty level. The 50% poverty rate went up in 1997.

EIR: We covered that at the time.

Zeller: That was the first indication at the national level that this was actually showing up in a national number. Even though the business cycle was favorable, the number of very poor people was also simultaneously going up. That was the direct result of the welfare cuts.

EIR: Very interesting. There's the joke going around that they're creating hundreds of new jobs. I know, because I have three of them.

Zeller: Actually, the people who were on welfare, a lot of them were working all along. In Ohio, a welfare benefit is \$362 a month for a family of three. That's the average family. That's \$4,344 a year. Well, how do you live with two children on \$4,344 a year?

EIR: In Texas and Louisiana, it's around \$190 a month.

Zeller: Yes, some of the Southern states are even lower than Ohio, but as Northern states go, we're near or at the bottom. Somebody who was on welfare was already very poor in Ohio. So, the fact is, a lot of these people, at least part of the year, or part time, were working as well, because you couldn't live on what a welfare benefit was. Now that they have lost their benefits, it's even more urgent that they do so. But, surprisingly, large fractions don't hold a job at all, and they are therefore just worse off and have moved into these larger households.

EIR: Do you track the numbers of people who use charitable food and shelter?

Zeller: I'm familiar with the efforts that we try to do. The trouble is, most of that is run by voluntary associations: churches, the Hunger Network, the food bank people. It's very heavily volunteer-operated, and therefore they don't feel

a compulsion to keep statistics that are aggregatable across the state, unfortunately. Although, there are people who do it. The anecdotal reports we're getting, or what statistics we do get out of the network, are showing that there's an increased demand at the food banks.

Tony Hall, who's the Congressman from Dayton, is well known as a hunger advocate, has been for a long time, not just in the U.S., but foreign countries also. He did a tour with some of the Ohio Congressmen about a year ago, where they went to a few food pantries and food banks in the Columbus-Dayton area. I talked at one of the events they had at Dayton, so I talked with Tony, and he told me that they went to some little town that was in Bob Ney's district, he's the Congressman from Appalachian Ohio. When they got there—this is just a little town with 2,000 people or something—and there was an enormous line of people out in front of this pantry, several hundred people standing in the wintertime, and Ney was astonished. He didn't realize this was going on in his district.

The trouble is that documenting all that is difficult. There is no national data collection on the number of people going into food pantries and so forth.

Mississippi: 'reform' where there's no work

by Marianna Wertz

Mississippi is probably the best example of what "welfare reform" will look like when the speculative bubble now parasitizing the U.S. economy, bursts. With an official 10% unemployment rate, and upwards of 18% in such Delta areas as Sharkey County, welfare reform in Mississippi has been "less a work incentive than a welfare disincentive program," according to the Communications Workers of America Local 3570/Mississippi Alliance of State Employees, the union representing employees who work in the welfare system. The "bottom line" is that there are very few jobs for welfare recipients being forced to work, even with the state subsidizing \$4.15 out of the \$5.15 minimum wage employers are required to pay, and the vast majority of welfare recipients are simply being left on the human scrap heap. Since 80% of the caseload are African-Americans, the role that endemic racism plays in the difficulty of finding work is also quite real.

The state began its welfare reform policy in the fall of 1995, operating a trial program called WorkFirst in six counties. Rims Barber, head of the Mississippi Human Services Agenda, a non-profit advocacy group for the poor, put together a study of data from the Mississippi WorkFirst experiment's first nine months (October 1995-June 1996), which

TABLE 1

Workfare in Mississippi

Category	Number of cases	% of caseload
Caseload for six counties	12,011	100%
Selected for WorkFirst	5,152	42.9%
Got regular jobs/kept	264	2.2%
Placed in subsidized jobs/kept	125	1.0%
Not placed in anything	3,970	33.1%
Sanctioned	478	4.0%

indicated that a mere 1% of those who applied for welfare at the inception of the program were actually placed in jobs and kept them (see **Table 1**).

As Barber told *EIR*, the reality is that 1) there are insufficient jobs, even of the low-paying variety, and 2) most of those on welfare are not job-ready, lacking the necessary skills and training, which is not provided for in either state or Federal legislation.

Mississippi WorkFirst involves a two-step process for welfare clients. When they first apply, they are sent to the Employment Security Commission (the unemployment office), to see if they can get a job. Failing that, they fill out an application for welfare.

About half the people who failed to find employment are selected out for WorkFirst, and the others simply receive their welfare checks, functioning as a sort of control group. However, as the 1996 data show, of the 42.9% selected for WorkFirst, only 3.2% got jobs and kept them.

Two years later, in January-March 1998, Jackson-based Millsaps College conducted an evaluation of the program, interviewing 351 former Temporary Assistance for Needy Families (TANF, the Federal welfare program) clients in eight counties, six months after they had left the program. Barber analyzed these data and gave *EIR* his observations, noting that nearly two-thirds of the former clients were unemployed. Here are his findings:

A look at the WorkFirst results

- Assuming that the primary goal of the TANF program is to help clients gain employment that will increase their earnings and enable them to leave TANF because their income is too high to continue to qualify for the program, only 42 (13%) satisfied that goal. The majority left because they did not fulfill program requirements.

- Assuming that the secondary goal is to force people out of the program so that they will become desperate enough to get work on their own, this strategy worked for only 81 people who found and kept work during this six-month period (and of these, only 54 were working fulltime).

- Another 62 persons were able to find temporary jobs,

but did not work continuously throughout the six-month period. After six months, nearly two-thirds of the former clients (228) were unemployed, and 166 never were able to find jobs.

- Only 49 of these working families got vouchers to help with their needs for child care. Most families who worked patched together some form of child care from among their family and friends (without any help from the Department of Human Services [DHS]).

- The study found a high correlation between employment and having a driver's license or owning a car, but failed to discover how many persons received transportation assistance from DHS.

- Only 35 persons had private health insurance for their children, and only 44% of the children maintained Medicaid eligibility (although almost all of the children should have remained technically eligible). The study mistakenly assumed that some 32% had their health care needs taken care of at the Health Department, but the Health Department does not treat sick children.

- Only 58% of the families are still on food stamps, although most should technically remain eligible due to their need.

- Only 18% of the children received some child support.

'Slavery'

Mississippi State Rep. Jim Evans (D-Hinds County), who is also AFL-CIO State Field Director for Mississippi, discussed the welfare crisis in the state in a 1997 interview with *EIR*, a year after the welfare "reform" program began.

Evans said, "Just the word 'fair' associated with that is a tragedy. The editor of one of the newspapers described it on the front page as the only thing worse than the Black Codes that were put in place to control women during slavery. It's sending women back to slavery. It's telling them that they must work on a job—and they take their food stamps and AFDC [Aid to Families with Dependent Children] and other benefits and give them to the employer, and the employer gives them another dollar. They're trapped on a job where they can't quit. They have no rights, no voices, no grievance procedures, no nothing. They pay them minimum wage where they can't even make a living. Then they can't go back on the program, even if their children and families are in need.

"It's a horrible, shameful piece of legislation that came out of Washington, D.C. In my lifetime, I don't ever remember a piece of legislation that shameful. It's purely political, with no substance, no way to work. The folks who put it together knew it wouldn't work. But they knew they would get people off the welfare rolls, because they'd either die or give up or just get lost. What's happened in Mississippi, I'm sure that people are leaving the rolls, but they can't find 5% of them who got a job. They're falling through the cracks and falling under the floor, and dying in degradation or living in degradation."

Debate on Balkan reconstruction rages around LaRouche proposal

by Umberto Pascali

The overwhelming majority of the Balkans' leaders agree on at least one point: If reconstruction and development of the area is not achieved, if a New Marshall Plan for the Balkans is not launched immediately, there will be no peace. Rather, there will almost certainly be an escalation in that war, which will soon spread out from the region with appalling, yet predictable consequences. The "peace in the Balkans," reached after two months of NATO bombings of Kosovo, Serbia, and Montenegro, could therefore be nothing more than a momentary pause, unless real peace is achieved. And, real peace means reconstruction, economic development—the opportunity to have the dignity of a productive occupation and the hope for a future for the people of the Balkans, who have suffered almost ten years of war.

At a recent conference in Washington on "Balkan Assistance and Reconstruction," Bosnia's UN Ambassador, Muhamed Sacirbey (see article, p. 32), recalled the "lost chance" in 1995-96, following the Dayton Peace Accords that ended the hot phase of the war and genocide against Bosnia. The fighting stopped, but peace did not arrive, because Bosnia was denied sovereign government authority on economic and financial matters, and was not given a chance to restart its "economic engines." If that had been given, the war in Kosovo would not have happened.

Said Ambassador Sacirbey: "I think there is the realization that without economic assistance, without rebuilding, without making an effort to economically as well as politically and militarily integrate this part of Europe into all of Europe, in fact there will be a very heavy price to pay by the western

European countries and the United States *in terms of future events like Kosovo.*"

The Bosnian leader was echoed by Amb. Miomir Zuzul of Croatia, who, in an interview published on p. 33, described in similar terms that "lost chance," especially in terms of the ambitious and courageous mission conceived by the late U.S. Secretary of Commerce Ron Brown at the beginning of 1996, before he and a delegation of 30 top U.S. economic leaders were killed in a plane crash in Dubrovnik, Croatia. Said Ambassador Zuzul: "Secretary Brown organized a group of businessmen and investors who were already prepared to invest. . . . That was immediately after Dayton. And if that had really happened at that time, if at that moment we had had the American investments in that region, maybe a lot of things could have gone in a better direction. Probably Bosnia would have been stabilized much quicker, and *maybe Kosovo wouldn't have happened.*"

This debate on Balkans reconstruction is raging all over the world right now, as shown, for example, by the Washington conference we report on in this *Feature*. The question of the reconstruction of the Balkans is a question of life or death, first of all, as we have stressed, because it means the difference between real peace and escalation toward a global war. But, also, because it presents an historic possibility for the world's nations to escape from the mortal embrace of the supranational financial institutions, such as the International Monetary Fund (IMF) and the World Bank. The "civilian side" of the Bosnia Dayton Peace Accords was given as a franchise to these institutions, and they did not allow any reconstruction,

and very skillfully sabotaged the strong and healthy push of the Bosnian leaders and peoples in this direction. In fact, the world's nations now have the chance to save themselves, by saving the Balkans.

In April 1996, ten days after the death of Commerce Secretary Brown, a delegation of the Schiller Institute, including U.S. legislators, visited Bosnia, landing at Dubrovnik airport. In a statement, the delegation stressed: "Indeed, the approach of Secretary Brown to the reconstruction of Bosnia was the opposite of the philosophy and practice of the World Bank and the IMF. . . . Not a little help, in exchange for Bosnia's giving up its national sovereignty and becoming enslaved in the debt mechanism. . . . [He intended to unleash] the positive power of the American economy, as opposed to the destructiveness of financial speculation and usury . . . to *bring back the U.S. to its real interest: a power for the good, a nation that develops itself by helping developing the world.*"

LaRouche's 'three principal elements'

The debate on reconstruction is an unprecedented opportunity to bring the world back from the edge of financial disaster. Leaders of the world's major countries are now looking for a solution. And this debate on how to survive is also converging ever more explicitly on the blueprint detailed by economist Lyndon LaRouche. His essay, "Balkan Peace and World Economy: The Case for a 'New Marshall Plan' " (*EIR*, June 18), is being widely circulated both in the West and the East, and is being studied with utmost attention. In particular, his "three principal elements" to trigger a process of reconstruction, are becoming the reference point for the discussion.

These elements are: 1) A multinational military-engineering authority with responsibility for the emergency basic infrastructure mission for the initial period of operations, and for liaison with private economic initiatives for reconstruction. 2) A special financial facility, operating with *independence from existing monetary* institutions, and modeled upon the success of the Credit Bank for Reconstruction (Kreditanstalt für Wiederaufbau, or KfW), the crucial ingredient behind the German economic miracle after World War II, for coordinating the funding of both public and private enterprises. 3) A private Contractors Authority, assembled in memory of Ron Brown, which mobilizes public and private vendors of materials and engineering services for support of the infrastructure-building effort.

On June 18, a few days after the publication of LaRouche's essay, the German economic newspaper *Handelsblatt* reported that Manfred Schüler of the KfW has asked the German government to propose the creation of a centralized financial institution to lead the Balkans reconstruction effort. Obviously, Schüler's proposal implies very clearly that the IMF, the World Bank, and other, European supranational financial institutions are to be kept out of the process of reconstruction.

The proposal echoes a reconstruction proposal for the whole of eastern Europe put forward by Alfred Herrhausen, the head of Deutsche Bank, before he was killed by a terrorist bomb in November 1989. Because of the KfW's long-term experience in the field of economic development all over the world, Schüler stressed, the KfW is qualified for the task. The reconstruction of the Balkans can be achieved through an "emergency aid fund" for the most immediate needs, especially in the areas of transportation, water systems, and hospitals.

Furthermore, an investment fund for long-term credit should be established to finance all needed infrastructure projects, and the creation of new productive companies. Such long-term credit for investment should be handled with an interest rate of 0.75% for a period of 40 years, including a 10-year grace period.

Indeed, it would be difficult to find a proposal further from the usurious, controlling philosophy and practice of the IMF and related organizations. (For an analysis of KfW's history and crucial relevance for the Bosnian reconstruction, see article on the KfW in this *Feature*, p. 41.)

A conference in Washington

Similar ideas were heard clearly at the Washington conference on Balkan Assistance and Reconstruction. Many of the 200 participants were pleasantly surprised when a gentleman from the U.S. Army Corps of Engineers, who is stationed in Wiesbaden, Germany, confronted the representative of the World Bank, asking him why it is impossible to get World Bank contracts for U.S. firms that want to invest in Bosnia. He was talking from direct experience.

At the conference, there was an unmistakable atmosphere of hostility toward the supranational financial institutions that, in a sense, are acting like the previous communist regime, imposing its economic diktat on the former communist countries. These countries, as some of the participants commented in private, were looking for development and freedom, and instead have been condemned to economic death through "shock therapy" and similar financial poison.

Many were also clearly groping for new financial instruments, along the lines of that proposed by Manfred Schüler. Exemplary was Amb. Mircea Geoana of Romania, who answered a question from *EIR* by calling for the creation of "a sort of consortium of the major financial institutions and investment entities . . . to come together with a common regional approach, and to really have a [global] approach on the region." This, he said, "could evolve into an independent crediting unit."

Ambassador Geoana said that he hoped that such a proposal could be presented at the upcoming meeting of the "most industrialized countries," the Group of Eight, in Cologne. This was the same venue that Schüler proposed that the German government present his call for a Bank for Balkan reconstruction.

West's success depends on rebuilding Balkans

Mr. Sacirbey is the Ambassador of Bosnia-Herzegovina to the United Nations. He gave this speech at the June 15 conference on "Balkan Assistance and Reconstruction."

I thank you for the opportunity to speak to the business community about the business and economic environment in our region. I can talk about Bosnia-Herzegovina, but the insight that I will provide, I hope will be useful for the whole region. . . .

About four years ago, I was Foreign Minister of Bosnia. I found myself at Brussels at the time with several of our officials, before the European Commission, and this was done to encourage Bosnia to accept the peace plan. Well, frankly, peace came with a rather heavy cost. We were encouraged to make a deal with Mr. Milosevic. And it was very difficult to foresee how heavy a price making a deal with Mr. Milosevic would be. We were encouraged nevertheless to make this deal, and one of the incentives was the economic reconstruction of Bosnia-Herzegovina, *and* the integration in what we called the family of the Western nations. I remember specifically asking the members of the European Commission: What, in fact, will Bosnia as a country receive, once the peace deal had been concluded? We were promised economic assistance, reconstruction assistance. And, we asked, would Bosnia in fact have a special status within the European Union? There was a brief reply: "Well, we don't have such an instrument available for the EU, but there will be in fact a special relationship, and undoubtedly Bosnia will benefit from this special relationship." At the same time, there was a lot of talk that Bosnia would also be integrated into the NATO Partnership for Peace program.

Four years later, I must say that there have been more disappointments than I could have imagined.

Let me make sure that we understand each other. The Dayton Peace Agreement was made in part with Milosevic, but it is the only peace agreement that we have, and we will hold to it dearly. We believe that the way to go forward is not to change the Dayton Peace Agreement, certainly not to revert back to conflict, but in fact to take that agreement and make sure that it is seriously, comprehensively, and faithfully implemented, and to take all the advantages that it offers and the disadvantages, to look to overcome them over time.

Mr. Milosevic's staying in the region, is a problem. But

as always, there is a bright side to it.

Right now there is talk of a "new Marshall Plan," and I wonder whether or not we should believe the new talk of a "Marshall Plan," as we Bosnians believed in the talk of "special relationship" four years ago, when we went to Brussels with the members of the European Union. And I think the answer is that, this time, everyone has learned a lesson. I think that the promises of a "new Marshall Plan" are not being made as an empty gesture.

Four years ago, Mr. Milosevic was made a cornerstone of the Dayton Peace Agreement. That was a mistake. And I am sure we can start pointing fingers, but I think it is more appropriate to say that from Brussels to Washington, and certainly to London, and I believe even Paris, the lesson has been learned regarding Mr. Milosevic, and I think his days are numbered.

Number two, I think there is the realization that without economic assistance, without rebuilding, without making an effort to economically, as well as politically and militarily, integrate this part of Europe into all of Europe, that, in fact, there will be a very heavy price to pay for the western European countries and the United States, in terms of future events like Kosovo. The only answer here is to democratize, to enhance respect for human rights, but particularly to enhance economic opportunities.

About a week ago, I heard President Clinton speaking — and I am not sure where he got the line, but it sounds awfully familiar — which was, that people in the Balkans are not somehow genetically predestined to these types of wars. In fact, the whole talk of ethnic hatreds, history-old conflicts, is not accurate. More correctly, talk of age-old cooperation, tolerance, coexistence, and pluralism, is much more accurate. And on this basis, I think there is a new image of our region that is developing, one much more consistent not only with integration of this region into the Western family of nations, but also as a real zone of economic opportunity.

I don't mean to just focus on the shortcomings of others in how they have dealt with Bosnia and Herzegovina and the region as a whole. Let me identify some of the shortcomings that exist within the region, or at least particularly within Bosnia-Herzegovina. We have to be fair.

First of all, those of us who are coming from the old communist system, I think most of us have sincerely adopted a new ideology, the free-market ideology. But most of us have lived within the old communist system, and therefore the old methodology persists, in one form or another. We in Bosnia, and a few of the other countries in the region, are undergoing two transitions.

One, from war to peace. And another one, which is much more difficult and demanding, is that from communism to the free-market system.

And I think that you will have to understand that when you go to our region, you will have to address, in part, this transitional concern.

Connected to this issue is the whole process of privatization. Now, what complicates the privatization process is not only fairness and justice, and how is this done the right way? How are companies valued? It's also, particularly in a country like Bosnia, a strong sense of social responsibility. When you have a large number of people who have been left without homes, when you have a large number of people who have been left without parents, without sons and daughters, who have been left handicapped, when you have a large number of war veterans, there is a great political demand for social accountability — which does complicate the privatization process. At the same time, there is this effort to move ahead with lowering bureaucratic barriers and also decreasing taxes. So, these two goals do sometimes find themselves at odds. But at the same time, I do believe that they can provide significant opportunities.

Opportunities for the future

Now, let me talk rather briefly about the opportunities I see in the region. The first and most important one, I think, is the one that I have alluded to: We don't hear at this time, as we did three and a half years ago, "what is the exit strategy out of the Balkans, or out of Kosovo?" No one is talking about a one-year stay for American forces, or NATO forces. They're in there for the long run. . . .

To be very blunt here, I don't think NATO has yet assured itself of success; the only way it will assure itself of success in this mission is by seeing the rebuilding of not only Kosovo, but also the entire region, being completed. And the rebuilding here is not only in the sense of integration into the Western alliance, but also, of course, economic. . . .

So far, we've had \$2.7 billion spent in Bosnia. But it has been envisioned, and in fact there is a commitment, to spend \$8 billion, just in Bosnia. So we have another \$5-plus billion coming, and this certainly represents a tremendous growth opportunity. This money has been slow in being spent in the past. In part because of institutional constraints within Bosnia, but also outside. I believe many of those in fact will be remedied.

There's also another issue, which I think lurks behind many people's mind here and that is: Okay, we have a new Marshall Plan; but how similar is southeastern Europe to western Europe of 50 years ago? I think the cultural differences, the differences in the quality of the workforce and the willingness to work hard, are very minimal. If we look at the immigrant community that comes to this country, whether it be from Romania, Kosovo, or Bosnia, we find that these people are the backbone of American society. They are everything from the auto mechanics, to the teachers, to the lawyers and doctors. The difference is that we, in the old communist system, suffered from 50 years of malaise, and I think this can be very much overcome with, not only the assistance of government, but also the assistance of the business community. . . .

Interview: Miomir Zuzul

The Balkans needs a new Marshall Plan

His Excellency Miomir Zuzul is the Ambassador of Croatia to the United States. He spoke to Umberto Pascali on June 15, during the conference on Balkan Assistance and Reconstruction, in Washington.

EIR: Mr. Ambassador, we have just heard basically every single ambassador of the Balkan countries talking about the need for real reconstruction and development of the Balkans, which many called a new Marshall Plan. You just presented a very strong case for such a Marshall Plan. Is this plan now a real, concrete possibility, or could it remain on paper and be stopped, as happened after end of the war against Bosnia? Will the same factors that prevented reconstruction then, be able to do it again now?

Zuzul: I think that all signs are showing that this will be real. Of course, that doesn't depend on us. But, it is true that, now, we do see a final solution for the entire region. That is one difference compared to Dayton. Dayton was, maybe, a final solution for Bosnia, but still there is a lot of instability in the local region. Now, I think that we are coming to the final solution. That is one difference. The second difference, maybe even more important, is that, this time, the most important countries that are grouped in the G-8 are very serious, when they think that the world should take the step to do investment and some kind of (as we are calling it now very often), a new Marshall Plan.

EIR: Yes, a new Marshall Plan. *EIR* has been calling for this for a long time. I am sure you remember vividly, three months after the Dayton Agreement, in April 1996, the mission of U.S. Commerce Secretary Ron Brown to Croatia and Bosnia. He had with him with about 30 of the top businessmen of the United States. Brown had in mind a plan for large-scale investment in the real economy. He had in mind direct relations between U.S. productive industry, and postwar Bosnia and Croatia. His plane crashed while landing



at the Dubrovnik airport in Croatia, on April 3, 1996. There were no survivors.

First of all, a new Marshall Plan would commemorate what they were trying to do. Can you tell us, from the standpoint of someone directly involved in that effort, what was prepared at that time? And how do you compare what Mr. Brown's death prevented, in relation to what must be done now?

Zuzul: Thank you very much for asking me that question, because that is something that I have very deep in my heart. Because I was the one who was preparing that Ron Brown mission, so I knew the late Secretary Brown very well, and I knew almost all of the people who were involved in that mission. I was the one who was waiting for them at the Zagreb Airport [when they arrived from the United States, and then later] in Dubrovnik Airport, and finally, one of the first witnesses to what happened.

But, what I wanted to say, to really reiterate what you said: It is indeed true that the formula by which we tried to organize that mission was "trade, not debt." At that moment—and I am proud to say that it was during one dinner that I had with Secretary Brown—we came to the joint conclusion that we should start to think in terms of trade, more than in terms of debt. That dinner took place in February 1996 here in the United States, during my visit. And, based on that idea, Secretary Brown organized the Commerce Department, they organized a group of businessmen and investors who were already prepared to invest primarily in Croatia, but also in Bosnia-Herzegovina. That was immediately after Dayton. And, if that had really happened at that time, if at that moment we had had what I was mentioning before, a billion dollars-plus of American investment in that region, maybe a lot of things could have gone in a better direction. Probably Bosnia would have been stabilized much quicker, and maybe Kosovo wouldn't have happened.

It is, of course, now very difficult to answer what could have happened, but certainly, I believe that what we can say, with a very high degree of certainty, that the economy in all of those countries could be much better now if there was not that tragic event in the beginning of 1996.

EIR: Ambassador Zuzul, why, after the accident in which Secretary Brown was killed, did these plans stop? Is there a similar danger now, concerning the talks on the new Marshall Plan for the Balkans?

Zuzul: Yes, certainly, there is always that danger. But, as you know, in many historical events, it was the fact that there was somebody who had the idea which somehow created the whole atmosphere. In that moment, it was indeed Ron Brown who knew what to do, combining economy and politics also. It was inside the political framework, inside the framework of the Dayton Peace Accord. And, he had a clear idea, and then, as you said, there were also American companies with

the idea of how to do that. And, with the people who had those ideas.

Now, after that accident, maybe we lost the momentum that we had at the time of the first mission—and that kind of enthusiasm with which people went on that trip, with which people entered that airplane. And, unfortunately, I think it's not so difficult to imagine that that level of enthusiasm didn't exist any more.

But, to stay on the positive side, I can say that from that second Commerce Department mission, we finalized three big agreements with three very big American companies: Parsons and Bechtel, and we are about to sign the contract with Enron, altogether more than \$2 billion. It is true, however, that we needed almost three years to finalize that, and if there was not the unhappy event with Ron Brown's mission, we probably could have finished it in three months. So, I agree

Brzezinski yearns for World War III

Zbigniew Brzezinski is a Central European aristocrat who became the National Security adviser for President Jimmy Carter. He is currently reported to be *magna pars* in U.S. Secretary of State Madeleine Albright's circles, excelling as a political extremist with a penchant for British colonial methods. During the period immediately preceding the NATO bombing of Kosovo, Serbia, and Montenegro, Brzezinski suddenly discovered the Kosovo question, and realized that Yugoslavian President Slobodan Milosevic was a war criminal. On the basis of this flash of insight, he proceeded to reactivate the Balkan Action Council (BAC), and went on a mobilization for all-out war, not only on Serbia, but basically on anything that would help damage the real target of his hatred, Russia. In this respect, he became the spitting image of pan-slavic Russian extremists such as Vladimir Zhirinovski, and of Voicislav Seselj, leader of the Serbian Radical Party.

In several interviews, conference speeches, statements, proclamations, and books, Brzezinski has explained to the doubting, that Russia—communist or post-communist, no matter—*delenda est*, i.e., must be destroyed. China must be stopped, too. He makes no secret of his conviction that the war in Kosovo is a means to an end of far greater mystical importance: This war is merely a springboard for the beginning of a new era, a "new millennium," in which outmoded ideas such as national sover-

with you, that it unfortunately stopped us. Maybe it stopped the whole region.

But, I also believe that we moved in a good direction, and that now is the moment when what Ron Brown was trying to do at that time can be done, but with, as I said at the beginning, two significant differences: Ron Brown's mission was primarily concentrated on Croatia and on Bosnia-Herzegovina; now we have concentration on the whole region. And by region, I am thinking not only of former Yugoslavia, but really of the local region. The second very important factor is that now we have a political framework which can produce results, and that is the Pact of Stability, which is kind of the model which can allow the region to have proper development. And the third, that, at this time—contrary to the first time, when it was primarily the initiative of Secretary Brown and the American administration—this time we have, indeed, the

most important players of the world behind it: the G-8.

EIR: Our news service has been pushing very much for the idea that the reason why the Balkans has been the victim of this terrible situation, but also the reason to have hope for the future, is that, it is a bridge from Europe to the Middle East and to Asia, to what was once called the Silk Road. And, in fact, this is being discussed in many countries. This brings me to the question: The development of the Balkan area probably cannot be achieved, if not in the context of something even more ambitious, like the whole Eurasian area overcoming political problems. The danger now is that the world is sliding into a new global confrontation, for example, a confrontation between the West, and Russia and China. This must be prevented if we want to have the chance to go for economic development.

eignty and independence will not be overrated, as they are today. To give up sovereignty, independence, and a certain amount of freedom, is the price Brzezinski says we'll just have to pay in order to have "peace" and "stability."

Sergey Lavrov, Russia's ambassador to the United Nations, put a fine point on the matter recently, when he characterized Brzezinski's theories as the "politics of hate."

Brzezinski has dedicated a growing amount of his propagandistic efforts recently, to sabotaging any potential for economic collaboration between the United States, China, Russia, and India in the Eurasian Land-Bridge and "New Silk Road" as proposed by Lyndon LaRouche and other circles. The "new NATO" seems to be his instrument of choice in that quest. His record certainly shows no love or respect for the rights of the Kosovars themselves. Indeed, for years Brzezinski and friends didn't lift a finger to stop, or even limit the terrible suffering of the Kosovars. But now, suddenly, he claims that the Kosovo issue is crucial, since it can be used to realize his feudalistic dreams of globalism and the end of national sovereignty. And, if war can keep the bankrupt speculative structures, based in Wall Street and the City of London, alive for a few more days or weeks, so much the better.

These issues erupted at the Washington Press Club on May 27, during a sharp exchange between Brzezinski and an *EIR* correspondent. Following Brzezinski's remarks, the correspondent said: "I think there is an important point that has been left out. . . . I have seen a few interviews by Dr. Brzezinski since the beginning of the bombing. He was stressing one point: What this war establishes, is a certain precedent: We have to go into the new millennium in a global situation in which national sovereignty will not be

as important and inviolable as it has been considered until now. I think the real point goes behind the attitude of those people now crying about the refugees, but who didn't give a damn about the Kosovars for so many years; Karadzic and Mladic have been stopped, for example, by NATO forces several times, but never arrested. There have been more than just negotiations with Milosevic, at least since the beginning of his career when he was not a politician; but he was a businessman with a strong relationship with sectors of the financial community in the United States. Now, if this war establishes a precedent. . . ."

"Excuse me," Brzezinski interrupted, "what is the question? You must ask a question, a question."

EIR: "Yes, my question is, if this kind of situation creates a precedent in which the concept of national sovereignty is undermined, do you go for a clash with Russia, China, India and so on . . ."

Brzezinski: "Is there a question mark?"

EIR: "Here is the question mark: Do you think this is a way to provoke World War III, or just to make a horrible mistake?"

Brzezinski: "I'll answer. I think it is neither. Next question."

If he had been honest, he would have said "both." It is worth noting here, that the director of Brzezinski's Balkan Action Council is none other than James Hooper, author of a commentary in the April 29 *Washington Post*, entitled "Calling for President Blair," in which he wrote: "How can we get the leadership it will take to turn the air campaign into a winning ground war? The simplest way is to revoke the Declaration of Independence and reunite with Britain to avail ourselves of Tony Blair's firm and principled leadership." — *Umberto Pascali*

EIR is pushing for Balkans reconstruction based on a call initiated by the founder of the Schiller Institute, Helga Zepp-LaRouche, and by Faris Nanic, the former Chief of Cabinet of President Alija Izetbegovic. They called for the implementation of a Balkan Marshall Plan and New Silk Road project, in terms of real investments in real economy, not just for reconstruction, but for the development of the huge potentialities of the whole area. How do you see this strategy and this method?

Zuzul: Well, first of all, I agree very much with the picture that you presented about that part of the world, and, looking from that perspective, it is even more important to build that bridge, as you call it, to be solid and stable. Not to be the place where the connections are cut, but to be the connecting point between different worlds. And I truly believe that southeastern Europe, and that part of Asia, certainly Turkey, can be that. And I believe that it is really the moment to build that bridge. Because, what do we have? We have western Europe, which benefitted from the great ideas that some people had 50 years ago, . . . and they are now certainly much better developed than any other country in the world, maybe with the exception of Japan. So, now, to prevent that discrepancy, that gap, from becoming bigger and bigger, it is necessary to build a bridge between the two different worlds, as you put it, I think that that can open possibilities for the rest of the world to participate in that way of development.

But, I also want to add something to your question. You know, there are misconceptions in the Western world about the southeastern part of Europe, the Balkans, that that was a region where people were always fighting each other. And that misconception came about primarily because, when they think in terms of American history, they think about 200 years of history. Even when they think about western Europe, they think in a shorter period than when we address the history of southeastern Europe. So, we have a tendency to put aside everything that has happened in 2,000, 3, 4, even 5,000 years, and to think that that was one short, and one unique history. Looking from that perspective, what I want to say is that there is no difference between southeastern Europe, western, northern, or any other parts of Europe. There were periods in every part of Europe where people lived for hundreds of years, literally centuries and centuries, without being involved in any war. And there were periods where people, in northern Europe, or western Europe, were involved in several wars which lasted 10 or 20 years. So, it is simply not true that the Balkans has always been an area of instability.

That is an area which can be prosperous and develop as well as any other area of Europe, or any other area of the world. And, finally, that was the case during many periods of history, and it is also true that at this moment, western Europe, and primarily the United States, can significantly contribute to create in that area, what it has to be again—and that is an area of stability and prosperity.

A dialogue on financing Balkans reconstruction

by Edward Spannaus

The issue of how to finance the reconstruction of southeastern Europe became a significant focus of discussion during a June 15 “Balkan Assistance and Reconstruction Conference,” sponsored by Equity International. Through questions posed by representatives of *EIR*, the issues of financing, and especially the disastrous role played by the International Monetary Fund (IMF) and the World Bank, were highlighted. Every participant in the afternoon session of the conference also received a copy of the June 18 issue of *EIR*, featuring an article by Lyndon LaRouche, “Balkan Peace and World Economy: The Case for a ‘New Marshall Plan.’ ”

It was clear from the presentations and discussions at this conference, that there is significant recognition of the necessity of creating a new financing mechanism to provide capital and credit for reconstruction. It is evident that this discussion is only just beginning, but also that it is understood as an urgent and crucial question on which the success or failure of reconstruction hangs.

In the interests of fostering this discussion, we present here some of the most important aspects of the discussion and dialogue which took place at the June 15 conference.

Leveraging institutional funds

During his presentation as part of a panel consisting of ambassadors of four countries neighboring Yugoslavia, Amb. Mircea Geoana of Romania emphasized the importance of attracting private investment, both foreign direct investment and portfolio investment.

“We have a couple of proposals, and we are about to submit this to the administration,” the Ambassador said. “I think we should use some of the OPIC [Overseas Private Insurance Corp.] money, some of the TDA [U.S. Trade and Development Agency] money, some of the Ex-Im [Export-Import] Bank things, some of the MIGA [Multilateral Investment Guarantee Agency] of the World Bank—insurance mechanisms—just to leverage the creation of some investment funds for the region.”

“People are saying now: ‘The Americans have paid for the war; let Europeans pay for the peace.’ I think this is a very dangerous way of thinking. We should try to leverage some institutional and public money from the U.S. in order to attract real private money from Wall Street, from your companies, and so on and so forth,” the Ambassador told the business representatives present at the conference. “I think it is not that

difficult to create a couple of regional investment funds, using as seed money and leverage money some of the OPIC and the other institutions I have mentioned,” he said. “It is not that difficult, and I think it should be done.”

The Ambassador also suggested streamlining the procurement process: “If we are going to continue on the European Union standard procurement mechanism, or even the World Bank’s, we will not go much further.” He said that companies in Romania have regrouped themselves into a “Balkan Action Committee,” and that they want to match themselves up with European and U.S. companies to take part in tenders and the procurement process for reconstruction, for materials such as cement and steel.

At the panel’s conclusion, the first question was posed by *EIR*’s Bill Jones, who noted the appropriateness of comments made earlier by Bosnian Ambassador Muhamed Sacirbey concerning the mistakes that were made with Bosnian reconstruction. Jones elaborated the point, that the problem in the Bosnian reconstruction program “was the central role of the IMF and the World Bank, which often operate more like merchant bankers than development bankers,” who are giving priority consideration to payment of already accumulated debt.

“I think what is required in this situation,” Jones said, “is the creation of a new credit facility, devoted specifically to the reconstruction and infrastructure investment in the area, in which the countries in the area, together with the donor countries—the United States and the European nations, would have the say over the way the money will be invested, because other considerations are really unessential at this point. The necessity is to build the infrastructure . . . and therefore, there should be an independent facility, which is solely devoted to that project.”

Following some short responses by the Hungarian and Albanian ambassadors, *EIR*’s Ed Spannaus took the floor for a follow-up question.

“There was also talk about a ‘Marshall Plan’ after the fall of the Berlin Wall and of the Soviet Union,” Spannaus said. “But some people have characterized what happened there as ‘a Marshall Plan of Advice’—so-called ‘technical assistance,’ in which consultants were the people who got most of the benefit from this, the Big Six accounting firms, and so forth.” A number of the panelists nodded their heads.

“The approach my colleague was talking about,” Spannaus continued, “in terms of an independent credit facility or financing facility, is more along the lines of what was done in Germany after World War II, with the Kreditanstalt für Wiederaufbau—the Reconstruction Bank—which was the kind of thing that could work with the Ex-Im Bank here in providing credits for infrastructure, big projects, industrialization, and so forth.”

Spannaus pointed out that Bosnia was told explicitly not to rebuild industry—“and that cannot be allowed to happen again.” He pointed to the importance of “large-scale infra-

structure, to go with energy projects, transportation, industrialization,” and that this will bring in private investment, of the type that Ron Brown was talking about. “But the critical thing is to get this approach going, in which you start with infrastructure, and create the basis for industrialization—and that’s the type of reconstruction that should go on.

“But what happened in most of eastern Europe, and certainly in Bosnia, particularly under World Bank and IMF conditionalities, was that they were told: ‘No industrialization can take place.’ . . . And that’s the mistake of Bosnia that should not be allowed to happen again.”

Amb. Mircea Geoana of Romania immediately responded: “These are two excellent questions.”

Ambassador Geoana continued: “I don’t know, at this stage of the game, where we have the G-8 summit only a couple of days ahead of us, if we will be able to move toward an independent credit facility. But, having said that, I think that there is an attempt, at least to regionalize the way in which the international financial institutions, including the development investment banks like the European Investment Bank, the EBRD [European Bank for Reconstruction and Development], the World Bank, the IFC [the private arm of the World Bank], and the others, would operate. The same discussion is [going on] within the European Commission, where we have been urging and pressing to create a specialized entity within the European Commission to deal with southeast Europe. Because if you leave the current organization of all these institutions, they will go again national, as projects, and you will never be able to create enough synergy, to have enough resources for rebuilding the region.”

Ambassador Geoana said that he hopes that, perhaps even at this upcoming G-8 summit, there could be created “a sort of a consortium of the major financial institutions and investment entities . . . to come together with a common regional approach, and to really have a synergistic approach on the region.”

This could “evolve into an independent crediting unit” as a means of attracting private capital, the Ambassador said. He suggested that it might be better, working with investment banks from western Europe and Japan, to “build up one or two investment funds for the region, which would be privately run, and I say this again, because they have to reproduce, and have a return on investment which will make it attractive for a private thing.”

With this sort of a coordination, “between the consortium of the institutional investors and the creation of some private investment funds dedicated to the region,” he concluded, “then I would say that we move toward a de facto crediting policy, instead of a new entity—which in the current complexity and heavy bureaucracy of all the institutions, I see difficult to happen, at least in the near future.”

The moderator of the panel, seeing no other questions, then joked: “Thank you. I think those two questions were so good, you’ve scared everyone else off.”

The World Bank confesses

There were two afternoon panels. The first was on the topic of U.S. assistance to southeastern Europe, and included representatives from the U.S. Department of Agriculture, the Export-Import Bank, the Overseas Private Insurance Corp., and the Pentagon.

A second panel, on multilateral and international assistance, included representatives of the World Bank and the European Union—the two organizations which at present have put themselves in charge of coordinating all assistance for Balkans reconstruction. The presentations by both of those spokesmen made it clear that they intend to continue the policy of tying economic assistance to political conditions such as “democracy,” “human rights,” and market reforms—a sure means of providing the pretext for the international financial institutions to sabotage any real reconstruction and economic development.

Charles Kestenbaum, a U.S. government liaison officer to the World Bank, opened by dismissing “all the talk about Marshall Plans,” saying, with a straight face, that this doesn’t take into account the reality that the World Bank is already doing all of this, that it is engaged in more than 250 projects in the southeast Europe region. He listed the types of projects, including social and economic projects, “balance of payments assistance,” legal and environmental reforms, as well as some

infrastructure projects. Making it clear that the World Bank intends to remain in charge, Kestenbaum suggested that all that is necessary is for the World Bank to expand and upgrade its existing programs. Since the other countries besides Yugoslavia haven’t been bombed, Kestenbaum said, their needs are limited to dealing with the effects of the Kosovo crisis, such as the problem of refugees. “The World Bank is not actively engaged in an emergency effort to rebuild the economies of the countries around Kosovo, but rather to support them.”

Kestenbaum said that he wanted to point out “an element of concern,” which is that the republics of the present Yugoslavia are not members of the World Bank any longer, and that “what was the Republic of Yugoslavia was in substantial arrears to the World Bank.” Kestenbaum said that since Kosovo and Montenegro are part of the Federal Republic of Yugoslavia, the issue of how to provide any aid to them at all “is going to be a bit of a challenge. . . . It is an obstacle.”

Kestenbaum added that the IMF and World Bank “are always concerned about debt buildup,” and that while there are emergency requirements, “you end up with a situation where you lend them as much as they need or want, and then they can’t repay.”

The general thrust of Kestenbaum’s remarks was that no one should expect very much from the World Bank—even

EU official: We will not rebuild Danube bridges

Aslam Aziz, the Counsellor for Development Affairs for the European Commission in Washington, told *EIR*, during the Balkan Assistance and Reconstruction conference on June 15, “We will not rebuild the bridges over the Danube, until nations in Europe act to get Milosevic out of power.”

“The approach we will take,” he said, “is to make changes in the Balkans ‘progressively.’ We cannot have huge or stupendous amounts of money. The other approach is to have large scale infrastructure, like the TEN, the Trans-European Network. But that was only something we developed in the last few years, and only for [western] Europe. This is not something to apply in southeastern Europe.”

“We will concentrate to get the refugees back to Kosovo by December. We will provide some immediate things, like clean water supplies, power, and communications links. But we have to do the usual feasibility work. This means the European Commission has to do ‘sector

studies.’ We have to see if communications links in one area are compatible with another area.” These studies will take time before they can be considered. “We also have to decide whether to privatize. We are no longer in an age where government can do everything.”

When it was pointed out that the Rhine-Main-Danube Canal transports goods on a European-wide basis, and that its blockage blocks the economic activity of many nations in Europe, Aziz retorted, “Yes, that’s true. But we will not rebuild the bridges, until the nations in Europe act to get Milosevic from controlling things. First, we have to get two things in Yugoslavia, a democratization process and liberalization of the economy.”

When asked if there is a place for reconstruction of Serbia, he replied, “Serbia is not included. We will provide some humanitarian support, like some clean water. But reconstruction is a different question. We will certainly not support that at this time, if Mr. Milosevic is in power. We will not rebuild the bridges over the Danube.”

Asked whether there should be construction of housing in Kosovo, Aziz said, “The refugees will be happy to go to their old homes. There will be some repairs, but there will be no large-scale construction of housing.”

—Richard Freeman

though it intends to be in control of the whole effort.

One of the questions asked from the floor was from an employee of the U.S. Army Corps of Engineers in Germany, who said that the Corps' partners in U.S. private industry have complained that "it is almost impossible for U.S. firms to get contracts from the World Bank, despite the fact that we are contributing about 25% to the World Bank coffers."

The questioner said that it takes a full-time lobbying effort to get contracts from the World Bank, and that it is very difficult for small and medium-sized firms to afford that kind of presence.

Kestenbaum responded by quoting former U.S. House Speaker Rep. Tip O'Neill (D-Mass.) as saying that "all politics is local," and, Kestenbaum added, "all World Bank procurement is local." Kestenbaum protested that the World Bank doesn't make the decisions on contracts, that such decisions are made locally, and that the process involved is often "more difficult, cumbersome, and perhaps not pleasant to the companies involved."

Following this, *EIR*'s Umberto Pascali said that he had heard exactly the same stories from contacts in Europe involved in Bosnian reconstruction, concerning the obstacles confronting people who wanted to invest in Bosnia. Potential investors from Germany and Italy also were told that "this was not the moment, it was not the right way," and they were discouraged from investing.

Pascali recalled what Amb. Muhamed Sacirbey had said earlier, that the Bosnians accepted things within the Dayton peace plan which were hard to accept, because of the commitment for development and reconstruction which was made to Bosnia. But this reconstruction never happened, Pascali said, and if it had been done as the Bosnian government and the Bosnian people had hoped, probably we would not have had the war in Kosovo. "From my small experience of the situation, I am sure that if you had established an atmosphere of peace and development, like the one we are discussing now, Kosovo would never have happened," Pascali said. "There would not have been a post-Dayton escalation of rivalry with Republika Srpska, but there would have been cooperation for the common development."

Pascali contrasted the method used in Bosnia, to that of the late U.S. Commerce Secretary Ron Brown, who was advocating direct investment from the U.S. business industrial community in the area, or the method of Alfred Herrhausen of Deutsche Bank, who was killed by a terrorist bomb in November 1989 while trying to implement this kind of method, of direct investments all over eastern Europe.

"Now, my question is this," Pascali concluded. "Don't you think, gentlemen, that the moment has arrived to go for new methods, not this kind of supervision that in a way reminds us of the previous communist regimes — countries had to be 'supervised' — but rather direct investment, private investments from businessmen, from productive forces from

other countries? Investments that then will give their profit, their reward?"

Leaving it to the global markets

Hans-Dieter Lucas from the German Embassy, speaking on behalf of the European Union, acknowledged that from what he knows, "there has been indeed this problem with foreign investments in Bosnia," and that the general conclusion on Bosnia is "that this is not a success story as far as investments are concerned."

"I would agree with you that we should not repeat the same mistakes we made in Bosnia, by getting into a close dialogue with the authorities once they exist in Kosovo and in the other countries, that they do the utmost in order to make foreign investments possible and to create a reliable framework for foreign investments," he said.

Even Kestenbaum conceded: "I can only say that you make a very good point, a very strong point. I agree with you." But, he then went on to say that private investments are the result of the assessment of individual companies and executives," and he provided a "globalist" justification for the failures in Bosnia:

"If there has been lagging private investment, it is because the environment — legal, regulatory, structural, financial — is not conducive to it. Money, as we all know from the last two years in Asia and around the world, Russia, Brazil — financial markets today are very liquid and very fluid, and move quickly, and investments are determined by rate of return and degree of risk. The World Bank has been lecturing and pleading and advising and offering support, particularly to Bosnia and Croatia," he said.

"The record has not been as good as we would have liked it to be," Kestenbaum continued, "and in the region as a whole it is up to the governments and the business community the country is engaged with, to recognize what's in their best interest and to accept the assistance and the support that has been offered. . . . In this case it is really incumbent upon the governments that have been here before us to do what they need to do to enable the environment to support those investments and attract them, otherwise no amount of outside pressure of governments or World Bank advice would be sufficient."

That sort of "hands off," laissez-faire approach is a recipe for continued failure. The lesson of the Marshall Plan, the Kreditanstalt für Wiederaufbau, and, indeed, the American accomplishments of industrialization in the nineteenth century, is that successful industrial development depends upon appropriate government-sponsored credit and financing policies, plus infrastructure development. If true rebuilding of southeast Europe is to take place, then the first condition must be to exclude the IMF and World Bank from any decision-making and supervisory role over the policies of the governments involved.

Excerpts of ambassadors' conference presentations

Amb. Miomir Zuzul of Croatia

We believe that this is an absolutely proper moment to do what President Clinton formulated two months ago in San Francisco, when he said that now at this time, the Western world can do for eastern Europe what was done 50 years ago through the Marshall Plan for western Europe. We indeed believe that this is a very good moment. . . .

And just to finish by giving you another very global figure. In today's value, an estimation of the total amount of money put in the Marshall Plan is approximately \$88 billion in U.S. dollars. The estimated costs of the crisis on the territory of the former Yugoslavia are approximately \$150 billion. . . . Whatever money is spent in that region shouldn't be treated as spending of the money, but as creating new opportunities,

primarily for the people from that region, but also for the people of the rest of the world, and also preventing that some day, sooner or later in the future, that we will be spending much bigger amounts of money on crisis management. Now, the moment is for peace.

Amb. Philip Dimitrov of Bulgaria

This is not a matter of repairing; it is a matter of the rebuilding of the entire region, which probably, in the next few decades, will be not only important per se, but also important in terms of the business development and expansion to other regions, which will pose their problems, and hopefully their solutions, very soon. . . .

We believe that the most important thing is not only to have security in your home, but security in your neighborhood. . . . We also understand that it's not easy to have prosperity at home, if you don't have a prosperous neighborhood. . . . All approaches to the problem of southeast Europe—or "the Balkans" if you prefer—should be a *regional* approach. . . .

What we expect in terms of the regional approach, is that there are a few things which are absolutely obvious, which we shall be very much in favor of, in terms of general problems concerning the region.

First of all, is transportation. The transportation corridors of southeastern Europe are of extreme importance, and we very much hope that there will be financing for them on the part of the international financial institutions. And you can perfectly well understand that there is a lot of space for private business to fit in. The same is valid for telecommunications. . . . And, again, I'm not talking about the repair of what was destroyed or damaged because of the troubles in former Yugoslavia; I'm talking about rebuilding and upgrading the infrastructure of the whole region, which is the only guarantee for its future development. . . .

The electricity system of the Balkans is to a large extent interconnected, and its upgrading will have a long-lasting effect for all the countries in the region. . . .

Amb. Geza Jeszenszky of Hungary

I agree that it is not simply the task to rebuild what was destroyed, but to reconstruct it, and reconstruction is something much different, much larger, than rebuilding. . . .

[Ambassador Jeszensky addressed the problem of the clearing of the Danube, because of the crippling effects on Romania, Bulgaria, and Hungary.] This should be one of the first tasks.

Hungary is an ideal country as sort of a bridgehead for a reconstruction program. It's a kind of gateway, not only to Yugoslavia, but also to neighboring Romania. It is a very important transit route, also for countries like Bulgaria, Macedonia, Greece, and even Turkey. The European Transportation Corridors lead through Hungary, particularly Number 4 and Number 10A.

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How Germany financed its postwar reconstruction

by Lothar Komp

The war damage in Kosovo and the rest of Yugoslavia totals several hundred billions of dollars. Immense investments in housing, infrastructure, and industry are now required, simply to enable the return of over a million refugees to their homes. And all of this must be integrated into a reconstruction program for the entire region of southeastern Europe, now on the brink of economic chaos.

This poses the obvious question: Who will pay? Those economies which are most in need of productive investments, are the ones least capable of coming up with the needed financial resources domestically or abroad. So, if the course of economic development here were left to the logic of the free market, there would be no hope of repairing or improving anything. Fortunately, we know from the German “economic miracle” after World War II, that there is another way to approach such a problem—a way that has been demonstrated to work.

The German economy was in catastrophic condition in the immediate postwar years. Industrial production had dropped to one-third of 1936 levels. Transport infrastructure had been decimated. More than one-fourth of existing housing had been made unlivable by the bombing attacks, which included about 50% of all homes in the urban centers. This is a rough description of conditions just at the time that 7.9 million refugees from the former German eastern provinces, and another 1.5 million refugees out of the Soviet-occupied eastern zones, flooded into the western part of Germany.

Supplies of electricity and heating for both industry and the population had largely collapsed. Food rations in the especially cold winter of 1946-47 dropped at times below 1,000 calories per capita per day. The undernourishment of miners contributed further to bottlenecks in coal supplies, from which Germany had to derive 80% of its export earnings.

But by the end of the 1950s, this picture changed completely. Germany had risen into the ranks of the leading industrial nations. The mass unemployment of the immediate postwar years had disappeared. German businesses were active throughout the world’s export markets. Foreign debts were being paid off, ahead of schedule.

The key to this success lay in the special method for financing the reconstruction.

The Marshall Plan

After the war, there was an acute scarcity of dollars in all European countries, so that Europe’s most important export market, the United States, was in danger of evaporating. In June 1947, the U.S. Secretary of State George C. Marshall announced that the United States was ready to establish a European Recovery Program, in order to re-establish “the confidence of Europeans in the economic future of their countries and all of Europe.” In a time-span of four years, from 1948-52, infrastructure and productive capacities in western Europe were to be brought up to at least the levels which existed before the war.

To that end, the United States provided commodity credits of \$17 billion, with which European firms could buy urgently needed raw materials, fertilizers, vehicles, and machines from the United States. That meant that every dollar had at least a twofold effect: With the exception of Germany, the United States did not insist on the illusory repayment of the dollar credits; instead, the businesses involved in the program were to pay the value of the received supplies, in their own national currency, into an account of their own central bank. The respective governments could then dispose of this as they chose, in agreement with the United States. In some cases, as in England and Norway, these counter-value sums were used to reduce state debts. In Germany, they were employed completely for reconstruction, as if in a revolving door.

Immense investments were necessary if Germany was ever again to get back on its feet economically, and these investments would necessarily involve amounts of financing far beyond the aid received through the Marshall Plan. The first plans for the establishment of a Reconstruction Loan Corporation (RLC) were laid out in 1947. This was to function as the central institution for provision of investment credits. There were two crucial factors to consider. First, there was the initiative of German banker Hermann J. Abs, who informed Truman’s emissary, Richard Whitehead, in September 1947, of his own ideas for the envisioned credit agency. Then there was the positive U.S. experience with its Reconstruction Finance Corporation, a Hoover-era institution revamped in 1933 by Franklin D. Roosevelt, during the Great Depression.



Herman Abs, one of the first directors of the KfW: “The activity of the KfW was not exactly oriented to the ideal model of a free market economy. Taken in the precise sense, what it did was to steer investment.”

In November 1948, the RLC became known as the Kreditanstalt für Wiederaufbau (KfW, Credit Institution for Reconstruction), in order to provide medium- to long-term loans “to enable the completion of reconstruction projects, insofar as other credit institutions are not able to provide the required financing.” Hermann J. Abs and Otto Schniewind were entrusted with the leadership of the KfW. (Both had just previously refused to take over the leadership of the Bank deutscher Länder, the predecessor of the present German central bank, the Bundesbank.)

The loans issued by the KfW were to run primarily on a separate track from the normal banking system. If other banks shied away from the risks of a project, the KfW was empowered to provide direct credit to the businesses involved. This turned out to be the case for coal, gas, water, electricity, and transportation projects. The KfW was expressly excluded from other normal bank services, such as taking deposits, managing customers’ bank accounts, or brokering stocks. The KfW was permitted to extend short-term credit in exceptional cases, but only following consultation with the central bank.

The big question initially was: Just where was the Kreditanstalt supposed to get the capital for the credits it would issue? The monetary reform of June 1948 had wiped out masses of capital. That meant that nothing could be taken, for the moment, from the domestic capital market. In the fall of 1948, the KfW tried to entice German savers with a bond, and promptly fell flat on its face. German debtors were forbidden from going to foreign capital markets, and there was nothing to be had from the public budgets.

Also, in contrast to its European neighbors, Germany never received a credit from the World Bank. There were, to be sure, negotiations between the German government and the World Bank over the course of 1953. But, because the World Bank would come up only with a paltry \$20 million, and linked this pittance to unacceptable conditions, no agreement could be reached.

Finally, after persistent pressure from Germany, the United States relented and allowed the accumulated German mark—“Countervalue Funds” of the Marshall Plan—collected in the so-called ERP Special Fund, to be used to refinance the KfW. Between 1949 and 1953, the KfW obtained a total of DM 3.7 billion from this source. Principal and interest payments on KfW credits were always paid back into the ERP Special Fund.

The London Debt Agreement of 1953 stipulated that the German government would pay back \$1 billion of the Marshall Plan aid it had received. But the German government paid this sum out of its tax income, so that the ERP Special Fund was left intact as the fund for the “revolving” issuance of investment credits.

Dirigistic credit policy

The mere existence of this fund by no means guaranteed success. As West German Chancellor Ludwig Erhard later remarked, everything depended on the “economically right use” of the fund. Because of the huge demand for investments in infrastructure, housing, and industry, there was an understanding between the German and American authorities, that the limited resources of the Marshall Plan, and later of the KfW, could not be surrendered to the free play of market forces. Hermann Abs always underscored the “targetted planning” in the KfW’s credit issuance. Abs observed: “The activity of the KfW was not exactly oriented to the ideal model of a free market economy. Taken in the precise sense, what it did was to steer investment.”

Immediately after its establishment, the KfW, in collaboration with the Economics Administration, the predecessor of the Economics Ministry, proposed a “list of priorities” for the German economy’s reconstruction. These included the basic materials industries (especially coal and steel), housing, agriculture (machines, fertilizers, reconstruction of farms), local infrastructure (roads, water supplies, and so on), an a-tarkic energy supply for encircled West Berlin, promotion of export business, and, finally, job creation and integration of



German women in Berlin in 1946, known as the Trümmerfrauen, or “rubble-women,” struggle to rebuild the city from total ruin. By the end of the 1950s, the picture of devastation had changed completely: West Germany had risen into the ranks of the leading industrial nations, thanks to the policies of the Kreditanstalt für Wiederaufbau (KfW, Credit Institution for Reconstruction), and other agencies and individuals.

many millions of refugees. From the outset, the aim was not merely to re-establish conditions as they had been before the war, but, rather, to promote all of those investments necessary for a productive economy that would be capable of sustaining itself in the worldwide arena.

In 1949, the KfW set the highest priority on gearing up production of coal, iron, steel, gas, water, and electricity. Because these were all areas of urgently needed and scarce products, they were subjected to strict price controls. For example, the price stipulated by the German government for coal, covered only one-sixth of the costs of production. The costs of production were, however, covered by subsidies, but not above the sales price. In the case of exported coal, Germany was forced to sell far below the cost of production. Many firms in the raw materials sector would have been unable to present any balance sheet at all, in order to obtain credits at banks. The mining firms, for example, did not even know whether the mines, which had been confiscated by the Allies, would belong to them again some day.

In similar situations today, it is the practice of the World Bank and the International Monetary Fund to advise—for example, in the case of eastern European countries—either that such firms be closed, or that they be broken up and the “competitive components” sold off to foreign investors. To be sure, there were people in the German administrative apparatus in the postwar period, who, under the circumstances, where issues of ownership had not been previously resolved, advised *against* giving credit to mining firms. But it was typical for the political and economic elite of that time, that such

advice was not heeded.

Hermann Abs, at the KfW, pronounced boldly that it was irrelevant to whom the mines belonged, and that it was also irrelevant whether their production yielded a profit or a loss under those conditions. The only thing of any importance, he insisted, was that production of coal be cranked up as quickly as possible.

In the years 1949 and 1950, forty percent of all West German plant investment in the areas of energy, coal, and steel, was financed by direct credits from the KfW.

The crash program of 1949

Events in early 1949 illustrate the KfW’s working methods in the decisive years at the beginning of reconstruction. The KfW opened in Frankfurt on Jan. 2, and the U.S. authorities promised to put DM 265 million of “counter-value funds” at its disposal as a first tranche. Ten energy firms received credits under Energy Program I for 20 projects, running for 10 years. As a consequence of the Soviet blockade of West Berlin, a considerable portion of this went into the construction of a new power plant there. A total of 55 mining firms obtained long-term credits for capital investments in their mines, for the payment of urgently needed imports, and for paying off bills that were due. The KfW was the direct investor in the energy and coal sectors, because the risk was too great for the private banks. In other cases, part of the financing came from private banks.

These other cases included the KfW’s tractor program, under which 40,000 tractors were produced—25,000 for Ger-

TABLE 1

Distribution of Marshall Plan aid through the end of 1952

(millions \$)

Great Britain	\$3,165.8
France	2,806.3
Benelux countries	1,532.8
Netherlands	1,080.0
Italy	1,515.0
West Germany	1,412.8
Austria	711.8
Greece	693.9
Denmark	275.9
Sweden	107.1

man farms and 15,000 for export. The producing firms, MAN, Hormag, Hanomag, and Lanz, received long-term credits for this purpose. The production of phosphates, which had been shut down throughout Europe, was also geared up under this crash program. The KfW started a program to build fishing boats, in order to secure a high-protein diet for the German population. The KfW also hand-picked some 70 firms in industrial sectors, especially in machinery and electro-technology, which had special know-how and capacities relevant to projects the KfW wanted to accomplish. These firms were then told to apply for credits for investments to get the job done.

Step by step, the KfW was allocated additional sums from the "counter-value fund," until 1953, and these funds were immediately used as the base upon which to issue new credits, and initiate new credit programs. Beginning in 1950, housing construction was one of the KfW's areas of special focus. Initial demand was estimated at some 5 million housing units. Because there was no free market for housing, refugees were assigned to the homes of other families, and the rents were fixed by the authorities.

Housing construction would not have moved ahead without state intervention. In 1950 alone, 350,000 homes were completed, every eighth one financed by the KfW. By 1956, some 3 million housing units had been completed, and government-subsidized public housing projects became an important pillar of the construction sector. In the 1960s, when more than 6 million new housing units had been completed, market conditions began to settle into the construction sector.

A 'financial multi-purpose weapon'

The West German government and the KfW were compelled, time and again during the reconstruction phase, to react to disruptions in economic development, and, thus also to improvise financing when necessary. For example, at Her-

TABLE 2

Investment credits of the KfW, 1949-53

(in millions of DM)

Coal mining	531.0
Electricity	835.3
Gas and water	86.0
Iron and steel	67.7
Other industries	495.2
Agriculture	466.3
Refugee housing	20.0
Fishing vessels	5.0
Housing	328.2
Mining	145.0
Oceangoing shipping	169.3
Canal shipping	9.4
Maritime and canal ports	14.6
Urban surface trains	24.7
Tourism	22.5
Small credits	0.2
Research	30.9
German Railway (Bundesbahn)	45.0
German Post Office (Bundespost)	20.0
Refugee firms	95.0
Export promotion	2.3

mann Abs's initiative, the lower house of Germany's parliament, the Bundestag, decided in December 1951 to initiate a new special investment aid program for the basic-materials sector. Developments in this sector still lagged behind the rest of the economy, because profits were insufficient to cover the necessary investments. And if the production of coal and steel did not keep in step, this threatened to bring to a standstill production in the other industrial sectors.

According to the "Abs Plan," the booming consumer-goods industry was put under gentle pressure, to "persuade" it to invest a portion of its write-offs into bonds of a fund, administered by the KfW, from which the KfW then generated the credits for the raw materials industry. In addition, the Bank deutscher Länder agreed to issue short-term central bank credit as pre-financing for the program, so that the KfW was in position to issue the first investment credits, even before the Bundestag had formally passed the "Abs Plan" as law.

The KfW also played a crucial role in developing export markets for German industrial goods. It was not sufficient to raise the German level of production in order to re-establish a strong German position in foreign trade. Export business for German producers of investment goods became a calculable risk, only when accompanied by export credits and state credit guarantees. In March 1950, the KfW announced that the

“opening of financing opportunities for medium- and long-term export business is extremely urgent and of special importance for the economic reconstruction.”

Therefore, new investment techniques for foreign trade had to be created, in addition to investment credits. The KfW granted exporters bills of exchange, so-called “Sola bills,” for financing deliveries abroad, when the firm’s own private bank liaisons were not able to do so. The Sola bill was, however, redeemable at the respective firm’s house-bank (i.e., its private commercial or savings bank). In addition, the government guaranteed payment of the contract in the framework of the Hermes export credit insurance, in cases where the foreign customer did not pay.

Here again, the central bank played a crucial role. The Sola bill was provided with a rediscount promise from the Bank deutscher Länder, which expanded its rediscount volume for export bills, step by step, until it reached DM 1 billion in 1952. After that, the Ausfuhrkredit-AG (Export Credit Stock Company, AKA) was created to take this business off the hands of the KfW and the Bank deutscher Länder.

The German government sought to secure additional foreign contracts for German firms with bilateral trade agreements and the financing of large foreign industrial and infrastructure projects. An agreement with Yugoslavia, concluded in October 1950, was the beginning of this process. Germany agreed to deliver plant, equipment, machines, and apparatus for the mining, chemicals, electrical, petroleum, and wood industry to Yugoslavia, by the end of 1952. In return, during 1954-55, Yugoslavia delivered grain, ores, wood, and petroleum. The participating German firms received export credits from the KfW running for five years, with an additional federal government guarantee.

In 1958, for the first time, the KfW provided credits to foreign nations, with India among its first partners. Because the Indian government was unable to keep to the timing of the agreed-upon payments, which were for building the Rourkela steelworks, the KfW bought Indian Sola notes and pre-financed the Indian payments. In the 1960s, the KfW then emerged as a major credit-issuing partner for numerous large construction projects around the world, which naturally produced several thousands of high-skilled jobs in German firms in Germany itself. These included dam projects in Africa and the Mideast, railway construction in Indonesia, construction of nuclear power plants in Argentina and Brazil. Word had already spread far and wide that development aid projects in which the KfW participated, had a surprisingly high success rate—more than 75%.

Promotion of medium-sized industry

Once Germany’s reconstruction was successfully completed, international capital markets opened once again for German firms and banks. The KfW has used this source of funds, from the beginning of the 1970s, in order to provide

small and medium-sized businesses in Germany with long-term credit, under conditions that were otherwise the privileged preserve of large firms.

The declared aim of the “KfW Medium-Sized Industry Program” was to secure the medium-sized businesses’ long-term investment capacity. Such firms would apply to their house-bank for long-term credit, and this bank would pass the application on to the KfW, unless the house-bank wanted to take full responsibility itself for issuing the credit. With this system, the KfW would be called upon only for financing those projects that the house-banks did not want to finance.

At the same time, this mechanism encouraged the private banks to provide most attractive conditions for their credits, in order to be able to keep the contracts they wanted. The interest rates stipulated by the KfW remained constant for the entire term of the credit, even if market interest rates rose drastically. And if interest rates dropped, the firm had the option of paying off the principle ahead of time. KfW credits usually ran for 10 to 30 years, with principal-free grace period of one to three years. To date, a quarter-million individual credits have been issued in the framework of the “KfW Medium-Sized Industry Program.”

Post-unification reconstruction

In 1989, Germany was finally reunified with the collapse of the communist East German regime and the incorporation of its territory into the Federal Republic of Germany. Between 1990 and 1997, the KfW issued 722,000 private investment credits (chiefly to private households) in the new eastern states, with a total volume of DM 121 billion. This credit volume was seed-financing for DM 210 billions of investments, securing or creating 2.5 million jobs. In the framework of the KfW housing modernization program, 3.3 million housing units were modernized, which accounts for 40% of the total housing in the new states, of these 832,000 pre-fab units. The KfW participated in financing 4,200 infrastructure projects in the east of Germany.

Today, 50 years after its founding, the KfW is one of the largest banks in Germany, with a balance of DM 315 billion. In 1998, the KfW promoted the German economy with credits amounting to DM 65 billion. Of this sum, DM 48.4 billion went toward financing investments directly in the German economy, including DM 20.4 billion of small- and medium-sized firms; DM 15.2 billion was for housing construction; and DM 6.5 billion was for communal infrastructure. An additional DM 13.1 billion was allocated for export and project financing in other countries, and DM 2.7 billion for support of developing countries.

The investment credits for firms generated some 1 million jobs and created 60,000 new jobs. In addition, 240,000 jobs in the construction sector and related firms were secured by KfW activities in infrastructure projects and housing construction.

Russian military's decision exposes NATO miscalculations

by Rachel Douglas

The type of mixture of ingredients from which world wars explode should be recognized in the events in Kosovo and Russia in mid-June. The opinion that the swift deployment of 200 Russian troops from Bosnia to the Pristina, Kosovo airport on the night of June 11 was a "publicity stunt," which was attributed, in several wire service dispatches, to analysts within the NATO command, is exposed as a typically dangerous miscalculation.

Vice President Al Gore and others who participated in maneuvers to bring about the ouster of Yevgeni Primakov as Russian Prime Minister, which happened on May 12, and to elevate the dean of "crony capitalism," Viktor Chernomyrdin, have heightened the political instability of Russia. This occurs alongside a renewed potential for Russia's foreign debt defaults again to detonate worldwide financial shock waves (see *Economics*), and at the height of anger, felt within diverse Russian political factions, over NATO's high-handed conduct of its operations in the Balkans. The Russian Federation, heir to the nuclear arsenal of the Soviet Union as well as its financial debts, has been subjected to eight years of looting and destruction under "free market" policies imported from the West. The country is a tightly wound spring.

With the nighttime advance to the Pristina airport, one Russian institution emerged as capable of taking and willing to take decisive actions, amid clan warfare to control a President whose state of health is uncertain at best, and the political turmoil of the fourth government in little over a year. Not only Moscow rumors, but targeted leaks to journalists from NATO countries, identified the General Staff of the Armed Forces, under Gen. Anatoli Kvashnin, as author of the fast action plan, implemented in Kosovo on June 11.

He is the same General Kvashnin who, after State Duma

(parliamentary) hearings on March 31, stated that, "if the choice is between life or death for Russia, then whatever the Armed Forces have, in particular nuclear weapons, should be used." Pursuant to those Duma hearings on "primary measures to upgrade the combat potential of the Russian Armed Forces" (see *EIR*, April 23, 1999, p. 63), the Security Council met in late April to adopt a program for the rapid development of so-called "battlefield" tactical nuclear weapons.

Ten thousand 'miniaturized nuclear warheads'

On April 29, Russian President Boris Yeltsin chaired a closed-door meeting on the status of the country's nuclear arsenal. Security Council Secretary Vladimir Putin, according to RIA Novosti, announced that Yeltsin had signed two decrees and one other document, covering "the development of the nuclear weapons complex and a concept for developing and using non-strategic nuclear weapons"—i.e., tactical nuclear weapons. Putin was reported by Interfax to have refused to give even the title of one of the documents, because it was top secret.

Izvestia of April 27 said that the Security Council would receive proposals at this meeting, for "upgrading and extending the lifespans of strategic weapon systems of the last Soviet series." The article, on which the Defense Ministry declined to comment, said that ten Kalmar missile-carrying submarines, built in the Soviet period and code-named Delta III by NATO, would likely stay in service until 2005 instead of being retired next year. The RS-20 ICBM would stay in service. *Izvestia* suggested that Russia would reacquire some strategic bombers from Ukraine, and keep others in service past their scheduled retirement.

In a press conference, as well as an article in *Parlament-*

skaya Gazeta, both on April 27, Defense Minister Marshal Igor Sergeyev stated that the new NATO doctrine, including out-of-area deployments, “forces Russia to reconsider many provisions for ensuring its own military security,” respecting both “conventional forces and strategic nuclear deterrence forces.” Sergeyev warned that further expansion of NATO, such as by recruitment of the Baltic countries, “would be a great threat to Russia; we will take all necessary measures to minimize the military threat that would follow from such a development.”

On June 8, China’s *People’s Daily* provided more details on the Russian plan to produce 10,000 “miniaturized nuclear warheads” as part of a new strategy that would “make limited nuclear attack possible.” In an article noteworthy both for its content and for the fact of its publication in China’s official government organ, the paper looked at overall Russian strategy, in light of NATO’s expansion and the Balkan war. After Yeltsin’s signing the order for “non-strategic nuclear weapons,” it reported, Prime Minister Stepashin told the State Duma that the Russian defense budget will be raised from 2.8% to 3.5% of GDP, in order to guarantee the financing of the “non-strategic nuclear weapons.”

People’s Daily wrote that Yeltsin’s order to develop “non-strategic nuclear weapons” was the “program for developing a new generation of tactical nuclear weapons,” set forth by the former Deputy Minister of Atomic Energy, Viktor Mikhailov. According to this policy, Russia must carry out a comprehensive modernization of its whole inventory of tactical and strategic nuclear weapons, in order to be able to carry out a limited nuclear war.

Citing Minister of Atomic Energy Adamov’s declarations on testing of non-strategic nuclear weapons, the Chinese report pointed to planned tests of “non-nuclear explosion” grade, which would increase the quality of nuclear devices and verify their performance. The tests being prepared at present involve miniaturized and super-miniaturized nuclear bombs, having an explosive power equivalent to one one-thousandth of the bomb dropped by the United States on Hiroshima. According to reports, in order to match NATO, Russia is planning to produce 10,000 of these nuclear weapons, and to revise “the concept that nuclear weapons are weapons of mass destruction.” Since people are extremely fearful of using nuclear weapons, wrote *People’s Daily*, at present hardly anyone would dare to use nuclear weapons. Therefore the nuclear threat has lost its effectiveness. The logic of the Atomic Energy Ministry is: If we can greatly increase the real possibility of nuclear attack, we can renew the effect of nuclear deterrence; maintaining the pressure of nuclear arms can thereby become an effective policy. For this reason, Russia should be able “to use miniature and super-miniature nuclear warheads” to attack military targets at any point on the globe, while at the same time such a “precision attack” would not trigger a large-scale nuclear war. The Russian Atomic Energy Ministry emphasizes, that in the unlikely event of a large-scale nuclear

war, Russia should remain able quickly to exchange the “tactical nuclear warheads” again for “strategic warheads.”

On June 12, the *Washington Post* paid attention to the April 29 Russian Security Council deliberation on the option to develop more battlefield nuclear warheads, as its decaying military capabilities were dramatically shown up during the Balkans conflict. David Hoffman’s account, citing an unidentified “well-informed source,” had Yeltsin demanding at the meeting, why Russian military power had not deterred NATO from bombing Yugoslavia.

At Pristina airport

On June 11, the Russian military weekly *Nezavisimoye Voyennoye Obozreniye* quoted Premier Stepashin on Russia’s readiness to send a force of 5,000 to 10,000 peacekeeping forces to Kosovo. It is the equivalent of an entire motorized division, but the report suggested that the structure of the Russian force would comprise two or three brigades, including one airborne brigade. Gen. Georgi Shpak, commander of Airborne Forces, stated that 2,500 paratroopers were ready to depart from their base in Ryazan.

“There are no concrete NATO plans,” it was noted in another *Nezavisimoye Voyennoye Obozreniye* article, “for Russian participation in the operation.”

Arriving at the Pristina airport, the Russian troops, relocated from SFOR duties in Bosnia, made sure that there would be concrete plans. It was not a matter of “publicity” or prestige, but rather what one senior analyst at a Moscow think-tank called an effort “to block Kosovo from becoming a staging area for NATO’s march to the East.”

Despite initial statements by Foreign Minister Igor Ivanov, that the unit would be ordered to leave Kosovo, President Yeltsin promoted Gen. Viktor Zavarzin, the Russian officer on the scene in Kosovo, to a rank matching that of NATO commander Lt.-Gen. Sir Michael Jackson of Britain. Yeltsin’s foreign affairs aide, Sergei Prikhodko, affirmed on June 12 that, “as far as the presence of the Russian contingent in Kosovo is concerned, these are instructions from the President. The responsibility for their fulfillment and timing depends on the military. . . . The need for the presence of a Russian military contingent was on the agenda from the very beginning of the discussion of prospects for a peaceful settlement in Kosovo.”

Russian Defense Ministry official Gen. Leonid Ivashov said, “We don’t intend to beg the American side to provide Russia with a relevant sector in Kosovo.” Lacking an agreement, “We will declare our sector and agree on this question with the Yugoslav side. Russia is planning to deploy its troops in the northern districts of Kosovo, which are densely populated by the Serbs, who have warm feelings for the Russians.”

Entering Pristina, the small Russian unit experienced a psychologically important moment: Russian soldiers were welcomed with enthusiasm by a local population, in this case the Serbs of Pristina, for the first time since 1945.

Politicization of command

The Airborne Forces have been directly under the command of the Russian Armed Forces General Staff in recent years, being relatively unentangled with the Ground Forces and Defense Ministry bureaucracies. (In 1997, the Airborne Forces were the subject of intense disputes over Russian military policy and spending, in the midst of which President Yeltsin was prevailed upon to rescind, in part, orders for their downsizing.) It appeared possible, in the days following the drive to Pristina, that Defense Minister Sergeyev, like Foreign Minister Ivanov, had been in the dark about the command decision by the General Staff.

The Italian daily *La Stampa* published an inside account of the decision, on June 13. Moscow correspondent Giulio Chiesa, once described as “one of the few Western journalists or experts who really understands the nuances of Russian culture, politics, and life” (*Nezavisimaya Gazeta*, 1993), summarized his interview, held in a Moscow park with an unnamed “high-ranking officer in the Russian Armed Forces.” As translated by the Foreign Broadcast Information Service, Chiesa’s interlocutor offered this explanation of the sudden military move: “After 48 hours of those smiles [of U.S. emissary Strobe Talbott, during negotiations], we would have seen Kosovo occupied by NATO and we would have had no other choice than to accept their decisions. So, we decided. . . .”

Chiesa wrote, “Who decided? At this juncture my interlocutor said that he preferred to speak off the record. . . . As early as Friday afternoon [June 11], Chief of Staff Anatoli Kvashnin reportedly held a meeting with his closest aides and, after a brief overview of the situation and a quick look at CNN, he is said to have called Gen. Lt. Viktor Zavarzin, the [former] Russian representative with NATO, giving the green light for the operation. Does ‘the green light’ mean that the operation had already been planned in the days prior to the call? ‘Of course. Zavarzin was already in Bosnia, and that was no mere coincidence.’ ”

Said the anonymous officer, “Kvashnin and Leonid Ivashov truly embody the predominant opinion in the upper echelons of the Russian Armed Forces. We all realized that either we had to go in by surprise or we would not get in at all. Or else we would have gotten in like poor pilgrims, cap in hand, asking for a place in the shade.”

What does this mean for the political power of the Russian Armed Forces? Ravaged though they may be from eight years of economic collapse in Russia, the Armed Forces will no longer stand aside from the political power struggle.

Potential for military rebellion

In the *Moscow Times* of June 9, Russian military analyst Pavel Felgenhauer painted a dramatic picture of potential military rebellion against Yeltsin, along the lines he last did around the launch of the late Gen. Lev Rokhlin’s military movement in 1997. Felgenhauer, who often purveys views from within Russian military intelligence, put this article in

an English-language Moscow paper.

In his “Defense Dossier” column, titled “Serbs Sold Down the River,” Felgenhauer wrote that only a “small but highly influential pro-Western clique of corrupt oligarchs that controls the Kremlin,” has supported “the occupation of Kosovo.” Other people in Russia, “including its professional military and diplomats,” “support the Serbs” and “disapprove of NATO actions in Yugoslavia.” The bombing of Yugoslavia outraged “every Russian, including those few with pro-Western sympathies,” but that at the offer of “a price that seemed good, . . . the pro-Western Kremlin clique promptly sold the Serbs down the river.”

Continued Felgenhauer, “The NATO-imposed peace will probably be another public relations disaster. Russian officials say that a 5,000- to 10,000-strong Russian military force will be sent to Kosovo, and that it will be ‘independent of NATO command.’ This is totally impossible. The defense budget in 1999 is planned to be \$7 billion. In reality, the military will be lucky to get the equivalent of \$4 billion by the end of the year. To equip and maintain 10,000 men for one year with heavy armaments in war-torn Kosovo will cost up to a billion dollars. Only if NATO pays Russian bills and provides logistical support can a sizable Russian contingent be posted in Kosovo. But if NATO pays and supports it, it will also be fully in control. Russian troops will be Western-paid proxies like their political masters in the Kremlin.”

He concluded, “Almost all Russians, especially the Russian military, increasingly believe that Yeltsin’s continued presence in the Kremlin is a terrible liability, a handicap for Russia. The country and its military may simply not wait for elections to get Yeltsin out.”

In discussion with *EIR* on June 17, Felgenhauer elaborated this analysis. “We’re heading into a revolution in Russia,” he said, and that is the real significance of the dispatch of Russian troops to the Pristina airport.

According to Felgenhauer, “If the military now ousts Yeltsin, they will be honored with flowers. There is no single leader, it will not happen in an organized way, but in a revolutionary style. It could be spontaneous. The present situation cannot last long. The current round of ethnic cleansing of Serbs in Kosovo, if it continues, will be a total disaster for the pro-Western forces in Russia. Yeltsin and Chernomyrdin, and their allies, will be seen as traitors. The rallying cry will be to oust the pro-Kremlin traitors. That is why Yeltsin is now talking so belligerently, trying to save his own skin.”

Felgenhauer asserted that “the final orders” for the deployment into Pristina “came from the General Staff, not even from the Defense Minister. This has happened very rarely in Russia, and it establishes a precedent, for something to happen next in Russia itself. The military sees the national interest being at stake. Either all this is not understood in the West, or the main people making policy in the West want a final confrontation, with the aim of ruining Russia.”

European Parliament elections: big defeat for Blair's 'Third Way'

by Hartmut Cramer

The most remarkable results of the recent European elections on June 13 were scored by the millions of Europeans who didn't go to the polls at all. Average voter participation was only 45%—an all-time low. In Germany, which usually has a voter participation of between 80 and 90% in nationwide elections, the 45.2% participation amounts to a real catastrophe, dropping to levels only seen in the United States. But that was not the worst: In Great Britain, only 23% of the voters went to the polls this time!

The low turnout not only reflects Europeans' frustration over the corrupt European Commission and their all-too-understandable rage against the supranational bureaucracy in Brussels. Even more, it expresses deep disappointment and fear about the failure of practically all Europe's national governments to deal with the global economic crisis, and with the imminence of complete financial collapse and the outbreak of war. Those developments ended up pushing the election results a bit into the background; but the election results nevertheless do show a clear trend—though not in the sense which is being trumpeted by most mass media and party propaganda.

The standard media line about election results, is: "The bottom line is that, European-wide, the conservatives won, and the socialists lost." But that says nothing of substance. On the one hand, Europe's conservative and socialist parties agree, almost without exception, at least in principle, in their support of the disastrous policies of globalization, the Maastricht Treaty, and the bankrupt International Monetary Fund system; in their advocacy of various stripes of draconian austerity policy; and in their complete lack of a positive conceptual approach to solve the crisis. And on the other hand, the actual vote tallies speak a completely different language.

In Germany, for example, even the big winner (in relative terms), former Chancellor Helmut Kohl's Christian Democratic Union (CDU), lost massively, garnering about 700,000 fewer votes than in the last European elections in 1994. Incumbent Chancellor Gerhard Schröder's ruling Social Democrats (SPD) lost more than 3 million votes compared to 1994, while its coalition partner, the Green party of Foreign Minister Joschka Fischer, lost about 1.8 million votes, which in abso-

lute numbers is half of what it received five years ago. The liberal Free Democratic Party likewise lost almost half of the 1.4 million voters they had in 1994. And even though the Democratic Socialist Party—what remains of the ruling East German communist party—for the first time cleared the 5% threshold for parliamentary representation in a nationwide election, ending up with 5.8%, it still lost over 100,000 votes compared to 1994.

The only exception in Germany was the Christian Social Union (CSU) of the late political heavyweight Franz Josef Strauss. The CSU posted gains not only in relative terms (nationwide +2.6%, and +15 in their home-base state of Bavaria, where they and rule with an absolute majority), but also in absolute terms, receiving about 145,000 more votes than in 1994. This is primarily thanks to the efforts of CDU party boss Dr. Edmund Stoiber, the present Governor of Bavaria. With his visit to Moscow at the beginning of the Balkans war in late March, Stoiber won Europeanwide recognition for his effort to clear the way for ending the bombing, by including Russia in a political solution. Moreover, behind the scenes, Stoiber is being mooted as the future CDU/CSU candidate for the German Chancellor.

Government collapse brewing in Bonn?

But the real seismic nature of the protest that erupted on June 13—a protest that quite naturally was also against the British-driven NATO bombing of Yugoslavia—only becomes evident by comparing the results to those in Germany's federal elections last September. At that time, the ruling SPD won slightly more than 20 million votes nationwide; but now, a scant nine months later, it lost about 12 million of those votes. And, as if that were not enough, SPD boss Chancellor Schröder shot himself in the foot by travelling to London to sign a joint SPD-Labour Party paper on the necessity for following British Prime Minister Tony Blair's "Third Way" as Europe's future. This "Blair-Schröder paper" immediately sparked a huge fight within the SPD, with the traditional wing and the trade unionists up in arms against this policy—a policy which is the European equivalent of Dick Morris and Al Gore's welfare-bashing and Gore's pro-NAFTA union-busting policies. In Bonn, there are now even



An organizer from the BüSo party campaigns in Wiesbaden, Germany against NATO's bombing of Yugoslavia. Widespread opposition to the bombing led to tectonic shifts in voting patterns in the European Parliament elections.

rumors about a possible split within the SPD, which, if it occurs, would take the SPD down to the level of the other big loser in these elections, its coalition partner, the Green party. Even before this, there certainly was no lack of political explosives under the “red-green” ruling coalition in Bonn, and these catastrophic election results have now made the fuse even shorter.

Disaster in France, Italy, and Britain

The picture is much the same in the rest of Europe:

- In France, whose government turned out to be doubly weakened by these elections, President Jacques Chirac may be on his way to the political junk-heap, now that his RPR party has officially split down the middle. The nominally Gaullist RPR, which for many years was the majority in French politics, lost about half of its vote, and Chirac's reputation was only saved by the immediate resignation of interim party president Nicolas Sarkozy, whom Chirac had installed during this election campaign after having sacked Philippe Séguin.

But Chirac's political days are numbered, since his dream of making the RPR into the centerpiece of a new neo-Gaullist alliance, which could get him re-elected in in 2002, has vanished. The dissidents' slate of his former political partner Charles Pasqua gained more than 13%, overshadowing even the RPR. Pasqua has announced the formation of his own “neo-Gaullist” party, which will borrow its name (Rassemblement du Peuple Français, RPF) from the famous move-

ment of General de Gaulle—though the resemblance will stop there.

Prime Minister Lionel Jospin is being hailed by the media as the winner in the elections, despite the fact that his electoral alliance, dominated by his Socialist Party, actually lost about 7% compared to 1994. But he, too, could soon face big troubles, because one of his coalition partners, the Green party, led by former Franco-German anarchist (Joschka Fischer's close friend) Daniel Cohn-Bendit, has jumped from 2.9% to 9.7%, thereby increasing its potential for political sabotage and blackmail in the French government.

- In Italy, where the Left Democrats of Prime Minister Massimo d'Alema had to take moderate losses, the government is also heading for trouble. Especially because of the success of a growing protest movement, the Democrats of Italy's former Prime Minister Romano Prodi, who is now president of the EU Commission (and thus as head of the unelected “European Government” in Brussels), the potential for political destabilization operations has greatly increased. Prodi, an ally of the City of London, and his newly formed “anti-party party” gained 7.7% of the vote, and will surely use this remarkable political clout not only in Brussels and Strasbourg (where the European Parliament sits), but also in Rome; and, in keeping with his notorious international connections, this will surely not work in favor of Italian nation.

- Even in the United Kingdom, the government was routed. Admittedly, Labour had not been expected to repeat

its overwhelming 1994 success, when it gained 62 out of Britain's 83 European Parliament seats, since the election rules have been changed. Nevertheless, the fact that Labour lost 15% of the vote, winning only 29 seats, is a catastrophe for Tony Blair. After being highly celebrated by the British media as the "real victor of the Balkans war," virtually overnight Blair was instead being pilloried for having been responsible for this "disaster" (London *Financial Times*), this "fiasco" (*Sun*), this "humiliating defeat" (*Daily Telegraph*).

The Labour defeat is a clear signal that Blair now faces yet another political storm: If he doesn't manage to decisively hook U.S. President Bill Clinton more firmly into the City of London's geostrategic policies, then the British elite will most likely dump him even more quickly than they dumped his Tory predecessor John Major.

Arrogance breeds contempt

The European election results highlight a dangerous political development, that has been brewing for some time now. Not even half of the fewer than 50% of citizens who actually went to the polls, express any interest in European-wide politics as it is currently practiced. Distrust of the established parties, and of the scandalous policies in Brussels and in Strasbourg, runs deeper than ever. With their arrogance of power, these institutions have not only not solved citizens' pressing political problems, but have in fact aggravated them. The established parties have clearly failed to deal with any of the vitally important political questions, such as maintaining and securing productive jobs, securing pensions, maintaining an adequate health care system, maintaining the value of national currencies, and securing peace in Europe and in the world.

This is especially true of the currently governing parties, in particular for those in Germany, since they were elected into office only a few months ago with much hope and trust, but all they have caused is complete political chaos. And for this, they paid a hefty price on June 13. That day might as well be described as a Europe-wide "punitive action," one which gives a foretaste of things to come, unless the underlying evil—the global financial crisis and an unjust world economic order, which favors speculation and punishes the producers—is banished for good. Without that change, a hopelessly bankrupt International Monetary Fund financial system could hardly be expected to accomplish the main task now in confronting all Europeans, namely, reconstructing the infrastructure and economy of the entire Balkans region.

LaRouche's influence

Although most of the parties underplayed these crucial political topics, they were taken up with great fervor in Germany by the Bürgerrechtsbewegung Solidarität (BüSo), Lyndon LaRouche's co-thinker party in Germany, led by his wife

Helga Zepp-LaRouche. During the campaign's final weeks, the BüSo held numerous public town-hall meetings, addressed not only by Mrs. Zepp-LaRouche, but also by guests from other European countries, such as former French Presidential candidate Jacques Cheminade, and from the developing sector, such as Marivilia Carrasco, leader of the Ibero-American Solidarity Movement (MSIA) in Mexico, and Grégoire Mukengechay, formerly from Congo, who is now an attorney in Germany, and who ran as a candidate on the BüSo slate.

The BüSo could be seen in cities throughout the country, with BüSo candidates manning book-tables, distributing hundreds of thousands of leaflets—including 10,000 election brochures containing Lyndon LaRouche's now-famous Eight-Point Program for solving the global financial crisis—and pasting up thousands of election posters. These activities have played an important role in promoting broad political discussion of "Peace through Development," through the immediate establishment of a New Bretton Woods world financial system, and the implementation of the Eurasian Land-Bridge, as well as a thoroughgoing reconstruction program for the entire Balkans region, to be started at once.

The BüSo's efforts were buttressed by other campaign and campaign-related events in France, Sweden, Denmark, and Italy.

And yet, the BüSo received a mere 9,449 votes throughout Germany—much fewer than it did in the 1994 elections. That result was in large part due to the ironical fact, that the more influence LaRouche's ideas have come to wield, the greater have become the efforts by his opponents in established parties and elsewhere, to silence his voice, and that of his wife and her party. This has been an important consideration in the maintenance of Germany's harsh barriers against "small parties," at a time when all the established institutions have failed so miserably. And it is precisely that fear of "new political blood," that has led to the disgust and demoralization shown clearly in the overall election results.

Nevertheless, as Mr. LaRouche has emphasized recently, we are in a revolutionary period, and the entire political map can change rapidly—even overnight, since the process of disintegration of the global financial system is gaining momentum right now, and is bringing to a head the paradox that no solution is possible—not even a band-aid one—unless the bankrupt, IMF-dominated financial system is replaced. During the campaign, the BüSo succeeded in building a solid base of activists and citizen-candidates. Therefore, in as little as a few months from now, the BüSo's election campaign may well come to be regarded as an outstanding example of how political ideas and concepts can take hold like wildfire in times of deep crisis. And in times like those, Europe may very well be seeing citizens voting with something other than their feet—namely, with their heads!

'Jewish spies' case aimed at Iran's Khatami

by Hussein al-Nadeem

At a time when Iran, under the Presidency of Seyyed Mohammad Khatami, has been taking unprecedented steps to build diplomatic, political, and economic ties with its neighboring Arab states and western Europe, and important overtures have emerged from the U.S. administration toward Khatami's Iran, a "Jewish spy" scandal has erupted in Iran. It has been blown out of all proportion, by anti-Khatami extremist factions within Iran, on the one hand, and by the "Butcher of Lebanon," Israel's lame-duck Foreign Minister Ariel Sharon, international "Jewish" organizations such as the Anti-Defamation League of B'nai B'rith (ADL), and extremists in Israel, on the other hand.

In the first week of June, the Director General of the Information Department (Intelligence) in Shiraz, Fars Province, was quoted by the official Iranian News Agency as saying: "Thirteen spies who had been working for the Zionists [Israel] have been arrested. The elements, who were identified and

arrested, played a vital role in the espionage network and were arrested on the orders of the court." None of the Iranian officials who were quoted referred to the fact that some or all of the suspects were Jewish. However, it was later revealed that some of those arrested are Iranian Jews, possibly including the Chief Rabbi of Shiraz.

The investigation has not been concluded, so the truth of the charges raised against these Iranians is not yet known. The demand of extremist elements in Iran is that the "spies should be executed," while the demand of the ADL, Sharon, and other Anglophile Zionist lobby circles is that governments in the West should pressure Iran to release the Jewish suspects. The Iranian response has been that this is a "domestic affair," and the fact that some of the suspects are Jews does not deprive Iran of its sovereign right to try any of its citizens suspected of spying for foreign states. The core of the matter is that it could provoke a serious conflict, with Israel and the United States on the one side, and Iran on the other.

Khatami's government is finding itself caught between the propaganda from within, and the malicious campaign from without. As soon as the arrests were announced, the ADL and the Zionist lobby in the United States jumped on the issue. ADL Director Abe Foxman, in an interview with the June 9 *Jerusalem Post*, said: "For 20 years, they [the Iranians] have let the tiny Jewish community live and breathe Jewishly and as citizens of Iran. The moment they turn to the classical scapegoating of Jews, they are sending a message

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that Iran has not changed.” The Conference of Presidents of Major Jewish Organizations — whose president is cosmetics heir Ronald Lauder, the moneybags for outgoing Israeli Prime Minister Benjamin Netanyahu — joined the ADL in calling on the Iranian government to release the Iranian Jewish suspects.

First of all, it should be borne in mind that the arrests were conducted over a period extending from March to April. This was not publicized, but became known to certain governments, including the United States and Israel, in April. Reportedly, diplomatic channels were opened with the help of Iran-friendly Western governments and religious personalities, in order to resolve the problem and to prevent the issue from becoming a pretext for a new Iran-bashing campaign, especially in light of the immense achievements of President Khatami.

It is neither in the interests of the suspects, nor in the joint interests of Iran and the Western world, to put public demands on Iran, a sovereign nation with no record of discrimination against Jews or other religious minorities, before the investigations are concluded. Any foreign interference — even if it’s well-intentioned — in this matter, will just make things more complicated.

The timing of the scandal

In the same week that the “spy scandal” was publicized, the U.S. administration and the Group of Eight (G-8) made some interesting overtures toward Iran. Most significantly, the G-8 foreign ministers said in a joint statement in Cologne on June 10: “We want to see closer relations with Iran and urge Tehran to adopt a more positive approach to the Middle East peace process.” The G-8 statement added: “We welcome recent political developments in Iran, including the holding of the first local elections.” The G-8 ministers urged Iran to do more for the human rights of all its citizens, and to continue to condemn all forms of terrorism.

Meanwhile, the Clinton administration decided to issue rules reversing the negative impact of the sanctions imposed on Iran, Sudan, and Libya, and to facilitate sales of grain and other food products to them. Undersecretary of State for Economic and Business Affairs Stuart Eizenstat said that the new rules should be out by the end of the month. “The President’s basic decision was that starvation should not be a matter of foreign policy,” Eizenstat told the House Agriculture Committee. In a potentially significant development, Eizenstat told the panel that the administration would monitor competitor activity to determine if U.S. loan guarantees are needed to make sales to Iran and the other two countries.

According to Reuters, one U.S. firm, Niki Trading Co., has been sitting for more than six months on an order from the Government Trade Corp. of Iran for 3.55 million tons of U.S. farm goods, waiting for U.S. government approval.

Meanwhile, Bruce Reidel, Clinton’s senior adviser for Near Eastern Affairs and a director of the Middle East affairs in the National Security Council, told the Arabic daily *Al-Sharq Al-Awsat* on June 10 that “the United States is encour-

aged by the improvement which the relations between Saudi Arabia and Iran are witnessing.” He added: “We very much welcome this important development which we consider an important and positive step in reducing tensions in the region of the Gulf.”

The important strategic developments, especially the building of the Eurasian Land-Bridge, or the New Silk Road, depends largely on the pivotal role which Iran could play. Iran’s good relations with its neighbors and the West are indispensable for the stability of the Middle East and Central Asia. It remains to be seen whether this issue creates a major crisis in these relations, or whether it will be dealt with prudently.

Informing on the Jewish community in Iran

There are about 27,000 Iranian Jews living in Iran currently. They enjoy equal rights as citizens of the Islamic Republic according to the Constitution. The Iranian Jewish community is represented in the Iranian Majlis (Parliament). In a communiqué issued in Tehran by representatives of the Jewish community on June 14, and reported by the official Iranian News Agency, they said that “Jews of Iran have historically been loyal to the people and government of Iran, and have consistently strived for the dignity and prosperity of the Iranian nation of which they are a part.” The communiqué echoed the sorrow of the Jewish community over the arrest of Jewish citizens, but said that Jews of Iran were confident that justice will be done with due respect to the rights of the accused.

The communiqué was signed by a group of leading members of the Iranian Jewish community in Iran, among them Rabbi Youssef Hamedani Kohan, Jewish Member of Parliament Manouchehr Eliassi, and member of the board of directors of the Society of Iranian Jews Haroun Yashaya-ee. The communiqué expressed confidence that “provocative propaganda of the enemies of the country in or outside Iran would not affect either way the eventual judgment of the Iranian courts.”

A well-informed source on Israeli intelligence history told *EIR* that “it is highly unusual that the Mossad would recruit members of the Jewish minorities in Islamic countries, especially if it involves a Chief Rabbi.” The source, who did not rule out that the Netanyahu government might have been involved in such dirty tactics in the past few years, noted that the “spying” case might be related to activities of certain groups that have been involved in helping Jews in Muslim countries to immigrate to Israel through other countries.

Government's popularity sinking fast

Some German Social Democrats are clinging to a ship that is already sinking: Tony Blair's "Third Way."

For understandable reasons, German politics in the last 10 weeks has largely been occupied with containing of the Balkans war and seeking a cease-fire. But, on the "home front," the problems of the economy just won't go away. For example, the high unemployment level, which the "red-green" government of Social Democrats and Greens inherited from the Christian Democrats and Free Democrats, has not been reduced since the change of power nine months ago, and is headed toward the alarming levels of last autumn.

An opinion poll published just before the European Parliament elections on June 13, revealed that 72% of voters consider the fight against unemployment the top priority, and that there is deep discontent with the government's policies. Indeed, the popularity of this government has been on a constant decline since the beginning of the year: The Greens have been hardest hit, losing about one-third of their vote in Hesse (Feb. 7), Bremen (June 6), and in the European Parliament elections.

The Greens are suffering from a rapid erosion on two fronts. First, the traditional anti-war current is abandoning the party because of the Green leadership's support for the NATO air war in the Balkans. Second, many Social Democrats who have voted for the Greens in the past, think they can no longer afford to do so, at a time of persistent mass unemployment—which cries out for extraordinary investments in industry, infrastructure, and productive (tax-paying) jobs. Over recent months, many Green voters went back to the Social Democrats.

This has enabled the SPD to com-

pensate for some of the other votes which it has lost over the same period, which has to do with the deep disillusionment about the future of the European Monetary Union and its "wonder weapon," the new single currency, the euro. The euro's value has continuously dropped from its inauguration on Jan. 1, from 1.18 against the dollar, to 1.02-1.04 at present. The discontent over the bad performance of the euro is also hitting the other parties, notably the two coalition parties of the previous government, the Christian Democratic Union (CDU) and Free Democrats, which signed the EMU agreements last spring. The discontent is, ironically, strengthening the Christian Social Union (CSU), the Bavarian state section of the CDU which has voiced strong, though often rather populist, sentiments against the EMU.

But, generally, voter participation on June 13 was the lowest in 20 years, with 45.2% in Germany, which is more than 15% below the 60.7% who voted in the 1995 elections. No less than 8 million Germans decided not to vote for "Europe," on June 13. No such rates of voter abstention have ever occurred in postwar Germany.

The Social Democrats have especially suffered from following the "Third Way" of Britain's "new Labour" Party over the last two years: first, because of their support for the ill-conceived design of the EMU; second, their support of the British view that the existing monetarist institutions need not be replaced, but only modified (if at all); and third, their support of the ill-conceived NATO air war against the Serbs, over Kosovo.

The puzzling thing is that the SPD leaders have been unable or unwilling

to draw any meaningful lessons from these policy disasters, which are openly debated in the German media. On June 9, only a few days before the European Parliament elections, SPD party chairman and Chancellor Gerhard Schröder went to London, to join Labour Party chairman and Prime Minister Tony Blair for a press event to present a new manifesto, entitled "Europe: The Third Way." The neo-liberal manifesto has nothing to do with traditional values of the socialist left. Instead, it pushes for capital markets and state enterprises to open up, deregulation of labor markets, "welfare reforms" (budget cuts, that is), and the like.

Whatever the deluded Social Democrats might think about this manifesto, which Schröder said will shape the next century, including in Germany, British Labour Party voters apparently dislike it profoundly. Labour suffered the biggest defeat on June 13, losing 50% of its seats in the European Parliament. There is no mystery behind this disaster: There is "old Labour" resistance against Blair's "new Labour" policy in the party, and there were swing voters from the Conservative (Tory) Party, who voted Blair into office in May 1997, because they had grown discontented with the disastrous economic and social policies of their own Tory Prime Ministers Margaret Thatcher and John Major.

Since May 1997, Blair's "new Labour" has lost votes in numerous local and regional elections. The June 13 election was the first test on a national level, and Blair's "Third Way" failed miserably. Had there been national elections in Britain on June 13, Blair would have been voted out. The handwriting is on the wall for Schröder's "new" Social Democrats, too: The "Third Way" has a future—namely, oblivion.

KKK-FBI invading Australia

Her Majesty's press barons are in a recruitment drive for the Ku Klux Klan, to fuel the next phase of "land rights."

Over the last two weeks, the mass media have exploded with coverage of alleged Ku Klux Klan activities in Australia. Suddenly, Klansmen are everywhere—they are on the Internet; they have taken over local branches of the populist One Nation political party, and are rumored to have members in the Labor Party and the ruling Liberal-National party coalition; they have wormed their way into the nation's Army and Navy; and "klaverns" are sprouting up all over the country, while Klan leaders from the United States are planning tours downunder. National and state political leaders, such as Deputy Prime Minister Tim Fischer and Queensland state Premier Peter Beattie, are wringing their hands and denouncing the Klan, while the Aboriginal land rights industry is, predictably, also in an uproar.

There are a few guidelines for understanding the present hysteria, reminiscent of Orson Welles's famous, panic-inducing 1938 radio broadcast, proclaiming, "The Martians have landed!" First, the Klan only grows when the establishment *decides* it will grow. This was true from the very outset, when Confederate Gen. Albert Pike, the head of the Southern Jurisdiction of Scottish Rite Freemasonry, first founded the Klan after the U.S. Civil War, and it was true again during the period of the Klan's most explosive growth in the first three decades of this century, when the racist U.S. President Woodrow Wilson screened the movie, "The Birth of a Nation" (original title: "The Clansman"), at the White House, to launch a mass KKK recruitment drive. "The Birth of a Nation" was the very first film produced by Hollywood.

Second, the Klan these days, even in its U.S. "homeland," is a pathetic bunch of misfits who couldn't organize their way out of a wet paper bag; it exists only because of the money and manpower provided by the "infiltrators" sponsored by the Federal Bureau of Investigation and the Anti-Defamation League of B'nai B'rith (ADL), as documented in *The Ugly Truth About the ADL* (Washington, D.C.: Executive Intelligence Review, 1994).

Although Australia has no Hollywood, its media are utterly dominated by two press barons, British-American-Commonwealth tycoons Rupert Murdoch and Kerry Packer, and their hype of the Klan is the single biggest cause of whatever actual KKK "growth" may be taking place. Second, "neo-Nazism" is a hothouse flower nurtured by police agencies. The major two neo-Nazi organizations of the past two decades, National Action and the National Front, were founded by one David Greason, a British-born MI5 asset, whose own neo-Nazi colleagues charged that he was also an operative of Australia's FBI, the Australian Security Intelligence Organization (ASIO). The current "Exalted Cyclops" of the Klan in Australia, Peter Coleman of Sydney, who is quoted in the Packer-Murdoch media virtually every day, was a leader of the Australian Nationalist Movement, whose notoriously charmed life was finally closed down after a series of shootings and bombings in the 1980s.

The real reason for all this hysteria, is the establishment's drive for the next phase of "land rights," which is to be aided by silencing opponents through passage of new, draconian "anti-vilification" laws just proposed

by B'nai B'rith's Anti-Discrimination Commission, ostensibly to deal with the KKK.

The Aboriginal land rights industry was founded by Prince Philip, as a branch of his World Wildlife Fund, following his royal tour downunder in 1963. Its purpose is to turn over vast swaths of the continent to aborigines, ostensibly as recompense for the wrongs they have suffered since Europeans arrived. In reality, the dirty duke wants to splinter Australia, and seize its vast wealth for the Crown's minerals cartel, led by Rio Tinto.

The next phase of that scam is a proposed charter of "national reconciliation," to be enacted by the year 2000, which would feature a formal apology to aborigines by the Prime Minister, John Howard. Such an apology would fling open the door for multibillion-dollar "reparations" payments, and an accelerated turnover of land claims, all leading toward separate aboriginal nations. That splintering of Australian sovereignty is indeed the goal, was proclaimed by Gatjil Djerrkura, the chairman of the Aboriginal and Torres Strait Islander Commission, to the *Melbourne Age* on June 4: "Reconciliation must include recognition of our law and our land. It must recognize that our rights are ongoing, including our *right to self-determination*," he said.

Anyone opposing this disaster is labeled a "racist," and, in the current hysteria, is presumably associated with the KKK. The most effective opposition to Prince Philip's "land rights" plot has been led by Lyndon LaRouche's associates in the Citizens Electoral Council. Small wonder, then, that a Packer intimate and Murdoch columnist, Philip Adams, lashed out at what he called the "barking mad beliefs of Lyndon LaRouche," in his June 12 column, lamenting that those beliefs have spread widely in the nation.

International Intelligence

London presses UN for new Iraqi confrontation

The British government is seeking to obtain a "more intrusive UN system to monitor disarmament in Iraq" to enforce the sanctions, and thus "prevent military procurement," according to the Iranian news agency IRNA on June 11. Tony Blair's government has proposed a new commission which would have "all of UNSCOM's powers, rights, and responsibilities," but would be "larger and better-resourced," according to Foreign Office Minister Baroness Symons. In testimony before Parliament on June 9, she said that the British demand "would need, in some way, to be more, not less intrusive than before." She said that the Blair government "remained determined to enforce the sanctions regime and to limit as far as possible Iraq's ability to sell oil illegally."

A resolution for this "new intrusiveness" was jointly drafted by Britain and the Dutch, and is under discussion at the UN.

Meanwhile, the old intrusiveness—U.S.-U.K. bombing—continued on June 8, with U.S. warplanes bombing installations in northern Iraq.

Osama 'Brit' Laden calls for new jihad vs. U.S.

Just as Britain is preparing for a new wave of international irregular warfare, none other than Her Majesty's favorite "Islamic" terrorist, Osama bin Laden, has emerged from hiding, with his latest call for a holy war against the United States. For the first time, bin Laden appeared on an Arabic TV network, the Qatar-based al-Jazeera, which broadcasts worldwide by satellite and is said to be the most popular Arabic-language TV network.

In a 90-minute interview, the self-exiled Saudi millionaire renewed his phony *fatwa* (religious decree) against the United States, for "occupying" Saudi Arabia. "We are seeking to incite the Islamic nation to rise up to liberate its land and to conduct *jihad* for the sake of God. We are demanding the liberation of our land from the enemy, that our

land be liberated from the Americans." According to the London-based newspaper *al-Quds al-Arabi*, "People all over the Gulf and the Middle East were glued to their seats on Thursday night. They have never seen bin Laden speak in Arabic before. This is the first time an Arabic station has given him a platform."

The interview coincided with an FBI announcement that they had placed bin Laden on their ten most wanted list, for his role in the bombings of the U.S. embassies in Kenya and Tanzania last summer. In the interview, bin Laden responded that he was not guilty of masterminding the bombings. "The U.S. accusations are invalid unless they mean I am linked to inciting them. This is clear, and I confess to that. I was one of those who signed the *fatwa* calling for the holy war."

The phony *fatwa* also coincides with renewed reconciliation efforts between Saudi Arabia and Iran, and Iran and the United States. His so-called *fatwa* is invalid, since it can only be issued at the very highest levels of Islam's religious leadership.

Ecevit's new Turkish government is sworn in

Turkish Prime Minister Bulent Ecevit won a parliamentary vote of confidence on June 8, formally bringing his new government into power. The vote was 354 for the new coalition government, out of 550 members of Parliament. Ecevit's Democratic Left party won a plurality in the May election. His coalition partners include the National Action Party, led by Devlet Bahceli, who will serve as Deputy Prime Minister, and the Motherland Party, led by former Prime Minister Mehmet Yilmaz (who will not personally serve in the government). The consolidation of a coalition with such a large majority, and with the solid military backing, promises relative parliamentary stability.

Ecevit's party will control the Foreign, Justice, and Industry ministries, with Ecevit's office, at least formally, will have charge of the intelligence agencies. The Motherland Party will have the Internal Affairs and Fi-

nance portfolios. The National Action Party will control the ministries of Defense, Energy, and Public Works. There is much relief that the National Action Party, which is the political arm of the rabidly anti-Russia, pan-Turkic Grey Wolves, was excluded from control of the Interior Ministry.

In broader regional developments, the Athens daily *To Vima tis Kiriakis* reported on June 6 that Greece and Turkey have set aside their hostilities to cooperate intensely on Balkans reconstruction, including detailed written proposals. Athens is, for the first time, considering combining the "two countries' comparative advantages," so that businessmen from both states will cooperate and increase their effectiveness. "The preliminary work between Athens and Ankara, focussing on Kosovo, can create a momentum that will allow the two countries to secure a better presence than they would have been able to if each acted on its own."

Indonesian voting goes smoothly, counting slow

Less than 48 hours after the close of voting in Indonesia's general elections on June 7, Chairman of the General Election Commission (KPU) Rudini has appealed for patience with the slow pace of vote counting; by early evening on June 9, Jakarta time, only about 3%, or 4.5 million of the estimated 116 million votes cast, had been tabulated. Rudini attributed the delay to the extra care being taken at local levels to tabulate and double-check the vote, the logjammed telecommunications that relay information to Jakarta, and the inexperience of the thousands of poll workers.

The election logistics was a gargantuan task, and was approached with painstaking care: Thousands of workers manned 300,000 polling stations in this nation of 400 million, which spans some 17,000 islands across 5,000 miles. The election was to select 25,000 officials for municipal, subdistrict, district, and provincial offices, and the national House of Representatives. Rudini noted that many of those assisting in the count, "in polling places and villages, were street vendors, pedicab drivers, farmers, and

RICHARD TOMLINSON, the former MI6 agent, was ordered to leave Switzerland, where he was living, according to the London *Daily Telegraph* on June 8. The Swiss authorities claim that he violated an injunction when he allegedly published a list of MI6 agents. His attorney said he was "seeking advice on appealing the police's decision."

BRITAIN'S MI6 will attempt to re-style itself as a "European federal intelligence agency," said France's *Le Point* on May 21. MI6's new director, Richard Dearlove, takes over this summer. "Since Tony Blair came to power," wrote *Le Point*, "the hunt for Algerian and Egyptian Islamists, and the Afghan organization of Osama bin Laden, has forged cross-Channel cooperation, aspiring one day to become a European federal service."

THE SUDANESE Human Rights Organization has presented a documentary film on slavery in Sudan, reported the international daily *Al-Hayat* on June 11. The documentary shows the slave trade in Sudanese women and children taking place in the areas controlled by British warlord John Garang and his Sudan People's Liberation Army.

HENRY KISSINGER spoke before an elite crowd at the Bharatiya Vidya Bhavan in Mumbai, India (formerly Bombay), in early June. Now that nuclear India and the United States have common interests in pursuing non-proliferation goals, they should work together actively to prevent the spread of weapons, Kissinger said. He has been surprisingly successful in efforts at acting as an unofficial adviser to the Indian government on global strategy.

CANADIAN Conrad Black, owner of the British Empire media chain, Hollinger Corp., was scheduled to be made a life peer and member of Britain's House of Lords on June 17. According to the Toronto *Globe and Mail* on June 8, "such appointments are made by the Queen on the advice of Prime Minister Tony Blair."

motorcycle taxi drivers with no experience and skill in organizing elections."

As of June 13, with 63% of the vote counted, the PDI-P of Megawati Sukarnoputri had a plurality of the vote; following in order were the ruling party, Golkar; Abdurrahman Wahid's PKB; Hamzah Haz's PPP; and Amien Rais's PAN. The final, official count was set to be released on June 21, and will be certified on July 8. The new Parliament will meet at the end of August, and the Presidential vote will take place in November. In the meantime, on Aug. 8, citizens in East Timor will vote on the status of their province.

Moscow hosts major Islamic conference

Moscow was the host of an international conference on "The Role of Islam and the Revival of Spirituality in Russia," on June 5-7. The conference, bringing together Muslim scholars from Russia and many other countries, opened on the 95th anniversary of the establishment of the Moscow mosque, and the fifth anniversary of the opening of the office for Muslims residing in the European part of Russia.

Opening the event was a message from President Boris Yeltsin, who said that the development of democracy in Russia had made possible a revival of Islamic thought, which could play a constructive role. In his speech, the leader of the Moscow Jamé mosque, Ravil Eynoddin, characterized Islam as an integral part of Russian history.

The head of the Islamic Culture and Communications Organization (ICCO), Ayatollah Mohammad-Ali Taskhiri spoke, and was accompanied by Tehran's ambassador to Moscow, Mehdi Safari. According to the Iranian news agency IRNA, Ayatollah Taskhiri stressed the need for "unity among Muslims and cooperation between Islam and Christianity as a guarantor of stability, key to settlement of regional and international disputes, and a means to further flourish human civilization." He echoed President Seyyed Mohammad Khatami's view that such cooperation would serve human civilization and at the same time pre-

serve the interests of the believers.

As a side-bar to the conference, Ayatollah Taskhiri met with Russian Foreign Minister Igor Ivanov, to discuss bilateral, regional and international issues. Ayatollah Taskhiri said that Iran was determined to further expand relations with Russia "and called for a more precise and transparent definition of long-term strategic programs" between the two. Praising cooperation on Tajikistan and Afghanistan, he said the Caucasus and the Caspian Sea were other regions where the two should collaborate. Ivanov said he hoped further cooperation would help settle regional and international disputes.

Tamil Tigers restructure activities from London

Anton Stanislaus Balasingham, the Oxford-trained theoretician and political adviser to the Liberation Tigers of Tamil Eelam (LTTE), has shifted his base to London from northern Sri Lanka, where he was living with his Australian wife. Citing Tiger sources, India's daily *The Hindu* reported on June 8, that Balasingham has been sent to Britain by the Tiger supremo, Velupillai Prabhakaran, for two purposes. First, to restructure the LTTE's London-based international secretariat, and to spearhead a global propaganda drive from there. Second, to begin seeking third-party mediation to revive negotiations between the Sri Lankan government and the Tigers—as Britain had earlier attempted to do. According to *The Hindu*, the Balasinghams already hold British passports.

News of the reorganization occurs amid reports that the Tigers, who killed Rajiv Gandhi in 1991 on behalf of British intelligence, are gunning for his widow, Sonia Gandhi, now leader of the Congress Party. Planning for the murder reportedly took place in Toronto. There had been earlier reports that the LTTE had been planning to move to South Africa, after Britain passed long-overdue legislation in the U.K., banning terrorists from planning overseas actions from British soil. This no longer seems to be the case.

Paris gathering heeds 'wise words of LaRouche'

Paris was the site on May 26, of an intense debate about the alternatives to war proposed by Lyndon LaRouche, to reconstruct the Balkans, and thereby spark world economic recovery. Over 150 people gathered to hear speakers from Asia, Russia, France, the United States, and Mexico, on the theme "The Eurasian Land-Bridge for Peace: France, Catalyst between East and West." Among the participants of the conference sponsored by the French Solidarity and Progress movement (Solidarité et Progrès), which is associated with LaRouche, were diplomatic representatives from Africa, Asia, and eastern Europe, media from Iran, China, Britain, Indonesia, and Slovenia, as well as international associations such as the Russian Cultural Center, and local associations such as the World Conference of Religions for Peace, Pluralist Left, ATTAC (a group opposing financial speculation), and others. In addition, activists and supporters of the Solidarité et Progrès from all over France attended the meeting.

Among the high points, was the reading of a message to the conference from former Mexican President José López Portillo (1977-82), the statesman who had used the threat of a debt moratorium to push for the creation of a new world economic order. In his remarks, López Portillo reiterated his call, made a year and a half ago, when he shared a podium with Helga Zepp-LaRouche: "It is now necessary for the world to listen to the wise words of Lyndon LaRouche." The gathering certainly heeded the appeal of the elder statesman, staying until late in the evening to listen to and debate ideas and plans for action.

In his keynote, Jacques Cheminade, president of Solidarité et Progrès, elaborated on the way that effective reconstruction of the war-torn Balkans region will serve as a lever to shift economic policy, and generate recovery from the

world economic depression. Cheminade outlined the Balkans program, as well as the Eurasian Land-Bridge policy, and focussed on the need for France to wholeheartedly endorse the effort. The crying need for global monetary, financial, and economic reform was illustrated by speakers from Malaysia, Mexico, and Russia, who documented in heart-rending terms, the process whereby the International Monetary Fund and international speculators had descended upon their countries like vultures, ravaging living standards and annihilating decades of progress.

How monetary reform of the type LaRouche demands can save an economy, was illustrated by Tan Sri Ramon Navaratnam of Malaysia. Prof. Taras Muranivsky, president of the Schiller Institute in Russia and a prolific editorialist in the Russian press, drew a dramatic picture of the decade-long destruction of the Russian economy since the fall of the Berlin Wall, and chronicled the steps taken during Yevgeni Primakov's tenure as Prime Minister, to reestablish a certain economic order.

A nearly identical image depicted emerged from the speech of Marivilia Carrasco, president of the Ibero-American Solidarity Movement in Mexico, who reported on the policy fight raging throughout Ibero-America. All the speakers highlighted the role LaRouche's ideas have come to play in their nations.

Concluding the panel, Muriel Mirak-Weissbach of *EIR* summarized the challenging perspective launched by LaRouche, that effective interaction among the different nations engaged in the Eurasian Land-Bridge will generate a new revolution in science and technology; in this process, man will finally be able to grasp the "common language of cognition" (see Lyndon LaRouche, "The Coming Scientific Revolution," *EIR*, April 30, 1999).

The role for France in global recovery

Cheminade is president of the French political movement Solidarité et Progrès. He has been a political collaborator of Lyndon LaRouche for more than 20 years, and was a candidate in the French Presidential elections in 1995.

While at Buchenwald, on Feb. 23, 1945, [former French Socialist prime minister] Léon Blum wrote, “In a war of ideas, the party that triumphs is the one that inspires peace.” We cannot accept the dilemma which is posed to us repeatedly: Either support the NATO bombings of Kosovo and Yugoslavia and thus accept the terror imposed by the armed hand of the oligarchy; or else, support ethnic cleansing and the first mass deportation in Europe since the end of the last war. Only the Eurasian Land-Bridge and our New Bretton Woods system can allow us a way out of this dilemma through a solution from above, a morally superior logic of peace which defines a common interest. . . .

The real cause of the war raging in the Balkans, must be located in the cultural matrix imposed by the financial oligarchy over the last 30 years leading to the more recent financial collapse. That matrix must be changed, otherwise we will enter into a period of wars similar to that of the Thirty Years’ War or the Hundred Years’ War in Europe. . . .

We French must understand, that the cause of the war is not Iraq, or Yugoslavia, the United States, or even Britain. It is the financial oligarchy of the City of London and Wall Street which has declared war on the people, in Africa, in Russia, and elsewhere, where living standards and life expectancy are collapsing. The leading role in all cases has been played by the British. . . .

A Rooseveltian solution

The way out lies in a Rooseveltian solution, informed by the lessons of the Marshall Plan of 1947. In France, Jean Monnet, the general planning commissioner, took at that time measures similar to those of the Kreditanstalt für Wiederaufbau (German Bank for Reconstruction): two-thirds of the francs emitted by the Treasury went to the Fund for Modernizing Equipment to promote investment in the nationalized companies, in the form of matching funds to the Marshall Plan dollars. Of the rest, some went to private or public banks for financing of private companies, some to finance local infrastructure, and only a small part to creating a currency stabi-



Jacques Cheminade (right), during his campaign for President of France, in 1995.

lization fund.

This was the basis for the “French miracle” of the 1950s. The key to the functioning of this whole system was that the credits were paid back only through the wealth they had contributed to creating. In this context, it must be said that there is no excuse for the bad-mouthing within the French administration against the Marshall Plan, which led to an “informed” article in *Le Monde*, saying that while the European countries were perfectly able to cooperate in the Marshall Plan, the “cohesion and political will are missing totally in the Southeastern European countries today”! The same article claimed that a Marshall Plan approach used toward Russia between 1991 and 1996 had not stopped the present financial collapse of that country.

The so-called Marshall Plan for the Balkans which the European Union is putting together at this point, will not function, because it is supposed to be run by the International Monetary Fund, the World Bank, and by EU Commissioner for Monetary Affairs Yves-Thibaut de Silguy—the very cause of the present financial collapse. The only viable approach is represented by the Schiller Institute plan for Balkan reconstruction, to be conceived not in itself, but as the Southeast European branch of the Eurasian Land-Bridge. . . .

To carry out these policies, a “Survivors’ Club” must be created, which includes the three Asian giants, but also the main continental European countries, as well as Clinton’s

United States. LaRouche must be the catalyst of that alliance. Within continental Europe, France represents potentially the determining component and the lever for an alliance between Russia, India, and China, on the one hand, and the United States, on the other. But, in order to do so, “our old country” must take risks once again. It must put an end to its submission, not to engage in sterile confrontation with the United States, but to change that country, by allying itself with those who are fighting the financial oligarchy—the LaRouche forces. France must become exemplary once again, which means waging a fight within ourselves in order to eliminate the smallness of the ideology of the last 20 years. If today we wage war against others, it is because we have forgotten how to fight within ourselves. To be French is to become the friend of men who will be born in the future, as the great Carnot said: “to be a citizen of all places and contemporary of all times.”



Tan Sri Ramon Navaratnam, who has strongly endorsed Lyndon LaRouche's call for a New Bretton Woods global financial system.

Tan Sri Ramon Navaratnam

How a small country can defeat the IMF

Tan Sri Ramon Navaratnam is from Malaysia. He worked as a high-level civil servant in the Treasury for 27 years, and, at the end of his public career, occupied the post of Deputy Secretary General. He is today very active in the private sector as corporate adviser to the Sungey Way Group and vice chairman of Malaysia's Business Council. He is the author of several books, of which the latest is Healing the Wounded Tiger: How the Turmoil Is Reshaping Malaysia.

I bring you greetings from Malaysia, and am happy to be able to meet with friends and leaders in France, in Europe, our friends from the North. I would like our friends to understand what we did and why, why we introduced controls against hedge funds, which had mercilessly attacked us.

First, there are some things you should know about Southeast Asia, and Malaysia. Malaysia is a multi-racial country, with 55% indigenous Malays, 35% Chinese, and 8% Indian. Islam is the main religion, but it is a country of religious tolerance. For example, I am a third-generation Sri Lankan, a Christian, and I have reached high positions in politics and the economy.

The Malaysian economy was in good condition, except its balance of payments was deteriorating, due to growth. The Thai economy was much worse off. Then, along came the currency speculators, who, like sharks, smelled blood, and

attacked the Thai currency viciously. There was panic, and other investors pulled out their funds. Through contagion, it spread through Southeast Asia.

Why did the attack occur? There are very evil, powerful forces throughout the world who are ready to destroy even their own countries, for the sake of their own greed. Do not think it cannot happen in France, in Europe. Asia was emerging, and Malaysia was experiencing rates of growth of 8% over eight or nine years, and a very low 3% inflation rate. The British, Anglo-Canadian oligarchy felt threatened, and moved to destroy those countries. The Malaysian currency was threatened with devaluation, the stock market collapsed, and there was the danger of social instability and political unrest.

IMF remedies threatened sovereignty

What sorts of “remedies” did the IMF propose to “help” those countries whose economies were plunged into chaos by the speculators? The measures imposed by the IMF—currency devaluations, the rise in interest rates from 8 to 25%, the cuts in public allocations for schools, hospitals, and welfare—threatened the very essence of the country and its sovereignty. Therefore, [Prime Minister] Dr. Mahathir, who is a very strong leader and who is supported by the population, decided to tell the IMF, “Enough is enough. We won't follow your policies any more.”

Unlike its neighbors, Malaysia had a good internal economic situation: It had considerable reserves, hardly any debt, no dependence on aid. This allowed the country to go, six months ago, for a selective exchange-control mechanism to “save itself,” to protect itself from the sharks. The exchange rate was fixed at 3.8 ringgits to the dollar. The speculators were stopped from using the ringgit to speculate in foreign stock markets. Selective exchange controls stopped capital

outflow, so there was no need to increase the interest rates. Rather, they came down. Small businesses were not burdened by high debt; people were able to borrow. Companies like mine would not have survived had it not been for the exchange controls. As a result, the whole economy is now moving up. From rates of 6.5% negative growth last year, the rate of growth will be positive this year, located between 1% and perhaps 3% this year. So, the IMF must cover its face with shame. They must go to the corner.

Some say, however: “What’s the big deal about this?” Thailand, Indonesia, Korea, and others, too, are coming out of the crisis with the IMF policies. The difference is that we have kept our sovereignty and we stopped social unrest. Look at all the problems of social unrest provoked by the IMF in Indonesia, where even the President was forced to resign. In Korea, there has been huge labor unrest; in Thailand, foreigners came and bought up the best assets.

The moral of the story is that even small countries like Malaysia, with 20 million people and 17th in the list of international trade, could stand up against the IMF, against the speculators. We learned the lesson, that there are evil, powerful forces which will destroy national sovereignty. Although we are poor and weak, there is hope if we unite. The North and the South must fight together against speculators, and support initiatives like that of ATTAC in France. The North and South are not separate. There is no single solution; we need a new order, and new ideas, like those of Lyn and Helga LaRouche. Dr. Mahathir has said that he wants to liberalize, but that we need controls until there is global international monetary reform. We cannot relax our exchange controls if there is no progress in the international monetary order, because all that we have built so far could be destroyed in one night if we did.

We need a development philosophy for a Survivors’ Club. As Lazare Carnot said, we must have a philosophy beneficial to all people. Dr. Mahathir is building a “smart” partnership, including businesses, trade unions, consumers, producers, and the government, in an alliance. This is a “win-win” situation. There is so much potential for development—just look at the Eurasian Land-Bridge, and the reconstruction program for Kosovo and the Balkans as a whole.

If you stand up with courage and resist your attackers, then in the end, with God’s help, we shall overcome.

Let me add, since I have been asked to comment on this, a few words about the visit of the U.S. Vice President [last November]. Al Gore was our guest, he had been invited to Malaysia, to attend the Asia Pacific Economic Cooperation Forum [APEC] summit in Kuala Lumpur, and he incited the Malaysians to revolt against their President. We have been too polite with him. He insulted the host country. And, although President Clinton is kind, please tell me, what he has done to speed up international monetary reform. [French President Jacques] Chirac, on his side, proposed representation of Third

World countries at the highest levels of consultation on monetary reform. Such reform is not the problem of the Group of Seven or G-8, but of the whole world, especially those countries where people earn less than a dollar per day. We should support our leaders when they do good, but it is your contribution to influence leaders to do good for mankind. If you do nothing, then you deserve the leaders you get.

Prof. Taras Muranivsky

On ways to overcome the crisis in Russia

The full title of Professor Muranivsky’s speech to the Paris seminar on May 26, is “On Ways To Overcome the Crisis in Russia, on the Basis of L. LaRouche’s Physical Economy.”

Economic science and practice have two aspects:

- universal economic postulates and principles that define the point of departure;
- their specific application to a given national economy.

Lyndon LaRouche looks at economics as follows: “‘Economy’ is not ‘economics.’ Economy is the relationship of man to nature, the relationship of man to the universe. It is man’s ability to survive. It means life expectancy, the cultural conditions of life, science, Classical art, and a high level of culture. That is the economy. And that is what we have abandoned. We have become poorer, significantly poorer, than ever before.”

Economic progress and the general progress of mankind require a complex approach to the development of the nation-state, as is demonstrated by the entire history of the development of human society.

Because I am going to speak chiefly about the problems of Russia, I want to stress from the outset, that the development of Russia from October 1917 through the present, has been very contradictory. There has been a mixture of successes and failures, tribulations (in war) and gross errors. There were unprecedented successes in the creation and development of the military-industrial complex, but the total divorce of these achievements from the civilian sector. We had the violence of a command-administrative system of management, and attempts to reform that system. Unsuccessful reforms in industry and, especially, agriculture, gave way to stagnation, which led to the slogan of “return to capitalism,” and many other problems—all this is the face of Russia’s development during this century.



Prof. Taras Muranivsky warns of the explosive situation being created by the IMF's continuing pressure on Russia.

It may be said, quite correctly, that the capitalist path was not appropriate for Russia, and that a return to capitalism is a bad idea. Despite the mistakes, miscalculations, there was what we call social justice.

The reformers, now bankrupt, did the greatest harm to Russia, but they do not admit it. They do not criticize themselves, but rather blame either the legacy of the U.S.S.R., or the recently removed Primakov government, which they called communist. In reality, the woes of Russia today are due to the “reformers,” who made it their business to prevent inflation and block large cash issues, while stepping up tax collection and arranging relations with the International Monetary Fund (IMF); but, their main error was the failure to strengthen the state. They tried to remove the state from the economy, entrusting everything to the “invisible hand” of the free market.

Their reforms had no place for people, even though it is well known how important the role of the enthusiasm of a population, which trusts its government, is for the development of the economy. Distrust of the authorities has become a major problem for us in Russia.

It should be said that reasonable goals were declared, such as the need to develop production, the need for social production, and promises to pay wages and pensions on time, but, in reality, all of these pledges remained empty words. Production collapsed, wages and pensions were not paid for months at a time, and so forth. But the main thing, is that the new leaders failed to take into account the real situation, and the social relations within our society. They acted according to the instructions of foreign, chiefly American, advisers, who poorly understood our affairs. The most odious of these was Jeffrey Sachs from Harvard University.

Generally speaking, the situation in Russia can be charac-

terized as follows:

1. There is no system of control over financial and monetary flows, which functioned not badly in the Soviet period. The market has been flooded with dollars and with securities, and quasi-monetary instruments have come into use as a medium of exchange by the constituent territories of the Russian Federation and by economic entities, as well as widespread barter.

2. Also functioning outside of any control is the “shadow” economy, which is estimated to account for as much as 50% of GDP. Resources within this sector do virtually nothing for the domestic economy.

3. The degree of corruption of the economy has reached a critical point. Corruption has created new mechanisms for the transformation of state resources into private capital. The liberalization of the market and removal of the state from the management of the economy creates conditions for corruption to flourish. State officials, and regional and corporate barons engage in corrupt practices.

Thus, money and power are brought together, creating something like the corporate state in Mussolini’s Italy.

In Russia under the reforms, state policy was totally subordinated to the independent policy of individual ministers.

Each person did what he wanted, while the ideologues of liberalization, like Gaidar, Yasin, Urinson, et al., argued that the market was doing everything. In reality, everything deteriorated.

5. During the reform years, the economic base of the state was turned on its head. Eighty out of the 89 constituent territories of the Federation became addicted to budget subsidies. As a result of privatization as looting, the state budget fell to unbelievably skimpy levels.

Russia in the vortex of the world crisis

The global financial crisis has passed through three phases. It is worth looking in more detail at the second phase—the crisis in Russia. Its peak occurred in August 1998. By then, Russia had turned into the weakest link of the world financial system. While the nations of Southeast Asia experienced economic growth right up until the outbreak of the crisis, and their currencies remained stable, and while Brazil (yet another weak point in the system) also maintained fairly high rates of growth (albeit only according to monetary measures, not with respect to the physical volume of production), and Japan, with all its financial problems, still has an excellent production capability and enormous scientific and technological potential, today’s Russia was appointed by destiny to be the fuse on the powderkeg that explodes the entire world economic system. The collapse of the real economy, the reduction of investment in production to a level insufficient to preserve productive capacities, the ruination of our scientific and technological potential, the collapse of agriculture, the miserable condition of infrastructure, the absence of normal

mechanisms for finance and credit, the fantastically low level of tax collection, and a state budget that functioned according to the notorious “pyramid” principle—all this created more than necessary and sufficient conditions for a crisis. If we add the illegal capital flight out of Russia, conservatively estimated at \$20-30 billion per annum, the participation of international “hot money” in speculative operations in Russia, including the government-created state debt pyramid, and the unsupervised status of the Central Bank of Russia, which engaged, according to some evidence, in short-term derivatives operations for commercial profit—we can only marvel that the first stage of the world crisis did break out in Southeast Asia, and not Russia already.

A partial explanation is the small relative size of Russia in the world economy, the barterization of our internal transactions, and the resistance to the colonial aspirations of the oligarchical forces. From the standpoint of global speculators, Russia was a riskier place from which to derive superprofits, in comparison with Southeast Asia, where it was possible to make money simultaneously from stock speculation, devaluation of the local currencies, and to buy up the shares of excellently functioning industrial enterprises, especially in South Korea.

Debt soaks up almost all revenue

The Primakov government [September 1998-May 1999] inherited an unrealistic budget and a huge overhang of domestic and foreign obligations, due in 1999. Suffice it to say that we have an unjustifiably low revenue side of our state budget, equal to approximately \$20 billion, while foreign debt service alone comprises \$17.5 billion in 1999. The government, once again, mistakenly sought to manage by seeking funds from the IMF.

The movement of the financial crisis in Russia into an acute phase clearly showed that the situation at the weak points of the world financial system is so explosive, that there will be one blast after another until the crisis encompasses the very oligarchical centers of the financial system—unless radical measures are taken.

After Aug. 17, 1998, real panic reigned on the Western markets. Western banks had invested very substantial funds in Russian government bonds (GKOs). The mass media in the West and Russia, which are controlled by the financial oligarchy, trumpeted about Western banks’ huge, instantaneous losses after Aug. 17. In reality, however, they derived huge profits from their games with Russian GKOs. Spending only \$18 billion to acquire GKOs, they came away with \$72 billion, which they exported from Russia.

Therefore, the Russian government’s recent negotiations about compensation for GKO losses are beyond comprehension.

Russia is also saddled with the debts of the former U.S.S.R., without regard for the fact that the West was issuing

credits during the 1980s for the purpose of destroying the U.S.S.R. and introducing Western “democracy.” Insofar as they yielded a political and ideological effect in the form of the proclaimed victory in the Cold War, these credits should straight away have been written off.

The financial crises in Southeast Asia and Russia changed the behavior of investors. Risk reduction replaced profit maximization as the main goal.

At a conference in Germany at the end of November 1998, American economist Lyndon LaRouche called the situation in the world financial system, revolutionary. Incidentally, it was LaRouche who had warned, much earlier, about the danger of a world crisis, giving powerful arguments in support of this forecast.

Today, international institutions such as the IMF and World Bank, the General Agreement on Tariffs and Trade, and the World Trade Organization, essentially carry out the political line of the financial oligarchy. The oligarchy’s interests drive the policy of cheap labor, of depriving national governments of the ability to conduct an independent economic policy, the destruction of national economic reproduction systems, the incorporation of developing and post-Soviet countries into a world system controlled by the oligarchy, the seizure of the commanding heights within these economies, the achievement of unrestricted freedom of action for finance capital, and the creation of conditions to move “dirty” technologies to these areas.

At the end of the 1970s, there was a shift in the development of the world economy, toward domination by the world financial oligarchy. This led to a tendency for the financial sphere to dominate the sphere of production, providing for the “golden billion” residents of the developed countries, to the detriment of the rest of humanity. Neo-colonialism was developed, while the role of the sovereign state was reduced, in favor of supranational structures, under the slogan of “globalism.” The accumulated infrastructure and industry in the developed countries, like the natural resources and cheap labor-power of the developing countries, are used to enrich and enhance the power of the financial oligarchy, which has no interest in bankrupting its own financial pyramid.

LaRouche: Save the people

L. LaRouche proposes an alternative: bankrupt the banks’ fictitious financial pyramids and extend massive support to the real sector of the economy. It is evident that this proposal has encountered the enormous power and furious resistance of the financial oligarchy, on top of serious technical financial difficulties.

There is much more to the proposals of L. LaRouche. Analyzing the recent destructive processes inside Russia, Brazil, and other countries, LaRouche emphasizes that the world situation as a whole has undergone fundamental changes. These changes affect all areas of international activ-

ity—financial, economic, political, strategic, military, cultural, and so on. Any attempt to separate political processes from financial, strategic, or military ones would be a grave error. The transformations, taking place under the influence of the crisis of the global system, are comparable with what physicists call “phase-shifts” in the state of matter, when, for example, water turns into ice, or vice versa. In a phase shift, all the properties of a system change at once.

LaRouche identifies three key factors which define these strategic global phase-changes. The first is the united efforts of the international financial oligarchy, centered in London and the U.S. East Coast, which are currently the “masters” of the situation. Appropriately, the French newspaper *Le Monde* called the haughty speech of U.S. Vice President Albert Gore, given Jan. 29 in Davos, “a declaration of war on the rest of the world.”

The second factor is the “subordinated party” in the current situation, represented by the European Community. The Europeans are suffering an unprecedented economic paralysis, most evident in the situation in Germany. The worldwide collapse of the real economy hit Europe harder than the United States. Europe landed in a situation, where, despite isolated optimistic statements by some political figures on the need for regulation of the world economy, it has no internal strength to fight.

The third factor is the Asian-Eurasian “survivors” bloc. Its center is China, but there is also considerable potential in Russia. This group also comprises Malaysia, India, and, possibly, Japan. These Asian-Eurasian countries are capable of surviving a global systemic crisis, if they apply “classical” dirigistic methods in sovereign national economies, developing the real material base, as well as mutually beneficial economic cooperation.

LaRouche sees any intensification of the control functions of the IMF and other supranational institutions as especially destructive for the world and national economies. He calls for a “most just financial system,” based on the development and equality of sovereign nation-states. Therefore, he has supported the Malaysian Prime Minister’s initiative for capital controls, and has recommended to the government of Brazil that it impose exchange controls and “support the productive national economy with cheap long-term credits.”

The 1950s through the 1970s knew a social policy, which could be called “competitive welfare,” whereas today this has been replaced by “competitive austerity,” i.e., attacks on the living standard and the rights of the working class, under the pretext of raising the competitiveness of domestic products on the world market. Globalization of the economy, on top of all its other negative consequences, means wage levelling and worsening conditions of labor.

We may face a general crisis of the world social and economic system, with significant further declines in production, mass unemployment, inflation, and financial chaos. Workers

in developing countries become the object of cruel exploitation by local and, particularly, foreign capital. The policy of creating cheap labor pools for “dirty” technologies undermines these countries’ attempts to bring their populations out of poverty. Domestic capital becomes increasingly oriented toward comprador and speculative activities, and hostile to labor.

Russia’s ‘honorary’ debt noose

For Russia, the world financial crisis has meant a severe deterioration of the external conditions for solving the internal crisis. Russia is repeating the path of the Southeast Asian countries, slipping on a debt noose. At \$150-160 billion, the foreign debt has created the “honorary” third place among world debtors (after Mexico and Brazil).

The debt destroys the integrity of our industry and leads to an enclave system of production. Unlike the nations of Southeast Asia, however, which did somehow manage to carry out some industrialization, including an electronics industry and machine-building, the Russian governments of Gaidar, Chernomyrdin, and Kiriyenko persisted in a policy of deindustrialization. The volume of industrial production in Russia fell by more than half during the years of reform. Moreover, its center of gravity increasingly shifted toward the extractive industries and primary processing, while the latter was increasingly for world market requirements, rather than feeding into domestic chains of technology.

To justify this policy, the reformers employed two myths:

1. Our only profitable industries are the extractive industries. To prove this, they estimated the value of all national economic production, using world prices.

2. The world market is like a faceless machine, which balances supply and demand in accord with the principle of comparative advantages, establishing prices that correspond to optimal national economic proportions for all countries, including Russia. That is, the world market develops a measure of value, by which Russia should be guided during the structural reform of its economy.

Under conditions of intensifying domination by the financial oligarchy, however, the world market cannot serve as a standard of value. Instead of real costs and supply and demand relationships, political considerations increasingly take center stage. The price of oil is determined by political decisions. Prices for natural gas and electricity are regional, rather than world prices. Fluctuations in currency rates and the price of labor power affect the competitiveness of goods that are produced.

None other than Ye. Gaidar, when he was economics chief for *Kommunist*, the journal of the Central Committee of the Communist Party of the Soviet Union, quite correctly observed the consequences of the Soviet Union’s dependence on foreign currency earnings from exports, which had become evident after the steep collapse of oil prices in 1986. This did

not, incidentally, deter him as Prime Minister from basing his economic policy on fuel exports.

Prospects for the future: dangers and forecasts

For the longer term, certain dangers need to be anticipated. Reduced growth rates in the developed countries will lead to worsening conditions for raw materials exports. The possibility of attracting foreign investors will likely decline, and their terms will become tougher. It will become more difficult to place federal and regional securities on the world market. The collapse of the stock markets, under conditions of growing financial difficulties for the federal government, will foster a tendency to sell off still more state enterprises and natural resources at giveaway prices, and their acquisition by foreign capital. The world financial oligarchy's attempts to exploit Russia's resources, as a counterweight to inflationary pressures from the pyramid of fictitious capital, will intensify.

Measures for counteracting these unfavorable tendencies should entail a reduction of Russia's orientation toward the world market and foreign capital investment, and more attention to the search for internal resources, while the center of economic policy should be shifted from financial stabilization to economic growth and technological retooling.

We need protective measures, to prevent the purchase or acquisition, as compensation for debts, of Russian land by foreign capital. There should be no further commercialization, disintegration, or transfer to foreign capital of Russian infrastructure networks—the rail and pipeline systems, electricity supply, communications, and so on. Foreign borrowing by regional governments must be brought under strict federal control.

Radical measures are needed, to clean out the financial pyramid and rescue Russia from debt slavery. It is not the right time to permit foreign banks and savings operations to do business with the Russian population.

There were also, however, some favorable tendencies in the wake of the ruble devaluation of Aug. 17, 1998. In the fourth quarter of 1998, Russia experienced a tangible increase of industrial production, especially in the food industry, machine-building, and chemicals and petrochemicals. The fact that this reflects not merely inflationary effects, is confirmed by the increase of production of some important products, expressed in physical units. Among these were light automobiles and trucks, buses, refrigerators and freezers, washing machines, television sets, vegetable oil, vodka and liqueurs, and groats. There was notable growth in the production of goods for domestic consumption.

These achievements, however, did not prevent President Yeltsin from firing the Primakov government.

The growth of production could become an impetus for an economic upswing, on condition that it be maintained by means of productive investment and the growth of effective demand. The skimpy budget is a serious obstacle. But, an

even greater threat comes from the IMF's continuing pressure on Russia, aimed at forcing it to continue a harsh monetarist policy.

Greetings

López Portillo: Listen to LaRouche

The following message of greetings to the Paris conference from former Mexican President José López Portillo, was transmitted by Ibero-American Solidarity Movement (MSIA) president Marivilia Carrasco.

Lic. José López Portillo
Mexico, D.F., May 25, 1999

Mrs. Helga Zepp-LaRouche

To the participants in the Seminar for a New Bretton Woods, gathered in Paris, France:

In December 1998 I had the opportunity to share the podium with Mrs. Helga Zepp-LaRouche at an event held at the Mexican Society for Geography and Statistics, in Mexico City. On that occasion, after listening to Doña Helga's presentation, I commented on how important it is that someone in the world is thinking on behalf of everyone, and is opening doors, and that they enlighten us as to what is happening, as to what will happen, and as to what can be corrected. I also expressed my wish that, hopefully, her husband can influence the government of the United States, so that the proposals that she presented, can, in some way, be realized.

After reading the proceedings of the intense and fruitful dialogue, exchange of ideas, and presentation of points of agreement and disagreement, which occurred on April 21 at the Bonn-Bad Godesberg gathering sponsored by Lyndon and Helga LaRouche, I am pleased that such an opening of doors is growing in intensity, frequency, and scope.

Today, when, at times, it seems that the worst threats to the peaceful coexistence among nations are becoming reality, it is yet more urgent that efforts be redoubled to open the way for good sense and sanity, and for the encouraging idea of the development of justice, in which peoples can express their peculiarities in culture and in all possible regards. From afar, I share with you the concerns of the moment and, as I stated a half-year ago: It is now necessary for the world to listen to the wise words of Lyndon LaRouche.

I wish you the greatest success in your deliberations.
José López Portillo

The 'Kosovo effect' in Ibero-America

Carrasco is president of the Ibero-American Solidarity Movement (MSIA) of Mexico, co-thinkers of LaRouche in Ibero-America. In the last six months, she has toured Colombia, Brazil, Venezuela, Argentina, and the United States. She has most recently been in Europe.

As someone who has been engaged in this fight for 25 years, I am very optimistic, because we have the unique conditions to change policy course. The latest news from Ibero-America, regarding the possible devaluation of the Argentine peso, represents another opportunity for forces to break with the present monetary order. Indeed, the peso devaluation has a systemic potential. It will affect directly Brazil, and through Brazil, Mexico and Venezuela, indeed, the rest of the world.

Mega-speculator George Soros, in a speech in Chicago recently, explicitly pointed to three aspects of the Argentine situation; he said that democracy had to be introduced, that the Argentine peso was "overvalued," and that wages had to be cut by 30%. Soros's statement on the peso was a signal for devaluation.

The choice will then be for the continent, to either accept the creation of currency boards like that of Argentina and the dollarization of the continent, or, a total break with that policy and the adoption of the LaRouche proposals. British imperial policy is to break national sovereignty over the currency, and to destroy the very idea of the nation-state. So, it is similar to the motive behind the Balkans war, but through financial means. The war in Kosovo is being seen as a threat to world peace, and as a test case for the new NATO doctrine.

Already, however, the threat of a devaluation of the Argentine peso has provoked a revolt in that country against the International Monetary Fund. A triple resistance has emerged against IMF demands to cut the budgets of education, of the provinces, and of social spending. As a result, the Minister of Education resigned, refusing, with popular support, to implement the cuts, and the government was forced to halt the application of the entire program.

The causes of the Ibero-American crisis must be identified in the policies announced by [then-U.S. Secretary of State] George Shultz on Sept. 30, 1982. "Economic reforms must be carried out . . . and you must put an end to protectionism," he stated, concluding that "in this regard, the IMF can provide critical help and guidance." Opposing that conception, at the



Former President of Mexico José López Portillo (left), Marivilia Carrasco, president of the Ibero-American Solidarity Movement in Mexico, and Schiller Institute founder Helga Zepp-LaRouche, in Mexico in 1998.

same time, Mexican President José López Portillo, on Oct. 1, 1982, before the UN General Assembly, established the principle, "Either a new economic order is accepted, or the world will sink into a medieval Dark Age with no hope of a renaissance."

The way the war against national economies and sovereignty has been conducted, is through manipulation of the debt. Through what we call "bankers' arithmetic," Ibero-American countries paid, between 1980 and 1996, \$488 billion in interest on debt while the overall debt increased from \$259 billion to \$657 billion (**Figure 1**). Today, the total debt of Mexico, Brazil, and Argentina alone is reaching \$950 billion.

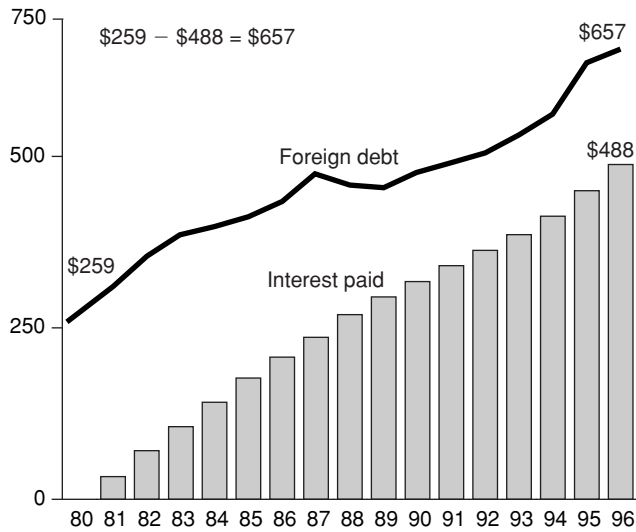
As a result of this policy of usury, the economy of the continent has been destroyed. In Mexico, the debt has increased by 192% between 1970 and 1997, while investment in consumer goods dropped 22%, and in production goods, 29% (**Figure 2**). In the same period, there has been a drop of 33% in productive jobs and of 54% in manufacturing jobs (**Figure 3**)! This is what produced the crisis of 1994-95 in that country, and the situation has worsened since. The government funneled \$65 billion to try to save the bankrupt system (**Figure 4**). That money did not flow into the production system, and today, 79% of all Mexican debt is considered bad debt.

The recent financial collapse, forecast by Lyndon H. LaRouche and his associates, has plunged the continent into

FIGURE 1

Ibero-America, bankers' arithmetic

(billions \$)



Source: World Bank.

a worse situation. For example, take the disastrous effect upon Brazil of the 40% devaluation of its currency, the real, in early 1999, which provoked the skyrocketing of debt measured in the national currency from R\$481 billion (which was almost one real to one dollar) to R\$933 billion (Figure 5). In order to pay for this debt, Brazil, like many other countries, have been forced to privatize their national assets. Since 1990, essentially, Brazil has privatized nearly \$100 billion of national goods (Figure 6). As a result of the recent financial crisis as well, foreign financial interests have been able to buy up cheaply, the banking interests of Ibero-America. Today the HSBC, Banco Santander, Bank of Montreal, Bradesco, Bank of Nova Scotia, BBV, BCH—many of which are under British control (Figure 7)—are among the most powerful on the continent. Foreign control over the banking sectors of Ibero-America has reached record levels: “only” 14% for Brazil, but 53% in Argentina, 55% in Chile, 42% in Venezuela, 51% in Colombia, and so on (Figure 8).

Against this background and an increased radicalization provoked by the Kosovo war, newspapers like *Folha de São Paulo* have published articles denouncing the current NATO strategy as the mailed fist of the financial oligarchy. People began to ask themselves, won't it be said in the future, that we are not taking care of the Amazon forest adequately, and that therefore they will have to come with military means to discipline us? Similar articles have appeared throughout the Ibero-American press.

The former President of Mexico, José López Portillo, saw clearly what was at stake, back in 1982, when he spoke

FIGURE 2

Mexico: typical collapse function 1

(index 1981=0)

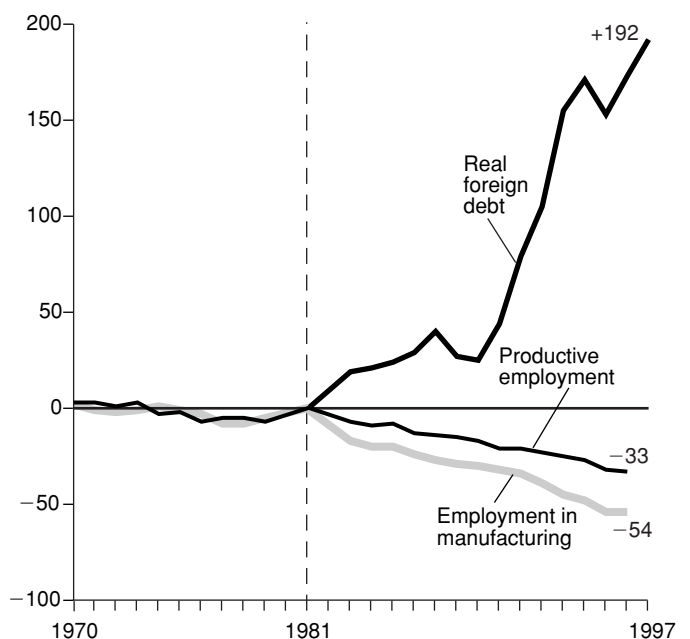


Sources: FAO; ECLAC; UN; World Bank; INEGI; BdM, Conapo, SEMIP, SARH, SHCP, and SECOFI (Mexico); *EIR*.

FIGURE 3

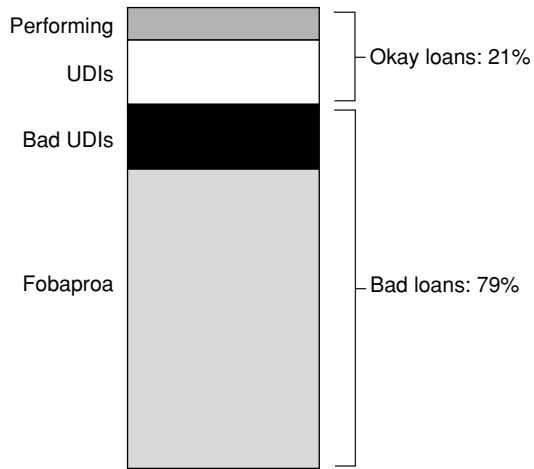
Mexico: typical collapse function 2

(index 1981=0)



Sources: FAO; ECLAC; UN; World Bank; INEGI; BdM, Conapo, SEMIP, SARH, SHCP, and SECOFI (Mexico); *EIR*.

FIGURE 4
Mexican bank loans, 1994
 (total = \$100 billion)



Sources: SCHK and CNBV (Mexico); EIR.

FIGURE 5
Brazil: devaluation effect on real foreign debt
 (billions \$ and reals)

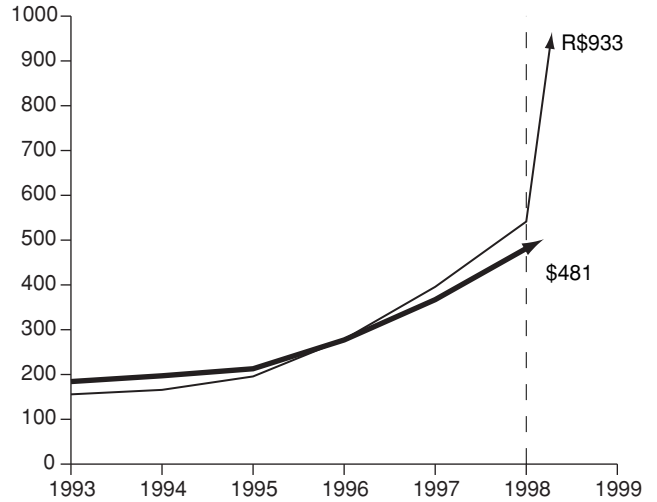
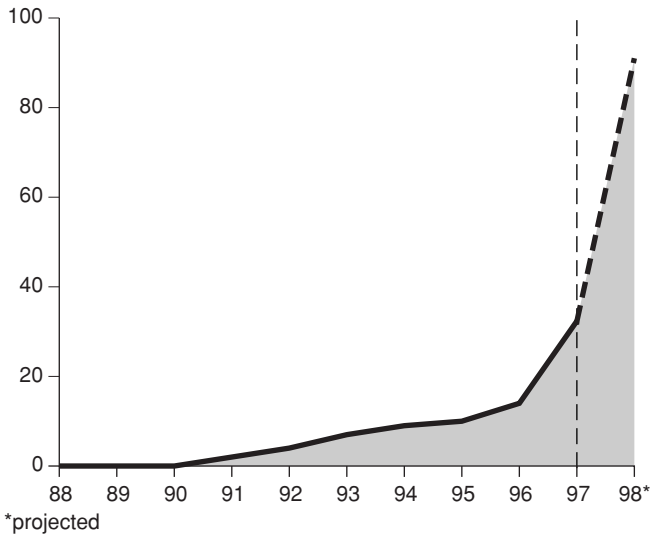
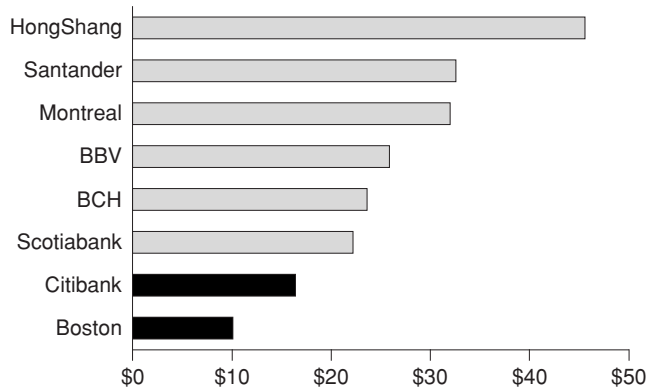


FIGURE 6
Brazil: cumulative revenue from privatization
 (billions \$)



Sources: BNDES (Brazil); EIR.

FIGURE 7
British groups dominate foreign bank presence in Ibero-America
 (assets controlled, billions \$)

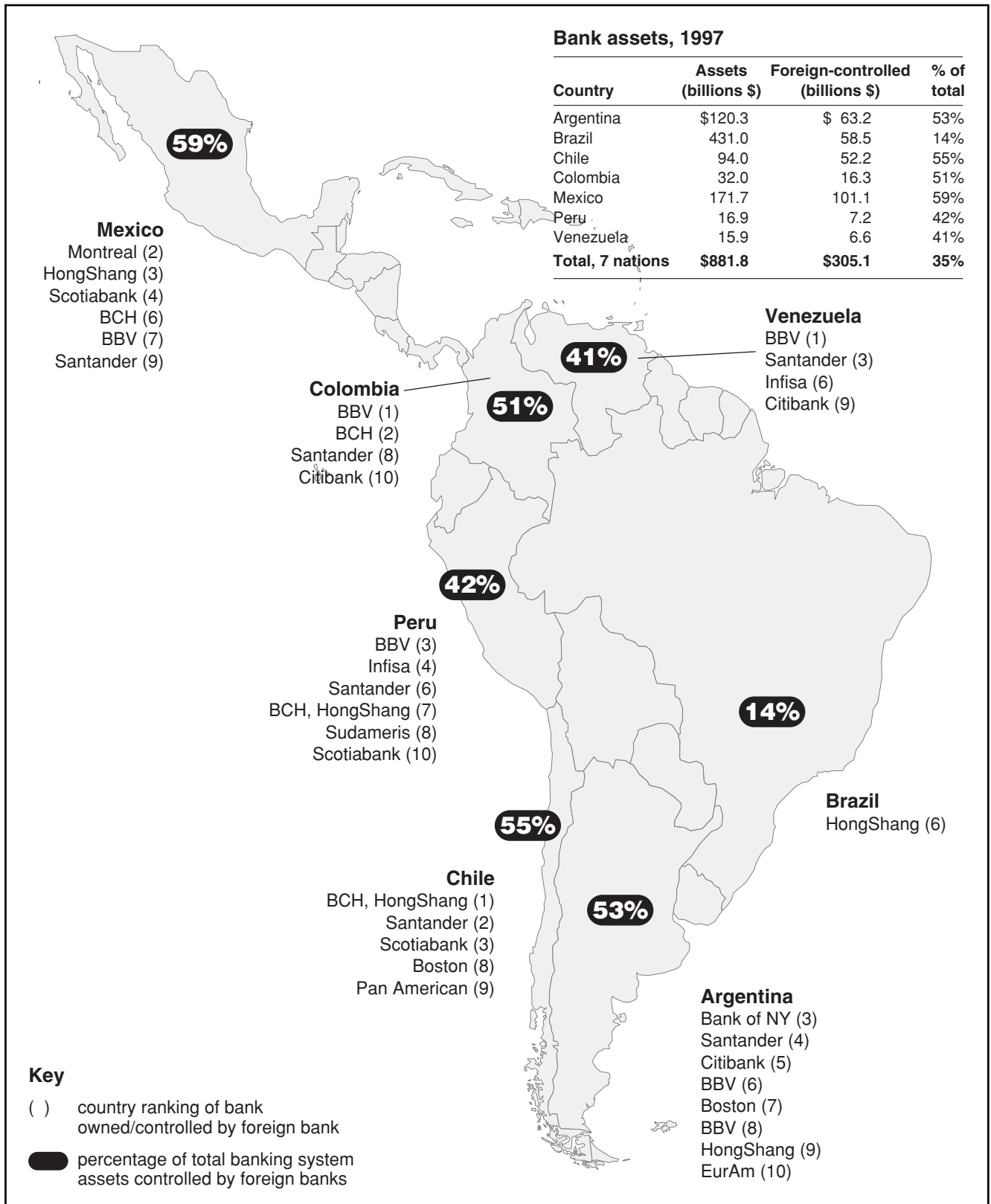


of the alternatives of a new, just world economic order, or a descent into a new Dark Age, if the IMF order were to continue. It was in coherence with LaRouche's program that López Portillo declared a debt moratorium, and sought to nationalize the banking system, back in 1982. At that time, he was, however, not given the necessary political support

from other countries. Helga Zepp-LaRouche travelled to Mexico twice over the recent period, and on her last trip, in late November-early December 1998, appeared at a public conference together with López Portillo. At that time, he said, as he recalled in his message to this conference, that it is time to listen to the wise words of LaRouche. Now, the press in Ibero-America is reporting virtually daily on LaRouche's analyses and proposals, and there has been massive support for the call for a New Bretton Woods system. So, there is reason to be optimistic.

FIGURE 8

Foreign banks with control of Top 10 banks, by country



Gore launches campaign . . . with attack on the President

by Jeffrey Steinberg

On June 16, Vice President Albert Gore formally launched his bid for the year 2000 Democratic Presidential nomination, with an act of clinical, suicidal insanity, that is certain to accelerate the collapse of his drive for the White House. First, in a kickoff rally in his home town of Carthage, Tennessee, and later in an exclusive interview with ABC New's "20/20" program, Gore launched into a nasty attack against President Bill Clinton, ostensibly because of the President's extramarital affair.

Gore's strategy of "distancing himself" from Clinton was pre-scripted, to ensure maximum media coverage of his declaration of independence — from one of the most popular American Presidents of this century.

The idea of Gore formulating a campaign strategy, based on distancing himself from President Clinton, was characterized by Lyndon LaRouche, one of only two other Democrats challenging Gore for the nomination, as a "politically fatal folly." LaRouche observed, "It prompts me to recall the adage, 'Whom the gods would destroy, they first make mad!'"

Premature campaign launch

Originally, Gore had not planned to formally launch his Presidential bid until after Labor Day. However, his continued sinking in the polls, the growing strength of the Bill Bradley campaign in New Hampshire and Iowa, and the persistent mocking media coverage of Gore as the most boring man in America, prompted the Vice President's political "handlers" to take the high-risk step of launching his campaign before the Fourth of July.

If one particular piece of bad press drove Gore over the edge into his current flight-forward, it might have been the June 7 article, plastered on the front page of the *Washington*

Post Style section, the mother of all "respectable" political gossip sheets. The article was given a banner headline: "After Six Years in Suspended Animation, Al Gore Shows No Signs of Stirring from THE BIG SLEEPY." Under a large cigar-store-Indian picture of the Vice President, was the caption: "Maybe the nicest thing you can say about the Vice President is that he's remarkably lifelike."

Post writer Kevin Merida interspersed quotes from voters, complaining about Gore the bore, with the latest polling data, showing that a majority of Americans consider Gore too dull to be President. At one point, Merida reported that Gore had inspired a new term to describe how people react upon hearing the Vice President speak: "MEGO," which means "my eyes glaze over. As in: Did you catch Al Gore's speech on global warming on C-SPAN? MEGO."

If there was a message to Big Al buried in the fuselage of nasty one-liners, it was Merida's not-so-veiled warning at the beginning of the article: "More than a description, it's a condition, an albatross, an image worth ditching. It speaks to something many people are but nobody wants to be. White paint, brown socks, plain yogurt, Lite beer. Boring. . . . Which brings us to Al Gore, the highest-ranking boring man in the land. Or so the polls say. . . . This doesn't have to be absolute truth to be a problem. In America, when an impression takes root it multiplies until it becomes commonplace until it becomes parody until it becomes accepted fact. And then it's too late. It has become legend. We don't have to speculate about this phenomenon. We have Al Gore."

Stern words, especially, considering that they came from a minion of Katherine Graham, one of the "grand dames" of the Democratic National Committee, and a kingmaker that Gore needs in his corner, if his campaign is to survive the heat of the summer of '99.

Gore disassociates

If the timing of Gore's campaign launch was bad, the delivery was even worse. Appearing on "20/20," Gore launched into a carefully rehearsed attack on President Clinton that immediately grabbed worldwide headlines. "Gore Attacks Clinton," the BBC World Service headlined its gloating coverage. "Gore's Running—Away From Bill," Rupert Murdoch's *New York Post* chortled.

"I've said previously, and I will repeat to you," Gore told ABC's Diane Sawyer, "I think what [Clinton] did was inexcusable. If you've ever had a friend who disappointed you and you worked with that person, and you rebuilt the relationship, and moved forward from the disappointment, that's exactly what that was like for me." Continuing in the same patronizing tones, Gore added, "I use the term 'inexcusable,' I use the word 'awful, terrible, horrible.' You know, the man was a friend of mine, and I am—we have a close working relationship and he had—he's gone through a lot in this. . . . I thought it was awful. I thought it was inexcusable. But I made a commitment to serve this country as vice president. I have a commitment to help him be the best President he's capable of being."

Gore also made it clear that his differences with President Clinton are over policy matters, as well as so-called "personal morality." Gore told Sawyer that he kept his political differences to himself, "because I took an oath under the Constitution to serve my country as vice president, which means . . . not arguing with the policies of the administration. But everything changes on Wednesday when I become a candidate, because I will be describing my vision for the future. If that happens to be different from what the administration wants, I think that's understandable to people."

The *Wall Street Journal*, one of the most vicious of the City of London-allied "Get Clinton" propaganda organs, not surprisingly, hailed Gore's break with the President. In a lead editorial, headlined "Gore's Chore," the *Journal* wrote, on June 17, "Vice President Gore formally joined the race for the White House yesterday, and we wish him luck, All the more so since he seems to be self-consciously struggling with the burden of separating himself from the boss he served so slavishly for seven years. . . . But if Mr. Gore now wants to critique the Clinton years, we welcome him."

Differences galore

Indeed, when the history of the Clinton Presidency is written, it will show that, almost every time that President Clinton launched an initiative that genuinely served the general welfare of the United States, whether in foreign policy or on domestic affairs, Vice President Gore not only opposed him, but fought, behind the scenes, to sabotage the President's efforts.

The most egregious instance of such Gore sabotage was his support on behalf of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the so-called welfare

to work bill that President Clinton, tragically, signed into law—against his own better judgment, and against the advice of such senior advisers as Labor Secretary Robert Reich, White House Deputy Chief of Staff Harold Ickes, and Treasury Secretary Robert Rubin.

The bill, a cornerstone of the Gingrich revolution's "Con-

LaRouche to Clinton: Tell the truth about China Embassy bombing

Democratic Presidential pre-candidate Lyndon LaRouche issued the following statement on June 14. On the same day, Deputy Secretary of State Thomas Pickering left for Beijing; his mission, as Secretary of State Madeleine Albright described it, was to ease the strain, and explain the "tragic accident," and urge that the U.S. and China "get beyond" this incident, because of the importance of relations between the two nations.

The proposal that the U.S. President do no more than "apologize" for the willful bombing of China's Belgrade Embassy, is the worst possible course of action the President could tolerate from his subordinates, such as Secretary Albright. The evidence is clear, that that bombing could not have occurred in any way but the [Global Positioning System] GPS targetting of a site which NATO knew to be the codes for the China Belgrade Embassy.

The world, including the U.S.A. government, knows that that bombing was intentional; to offer an apology which is based upon the lying assertion of "only a tragic accident," is the worst possible action at this time, almost a politically suicidal action, for the U.S. President's credibility among any of the world's nations.

Granted, the British monarchy's agents and stooges, which actually perpetrated that targetting, might try to assassinate President Clinton, and also me, if the President were to tell the truth publicly. The fact remains, that if the President goes along with Albright's proposed diplomatic lie, that would only make it easier for the British monarchy's instruments to repeat its assassinations of several Presidents, including Presidents Lincoln and McKinley, in the past.

For a change, the U.S.A. should try telling the truth, rather than telling non-offensive diplomatic lies for the pleasure of its traitors and other enemies.



Al Gore's vicious attack on President Clinton shows you what type of a guy he really is. As Lyndon LaRouche remarked, "Whom the gods would destroy, they first make mad!"

tract on America," was championed, inside the Clinton administration, by Vice President Gore and campaign svengali Dick Morris, according to numerous published accounts. The President's decision not to veto the Conservative Revolution's perverted Act, which has delivered millions of already impoverished Americans onto the scrap heap, sank the Democratic Party in the 1996 Congressional elections, and set the stage for the Republican's impeachment drive against the President. The impeachment drive would have been dead on arrival, had the Democrats retaken control of the House of Representatives.

During last summer's Russian debt crisis, Vice President Gore was caught red-handed, working with some of Wall Street and the City of London's biggest financial pirates, to impose Russian kleptocrat Viktor Chernomyrdin back into the prime ministership—to ensure that Gore, Inc. speculators, including George Soros and David E. Shaw, got their pound of Russian flesh, following the Kiriyenko government's freezing of some Russian commercial debt, and its demand to renegotiate billions of dollars in Russian short-term treasury bonds. Gore's actions, taken behind President Clinton's back in the midst of the most vicious attacks on the First Family by special prosecutor Kenneth Starr, did provoke a significant rift between the President and the Vice President.

In March of this year, Gore once again joined forces with the same Wall Street sharks to help bring down Russia's only successful post-communist prime minister, Yevgeni Primakov. Gore, Inc. was desperate to stop a face-to-face meeting

between President Clinton and Primakov, out of fear that the two men would strike a policy partnership that would leave London and Wall Street out in the cold.

The list goes on.

Coehlo joins the Clinton bashing

Among the issues that have further strained the Clinton-Gore relationship is First Lady Hillary Rodham Clinton's plans to run for the U.S. Senate seat from New York that will open up with the retirement of Daniel Patrick Moynihan. It is no secret that the Gore camp is furious at the prospect of Hillary upstaging the Vice President in a state with one of the largest pools of electoral college votes, and with some of the deepest Democratic Party campaign pockets. Tony Coehlo, a former Congressman from California who quit the House under a cloud of personal financial scandals, and who is now the head of the Gore for President effort, uncorked against the First Lady in a *New York Times* interview given just hours after Gore launched his campaign.

"I look forward to the Republicans beating up on [Hillary Clinton]. I know she won't be happy to hear me say that, but they will beat up on her, so much so that you're going to have a lot of women in New York and a lot of women all over the country who are going to deeply resent what they say and how they say it. And as a result of that, Al and Tipper Gore will benefit because of what the Republicans try to do to Hillary. I encourage the Republicans to take her on," he foamed.

Bush: The compassionate dynasty?

There are several scandals waiting to explode, as Texas Gov. George W. Bush's Presidential bid gets under way. Anton Chaitkin reports.

Texas Gov. George W. Bush, speaking June 12 in Cedar Rapids, Iowa, announced, "I am running for President . . . and I intend to be the next President of the United States."

Bush, the son of former President Sir George Herbert Walker Bush, has chosen a distinctive label for himself: the "Compassionate Conservative." To emphasize the point in Cedar Rapids, Bush used the words "compassion" or "compassionate" 12 times, and "conservative" or "conservatism," 10 times.

The crowd-pleasing conservatism of which he boasts is typified by being tough on welfare recipients (welfare reform was mentioned three times) and prison inmates. The compassion is "to take the side of charities and churches that confront the suffering which remains" after throwing people off welfare; and for offenders, "discipline and love go hand in hand."

While moralizing about churches ministering to the poor and the imprisoned, he explained that "government can create an environment where businesses and entrepreneurs and families can dream and flourish." He said, "We'll be prosperous if we embrace free trade."

But, in his speech, as in real life, Bush is oblivious to the economic disaster that his constituents are suffering. As Harley Schlanger reported in the March 22 *New Federalist* (the weekly newspaper of the LaRouche movement), two biggest industries in Texas, oil and gas, and agriculture, are collapsing. In the oil industry and allied work, tens of thousands have lost their jobs, wells are being plugged, bankruptcy is spreading fast. Denied revenue from oil employment, schools and hospitals face closure, and county governments are forced to dismantle public services. With cotton, wheat, and cattle prices at historic lows, banks will not renew farmers' loans, and Texas Agriculture Commissioner Susan Combs has estimated that 15% of the state's farmers may go out of business this year.

In this environment, the savage minimization of payments to Texas welfare recipients must lead to greatly increased death rates. The state's barbarism toward prison inmates—constant rapes, beatings, and the trafficking in de facto slaves—caused U.S. District Judge William Wayne Justice to rule, last March 1, that the entire Texas prison system is in violation of the U.S. Constitution's prohibition against cruel

and unusual punishment.

Bush shares with Vice President Al Gore, his fellow "welfare reformer," the delusion of the post-industrial utopia, in which the physical economy is replaced by the Internet, or, in the Dallas area, the flourishing community of Ferrari-driving designers of Satanic murder video games for teens. Hey, why can't the lazy economic losers just get with this future?

Guru Marvin Olasky

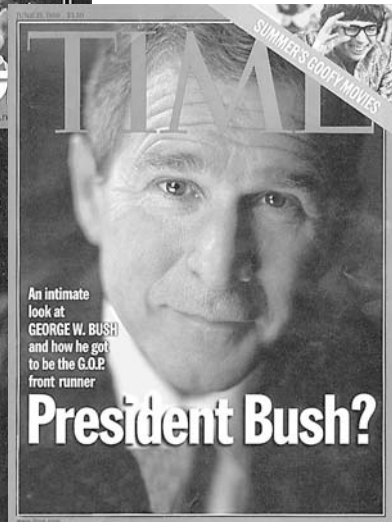
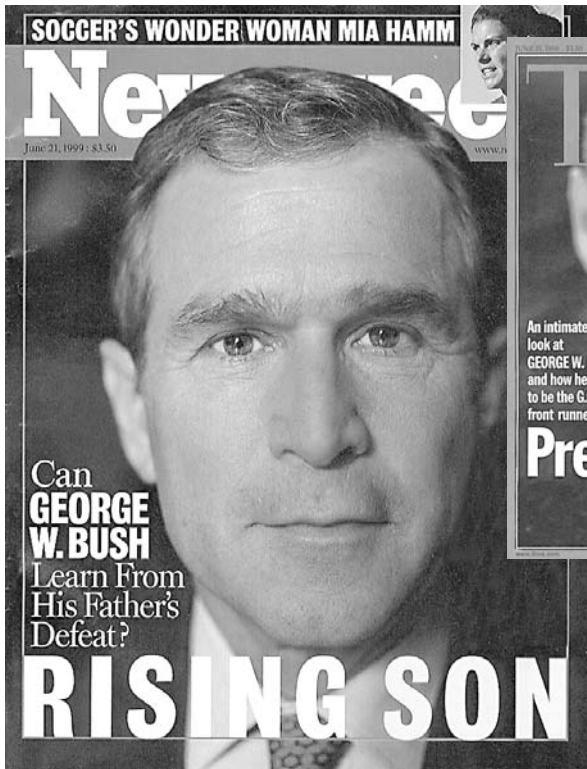
"Compassionate Conservatism" was embraced by Newt Gingrich and Arianna Huffington before George W. Bush made it his Presidential campaign slogan. The great popularizer of this New Age rightist mantra is a bizarre University of Texas journalism professor, Marvin Olasky, the good friend and compassion teacher to Governor Bush. Olasky's core message, as quoted by Michael King in the May 14 *Texas Observer*, is that "today's poor in the United States are the victims and perpetrators of illegitimacy and abandonment . . . but they are not suffering from thirst, hunger, or nakedness, except by choice, or insanity, or parental abuse."

Raised an observant Jew, Olasky turned atheist, then Communist. He went to Moscow, and attended Communist Party U.S.A. meetings in the Detroit region. Then, he turned "Christian rightist," finally becoming a clown prince of the Gingrich Conservative Revolution.

The editor of the "evangelical" *World* magazine, Professor Olasky wrote in a 1996 column on his conversion, "The steps down that path were hesitant and included activities such as watching classic westerns (with their strong sense of right and wrong) and reading Christian existentialists."

From 1989 to 1991 Olasky worked at the Heritage Foundation. His 1992 book, *The Tragedy of American Compassion*, was a Heritage Foundation project. The book carries an introduction by professional racist Charles Murray, co-author of *The Bell Curve*.

Candidate Bush's chief domestic policy adviser, Indianapolis Mayor Stephen Goldsmith, is known for radical privatization schemes and slashing the wages of the workforce. In pressing such policies under cover of Professor Olasky's blasphemous "Christianity," Bush repeats a family tradition:



Texas Gov. George W. Bush has now begun his run for the throne in Washington, crowned in advance by an adoring media.

During the Great Depression, when his father and grandfather were driving in the family limousine past the broken-down homes of the unemployed “rabble,” grandfather Prescott Bush would explain that the poor were only so because they failed to properly manage their money.

The empty vessel . . .

Though Bush has been anointed by the media as the Republican front-runner, there is great tension among his sponsors about how the rather dull-witted fellow will do in the inevitable public fights over ideas.

A pro-Bush campaign piece, published in the June 1999 *Texas Monthly*, carries quotes from Bush’s friends who approach the “no-brains” issue gingerly.

Robert McCallum says, “People didn’t think of George as an intellectual policy wonk or anything. [In college,] George spent a lot of time learning from other people. Those who were book-oriented would think he wasn’t a serious student, but he was a serious student of people.”

Texas Monthly bravely defends him: “Bush is not a policy wonk. He prefers ideas to plans; his concept of a leader is someone who sets the agenda with a few broad policy statements and delegates the specifics to the legislature.”

A classmate of Bush’s at the Harvard Business School, Al Hubbard of Indianapolis, who coordinated Bush’s preparatory Presidential campaign meetings, said, “He wasn’t a great student. But he’s the most conscientious politician I’ve ever worked with.” Bush’s chief national economic adviser, Law-

rence B. Lindsey, a former Federal Reserve Board governor, described Bush as “a very good and patient student.” Former Secretary of State George Shultz, now with the Hoover Institution, as are many of the campaign’s advisers, said, “Nobody knows everything about what goes on in the world, so you’ve got to find out.”

At Yale, in the Skull and Bones Society and the DKE fraternity (as his father had been), Bush was interested only in beer, football, girls, and hazing underclassmen. His friend Clay Johnson says, “It was a very manly existence.”

Bush says that after graduating, “I was rootless. I had no responsibilities whatsoever.” It was what he calls “my so-called wild, exotic days. . . . Maybe I did [use drugs], maybe I didn’t.”

Bush learned a public relations lesson from a losing 1978 Congressional bid: Voters don’t like transatlantic elitists like his father, so the younger Bush presented himself as a man of the people, and made a virtue of his “non-intellectuality.”

After he gave up drunkenness in 1986, at age 40, Bush served in the 1988 Presidential election campaign as his father’s “consigliere,” personal representative, and hatchetman. Papa Bush won because the Democrats ran radical post-industrialist Michael Dukakis. The younger Bush would later win two terms as Governor, a gift from the Gore-style leadership of the Texas Democratic Party.

. . . with cosmic connections

Governor Bush’s 1991 insider-trading sale of stock in Harken Energy company, which drills for oil in Bahrain, in the midst of his father’s quiet preparations for the Iraq War, made him a huge sum. He was saved from prosecution at the Bush family-run Securities and Exchange Commission. A larger fortune came from windfalls in the financing of the Texas Rangers baseball team with Bush’s partner, gambling casino owner Richard Rainwater.

In light of the fact that all of his wealth and power derive from his father’s international plutocratic and spook networks, Governor Bush’s “self-made-man” philosophy ranks among the all-time examples of *chutzpah*. *Texas Monthly* quotes him: “Everybody has been given free will, and everybody has a chance to succeed. If someone has failed economically, that does not mean that the rest of us should be judged differently.”

Three of the four sons of the former President, George W. Bush, Florida Gov. Jeb Bush, and former Colorado savings-and-loan intriguer Neil M. Bush, were up to their eyeballs in money-laundering for the George Bush-Oliver North "Contras" adventures. While all three have so far escaped prosecution, time-bombs are ticking, which the campaign season is bound to detonate. The Bush family's Texas was the center of the 1980s savings-and-loan looting on behalf of covert wars and arms- and drug-trafficking. Jeb Bush's Contras money-laundering partner, Miguel Recarey, is still today a fugitive from justice for theft of \$100 million from the Federal government. Recarey has his wanted poster on the U.S. Information Agency Web site, as does fugitive financier Marc Rich, reputedly Governor Bush's investment partner in South America.

Beyond any scandal as such, the reality of the family's power cartel is the most serious consideration for anyone contemplating George W. Bush in the White House.

George Herbert Walker Bush was the only American President whose family were international bankers. The family's "cosmic" connections arose when Averell Harriman (partner of grandfather Prescott Bush and of great-grandfather George Herbert Walker), merged his bank with London-based Brown Brothers, controlled by former partner Montagu Norman, then the Governor of the Bank of England.

The resulting Brown Brothers Harriman firm was a hub in a transatlantic fascist ring, running through Buckingham Palace, and Royal Dutch Shell, into Wall Street allies J.P. Morgan, Kuhn Loeb, and Standard Oil, and into such Dark-Ages cults as the Harriman and Bush families' Skull and Bones Society at Yale. This transatlantic combine sponsored and financed Adolf Hitler's takeover of Germany in 1932-33, as well as the post-World War II British reorganization of America's military and intelligence apparatus.

George H.W. Bush, the protégé of Henry A. Kissinger, became CIA director in 1976. As Vice President, Bush ran the Reagan administration's Afghanistan and Contras covert operations and directed the targetting of opponents to the London-New York tyranny. It was at this point, during Bush's 1987-88 scramble for the Presidency, that son George W. Bush swore off drink and entered Dad's global machine as a player, and potential heir.

The airhead younger Bush has now begun his own run for the throne in Washington, crowned in advance by an adoring media. The looming political question is whether the Democratic Party will supinely deliver the White House, through the nomination of sure loser Albert Gore. In a time of global financial and war emergency, the Bush dynasty and its desperate London sponsors would use the office with anything but "compassion."

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Nebraska's DeCamp endorses LaRouche

On June 14, former Nebraska State Senator John DeCamp endorsed Lyndon LaRouche's Presidential campaign. DeCamp is the author of The Franklin Cover-Up: Child Abuse, Satanism and Murder in Nebraska. Here are excerpts from his statement of endorsement.

On Friday, June 11, I released a seven-page memorandum entitled " 'Controversial' Y2K Political Predictions," as the latest in a series of predictions which I have made almost yearly since I first became a Nebraska State Senator back in the 1970s. My predictions have often shocked people, though, as I detailed in that memo, I have a rather remarkable track record of accuracy, as in predicting the rise of Khomeini to power in Iran before anyone had ever even heard of him. But, my latest predictions will really "rattle some teeth," not merely because of my forecasts, but because of the conclusion to which I was forced, almost against my will: "*THAT I HAD NO CHOICE BUT TO ENDORSE DEMOCRATIC PARTY PRESIDENTIAL PRE-CANDIDATE LYNDON H. LAROUCHE, JR. FOR THE NEXT PRESIDENT OF THE UNITED STATES.*"

I have personally met Lyndon, as well as his remarkable wife Helga, and have collaborated with some of his associates for almost a decade now, in the fight against a nationwide and international child abuse ring, as detailed in my book *The Franklin Cover-Up: Child Abuse, Satanism, and Murder in Nebraska*. So, from first-hand knowledge, let me mention a few things about this extraordinary individual. He was the architectural genius behind the SDI program, which, more than any other single event, finally finished off the Soviet Empire. He is one of the world's preeminent economists, who is respected and listened to in most of the rest of the world—particularly in Russia, in China, and elsewhere in Asia, as a result of his absolutely uncanny economic forecasts over the past 30 years. He also represents the U.S.A.'s single best example of absolute uncontrolled and unforgivable *human rights abuses*, abuses in that the courts, the prosecutors, and the competing politicians knew LaRouche had committed no crime, but set him up to go to prison because he was becoming too credible, too powerful politically. For those who take the time and energy to study his history, they will find an incredible human being who has been through hell and who should have turned against America by all logical thinking, but who instead got out of prison and went right back to waging a political battle within the system, to correct the system. That is courage. That is integrity. That is the kind of

leader we will need in the trying times ahead.

I also know many other people—some very influential—who admire Mr. LaRouche. Yet, let us be honest. Given that the U.S. anglophile Establishment hates and fears LaRouche *more than the Devil fears holy water*—and thus threw him in jail and viciously smeared his reputation—if you have been active and perhaps influential in state or national politics, you would have to be an idiot, to just casually endorse LaRouche for President. "*WHY DON'T I JUST CUT MY WRISTS RIGHT NOW, AND GET IT OVER WITH?*" you might ask yourself, when asked to endorse LaRouche. So, since I have endorsed him, and since I intend to campaign as vigorously for him as I can, let me boil down my seven-page memo to its crucial points, to perhaps offer some help in encouraging others to do what they know they *should* do, but are *very apprehensive* to do, as I myself was.

With the help of LaRouche's insights, I first demolished the following four myths:

1. Inflation in America is low and the American Economy is very strong.

WRONG: In large part through the U.S. Fed, we have built a hyperinflationary financial bubble of over \$100 trillion worldwide, which is destroying the real, physical economy of America, and of all other nations.

2. The U.S. stock market reflects the strength of the American economy.

WRONG: It is history's biggest economic bubble, which will burst within the next year, triggering the worst world depression in history.

3. China is America's enemy, who spied and stole atomic secrets, and who violates human rights, and with whom we should have nothing to do.

WRONG: Most of those "charges" are hyperbole, if not outright lies, as is the recent Cox Committee report to Congress on Chinese "espionage." We should expand trade and other relations with China (and with Russia), as the cornerstone of global prosperity; if we don't, we are headed for World War III.

4. That the war in Kosovo is/was a noble effort by the U.S.A. and NATO to stop ethnic cleansing.

WRONG: The whole thing was organized by England, which is desperate to maintain its control over world finances and politics by manipulating the "dumb American giant." The Brits are terrified of a U.S.-China-Russia alliance, as FDR foresaw at the end of World War II would form the cornerstone of a stable world order to replace British and other imperialisms—which are today called "globalism." As LaRouche has emphasized, the American population must rally around a massive new reconstruction program for the Balkans, which could serve as the seed crystal for establishing a "New Bretton Woods" monetary system, to replace the present, bankrupt one, which could explode any day now. . . .

So, look reality in the face, and do the right thing: *ENDORSE LAROUCHE* . . .

National News

McCaffrey praises drug cooperation with Mexico

White House drug policy adviser Gen. Barry McCaffrey (ret.) praised Mexico's cooperation with the United States in fighting drugs, in an interview with the May 31 issue of the Mexican daily *Reforma*. He reiterated that his goal is to work "on the construction of cooperation and confidence" between the two countries as the key to fighting narcotics. "If there are two places where the language of sovereignty dominates, it is in Mexico and in the United States. And, yet, if you look at what we have accomplished in the last four years, the progress has been substantial," he said.

He took a direct hit at outgoing Drug Enforcement Administration head Tom Constantine, who has distinguished himself as a Mexico-basher: "We have to work with the government of Mexico as a very important partner," McCaffrey said; and then added that the danger of taking a meal with the retiring DEA chief is, that "Tom can't stop thinking about the way to arrest you at the end of the lunch!"

And then, the real zinger of the interview: "There is more cooperation between the United States and Mexico, than between the United States and Great Britain," General McCaffrey stated.

Congressmen lobby for Sudanese 'rebels'

U.S. Reps. Donald Payne (D-N.J.) and Thomas Tancredo (R-Colo.) and Sen. Sam Brownback (R-Kans.) were part of a delegation to meet with John Garang's Sudanese People's Liberation Army at the SPLA's camps in the south, near the Uganda border. In addition to meeting with SPLA leaders in the southern city of Yei, the delegation also visited SPLA camps inside northern Uganda.

Garang's is the leading hold-out among all the southern rebel groups, most of which have signed the Peace Agreement of April 1998 with the Sudanese government. Khar-toum is also making great progress in fence-mending with its neighbors—Ethiopia, Eri-

tre, Egypt, and even Uganda—most of which have acted at some time as havens for rebel groups.

No matter to Payne, et al. According to the June 8 issue of the international Arabic daily *Al-Hayat*, Payne has demanded that the U.S. administration help the SPLA stop the aerial bombardment by the Sudanese air force. Such aid would include providing advanced anti-aircraft weapons.

D.C. turns down private prison bid from CCA

The Corrections Corporation of America was defeated on June 14 in its attempt to land a multimillion-dollar Federal government contract to build a private prison for the District of Columbia. The projected site was Washington's Southwest quadrant, a poor section of the nation's capital, which needs economic development, not a private prison. A battle royal has been raging over the proposal, with CCA shelling out money to win political support. The proposal was defeated by an unusual combination of developers and environmentalists, and faced strong opposition from the new Mayor, Anthony Williams, who is trying to make Washington more attractive to Wall Street.

Washingtonians who break D.C. laws are housed at a special Federal prison in nearby Lorton, Virginia. In 1997, a Federal law ordered Lorton shut down, leaving at least 2,000 felons to be moved to a privately run prison by the end of this year, which must be built within 300 miles of the U.S. Capitol.

A hard-hitting exposé of CCA appeared June 11 in the *Washington City Paper*, revealing the fact that the stock of CCA's parent company, Prison Realty Trust (PRT), has plummeted from a high of \$31 a share to just \$10 a share. The collapse came in the wake of its May filing with the Securities and Exchange Commission, which revealed that CCA had been running an \$80 million deficit when it merged with Prison Realty in January. There are at least four class-action suits pending against PRT by aggrieved shareholders. The article asked the important question whether the company is financially healthy enough to build the private prison in the first place.

An impassioned editorial page commentary by Rep. Ted Strickland (D-Ohio), in the June 13 *Washington Post*, put the final nail on CCA's coffin. Strickland's district in Youngstown includes CCA's horrendous Youngstown Prison, where six felons escaped last year. Prisoners from the District were routinely brutalized there and left without adequate medical care.

Strickland is a former psychologist at the Southern Ohio Correctional Facility, and recounts the numerous reasons, from a prison official's standpoint, why private prisons are a bad idea. He has introduced legislation to stop Federal funding of private prisons. He concludes his guest editorial: "It sickens me to think that individuals sit in corporate boardrooms talking about increasing their bottom line when the commodity they are dealing with is captive human lives."

AFL-CIO's Sweeney joins China-bashing

Reflecting the AFL-CIO's seriously wrong foreign policy, the union federation's President John Sweeney announced on June 7 that he has sent letters to all members of the House and Senate, urging them to reject the renewal of normal trade relations (NTR) with China. On June 8, he delivered testimony to the House Ways and Means Subcommittee on Trade. Sweeney cites allegations of China's "continuing repression of democratic political discourse," "its intolerance for an independent labor movement, and its continued and illegal export of goods produced in forced labor camps." He says there should be no granting of NTR status (formerly known as most favored nation status) "until and unless there is material progress on protecting and respecting workers' rights."

He calls on Beijing to meet three conditions: 1) "observe and effectively enforce core labor standards," including allowing Chinese workers "to join together and bargain in independent labor unions"; 2) "free jailed human and labor rights activists"; 3) agree to "support U.S. efforts to incorporate enforceable worker rights into WTO [World Trade Organization] rules, including establishing a 'working party' on workers rights."

Medicine, food should not be used as weapons

Rep. George Nethercutt (R-Wash.) argued forcefully that agricultural commodities and medicines should not be included in economic sanctions except under the most compelling of circumstances, in a House Agriculture Committee hearing on June 9. He is the sponsor of a bill that "will allow sanctions to be removed on all countries on which they currently exist as it relates to food and medicine." The bill was introduced as an amendment to the agriculture spending bill the day before, but he withdrew it before it came to a vote.

Not only is "using food as a weapon" not the right policy, Nethercutt said, but also "lifting sanctions is clearly consistent with a free market approach," which would make taxpayer-funded assistance to farmers unnecessary. He told the committee, "I am hard pressed to conclude that any country, whether it's Iran, Iraq, or any other terrorist regime, is going to shoot grain back at Americans. . . . If we deal with these countries in an open fashion, export our agricultural commodities to them, the American farmer benefits and the people of these countries benefit as well."

Earl Pomeroy (D-N.D.) praised Nethercutt for his leadership on this issue, but he pointed out inconsistencies within the GOP caucus. The day before the hearing the agriculture spending bill passed, but only after the GOP leadership agreed with a group of conservatives led by Tom Coburn (R-Okla.) to cut \$102 million from the bill. On the same day as the hearing, House International Relations Committee Chairman Benjamin Gilman (R-N.Y.) announced that he was going to move a bill that would prohibit any aid to North Korea unless that country proves it is dismantling its nuclear

weapons programs.

Nethercutt acknowledged that it is a difficult issue. "We have to force this issue," he said. "The taxpayers are paying to send food aid to North Korea. . . . So, my argument is, let's let them purchase the food." He said, "I think we've got to have an ag policy that's clear, and we've got to get this food where it ought to be, and we have to just be pushing the Democrats and Republicans alike." Pomeroy expressed confidence that Gilman's bill can be defeated if members from agricultural districts "stand together."

Clinton blasts GOP for blocking HMO reform

President Clinton called on the Congressional GOP leadership to pass an all-inclusive Patients' Bill of Rights, in his weekly radio address on June 12. "Until Congress acts," he said, "tens of millions of Americans in managed care are still waiting for the full protection of a Patients' Bill of Rights." While Republicans have acknowledged the poor quality of managed care, "the Republican leadership's legislation falls far short of providing American families the protections they need in a changing health care system," he said.

The President's call is the latest salvo in a battle building up over managed care reform, and not all the attacks on HMOs are coming from Democrats. On June 7, Greg Ganske (R-Iowa) called on the GOP leadership to pass his managed care reform bill, or one like it. "We have a situation in this country," he said, "where even if you are paying a lot of money for your insurance, you are getting turned down because your HMO arbitrarily declares this is not medically necessary." He compared the injuries that can be

caused by the decisions of an HMO, to what can happen to victims of criminal acts. "Health plans that recklessly deny needed medical service should be made to answer for their conduct," he said, just as is someone who commits murder or malicious assault.

On June 10, House Speaker Dennis Hastert (R-Ill.) removed primary responsibility on the issue from the House Commerce Committee and gave it to the Education and the Workforce Committee, chaired by Bill Goodling (R-Pa.). Goodling and John Boehner (R-Ohio) are sponsors of a bill similar to the one passed by the House last year, that provides for an external review process. It excludes the liability language favored by Ganske, Charlie Norwood (R-Ga.), Tom Coburn (R-Okla.) (all of whom are physicians), and Democrats. Norwood, who is a member of both committees, had been focussing his lobbying efforts on the Commerce Committee, but now vows to build support on the education panel for his bill.

Kosovo dominates Defense bill debate

On June 8, the Senate passed the Defense Appropriations bill by a vote of 93-4. The bill includes a 4.8% pay raise for military personnel, adds \$598 million above the President's request for operations and maintenance accounts, and increases procurement spending by \$2.7 billion and research and development by \$2.1 billion.

There were two amendments on reconstruction in the Balkans, both of which passed by voice vote and neither of which attracted much debate. The first, sponsored by Judd Gregg (R-N.H.), prohibited use of funds authorized in the supplemental spending bill

for long-term reconstruction without specific authorization of Congress. Gregg said that he was worried that the United States would end up paying a "disproportionate cost" of the reconstruction of Kosovo and Yugoslavia. "It is my opinion," he said, "that no American funds should be spent for the reconstruction of Yugoslavia until [Slobodan] Milosevic is removed as its leader." The second, offered by Ted Stevens (R-Ak.) on behalf of Don Nickles (R-Okla.), prohibits the use of any funds for reconstruction of Serbia as long as Milosevic is in power.

Fight breaks out over nominations

President Clinton's appointment of California businessman James Hormel as U.S. Ambassador to Luxembourg has become a lightning rod in the battle over Presidential nominations. Clinton originally nominated Hormel for the post in 1997, and the nomination was favorably reported by the Senate Foreign Relations Committee, but it has since been held up by Sen. James Inhofe (R-Okla.), who objects to Hormel's homosexual activism. Clinton, using his constitutional authority, then made the appointment during the Memorial Day recess. When the Senate came back from recess, Inhofe announced that he would put holds on all pending nominations, as Robert Byrd (D-W.Va.) did in 1985 to object to the way then-President Reagan used recess appointments.

On June 9, the day after Inhofe's tirade, Minority Leader Tom Daschle (D-S.D.) said he was "extremely concerned" about Inhofe's action, and said that it is "unacceptable" because it leaves more than 150 nominees languishing in committee. The next day,

White House Chief of staff John Podesta sent a letter to Majority Leader Trent Lott (R-Miss.) taking issue with Inhofe's assertion that Byrd's action in 1985 resulted in anything close to what Inhofe is demanding, which is no appointments during recesses that last less than 30 days. Podesta wrote that, since Hormel would easily be approved if his nomination went to the full Senate, the issue is "about a very small number of Senators who believe that sexual orientation can disqualify an exceptional nominee from confirmation."

There are indications that Inhofe does not have the full support of the GOP caucus. The Foreign Relations Committee and the Finance Committee went ahead and scheduled hearings on the nominations of Richard Holbrooke as UN Ambassador and Lawrence Summers as Treasury Secretary, respectively. John McCain (R-Ariz.) told NBC's Tim Russert on Meet the Press on June 13, that appointing ambassadors is a consequence of elections. "We should go ahead and leave that issue alone," he said, "and either approve or deny [nominees] by votes, as is the proper procedure."

Cox recommendations approved by House

Alleged Chinese theft of U.S. nuclear secrets dominated House debate on the Fiscal Year 2000 Defense Authorization bill. The House approved unanimously an amendment based largely on the conclusions of the Cox-Dicks committee report, and the bill itself was voted up on June 10 by a vote of 365-58.

The amendment places several onerous requirements on the administration, including on the launching of U.S. satellites on Chinese rockets,

higher-level reviews of countermeasures against Chinese technology acquisition, and reporting on Chinese compliance with the Missile Technology Control Regime. It requires negotiation of new technology control regimes "so that when the United States controls an export," said Chris Cox (R-Calif.), we do not go it alone and we find that only our producers and our workers are injured with no national security benefit," because someone else has sold the technology.

The amendment also demands an intrusive verification system for future sales of products such as high-speed computers, "as a condition for export licensing and the continued sale" of high-speed computers. Also included in the amendment, is a demand for on-site inspections as part of an annual assessment of the national security implications of such sales. "We need to have end-use verification without notice," Cox said, "negotiated simply as a term of trade, not in any way calling into question the national sovereignty of the P.R.C."

Even more ominous, is another amendment, sponsored by House Majority Whip Tom DeLay (R-Tex.), which prohibits military-to-military exchanges between the United States and China. In a rabid speech, DeLay said that the role of the U.S. military "is to defend America from the hostile foreign powers, not to train them," which is "suicidal national behavior." This was disputed by Ike Skelton (D-Mo.), who said that DeLay's amendment was unnecessary, and that U.S.-China military exchanges are more beneficial to the United States than to China. "Routine senior level defense contact in times of relative calm can help ensure open communications during times of tension," he said. DeLay's amendment passed by a vote of 284-143.

The power of truth

Before Undersecretary of State Thomas Pickering left for Beijing the week of June 7, to present the Chinese government an official "explanation" of the May 7 bombing of the Chinese Embassy in Belgrade, Democratic Presidential pre-candidate Lyndon LaRouche issued a statement (see p. 71) stressing that nothing but the truth would suffice. To peddle the idea that it had been a "tragic accident," LaRouche said, "is the worst possible action at this time, almost a politically suicidal action, for the U.S. President's credibility among any of the world's nations." LaRouche urged the United States, "for a change," to "try telling the truth."

Mr. Pickering would have done well to heed this advice. Instead, he chose the course of lying diplomacy, and fell flat on his face. Pickering reiterated the fairy tale of the outdated map, and regretted that subsequent cross-checking had also failed to correct the "error" regarding the location of the Chinese Embassy.

The official response of the Beijing authorities to Pickering's explanation, should not surprise anyone. As reported on China Central TV on June 17, the Chinese government rejected his version, and gave ample reasons why.

"The Chinese side," the report went, "refuted the explanation by saying it was impossible for U.S.-led NATO not to know the exact location of the Chinese Embassy in Yugoslavia. . . . The Chinese side finds it difficult to believe why the U.S. side put so much value on, and faith in the out-dated maps. The U.S. also acknowledges that there are many maps which show the correct location of the Chinese Embassy. But they were not able to explain why they did not use these maps.

"Secondly, the U.S. had planned the strikes against Yugoslavia for a long time. This allowed much time for the photographing, mapping, and surveying of all parts of Yugoslavia. This includes Belgrade in particular. All throughout the bombing of Central Belgrade, efforts were made to avoid hitting foreign embassies in Yugoslavia. All of these other embassies were located near targets that were hit. This shows that the U.S. was clear

about which targets were intended and which were no-hit targets.

"Thirdly the U.S. claims they located the intended target purely by an undependable technique of land navigations. But this is clearly not logical. . . . Fourthly, U.S. target databases were updated frequently with clearly distinguished target lists. The U.S. claim that the Chinese Embassy was mistakenly fed into the database as a Yugoslavian military target facility does not hold ground. Fifthly, the explanation given by the U.S. side that its review process failed to detect and correct the intelligence errors is inconceivable. The U.S. has always claimed that it has a whole set of stringent review procedures throughout the process of reconnaissance, identification, and final selection. The technical departments concerned would not determine the intended targets unless they had doubts about them. With such strict review procedures, why did errors occur at every stage and none of them were corrected?"

In conclusion, the report emphasized that the bombing had "not only encroached upon the national dignity of the Chinese people, but also violated the fundamental rights of human life." Stressing that "China has made it clear that the Chinese government has always attached importance to the improvement and development of Sino-U.S. relations," it reiterated that "the U.S. side must face squarely the severe consequences of its attack on the Chinese Embassy and the effect it has had on China-U.S. relations. The U.S. must take practical action in handling this incident properly, so as to create the necessary condition and atmosphere for bilateral relations to return to normal."

There is no reason to assume that the Chinese government will change its mind, or modify its principled stance on this grave violation of national sovereignty. There is no other alternative open to Washington, but to listen to Lyndon LaRouche's informed standpoint, and "for a change," start telling the truth. As LaRouche's campaign slogan recalls, "You cannot fool all of the people all the time."

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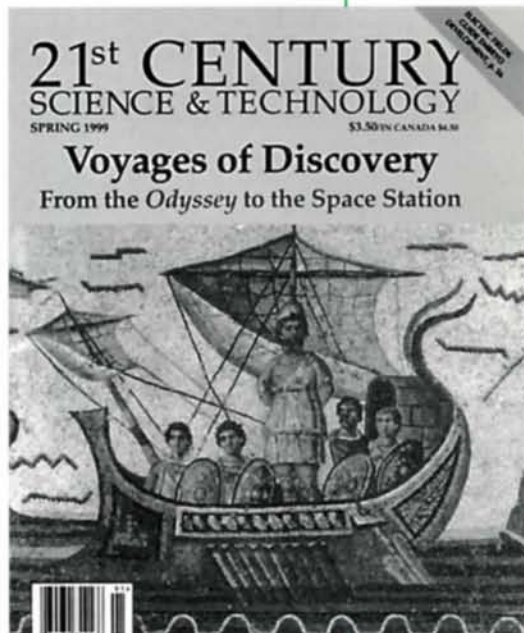
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