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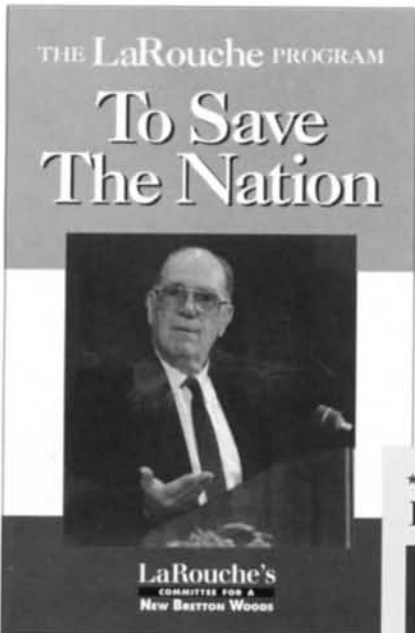
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Eddie George's strategy to steal the gold
Balkan nations battle monetarist bureaucrats
Barak secures U.S. support for peace offensive

**Can you, personally,
survive this bust?**



LaROUCHE *for* President



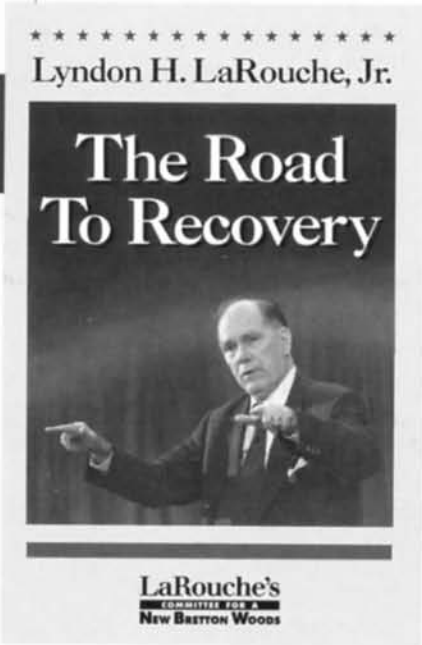
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and all of the people some of the time;
but you cannot fool all of the people all the time.”

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From the Associate Editor

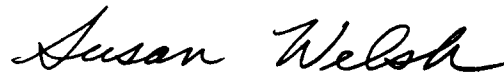
Surveying the world picture at the end of July, we see a power vacuum and a vacuum of *ideas* in every leading industrialized nation; but, at the same time, we see growing interest worldwide in the ideas of Lyndon LaRouche, on how to reverse the deepening economic and cultural crisis, how to create a new Renaissance.

As the July 30 Sarajevo summit on the vital issue of Balkan reconstruction nears, President Clinton admitted, in a press conference on July 22, that the United States *has no concrete proposals to offer*. “We haven’t actually had an opportunity to sit down and go through what our options are,” was the way he put it. A far cry from Clinton’s own April 30 call for a new Marshall Plan for the development of southeastern Europe! Rainer Apel reports in our *Economics* section that the policy of the European Union is utterly bankrupt, forcing the nations of the Balkans to try and piece together some initiatives on their own, to begin to repair and modernize infrastructure in the region. But, without a serious international effort, in the context of a New Bretton Woods financial system, hardly a dent will be made in the devastation left by NATO’s air war, and the fuse will be lit for new explosions of violence.

The same issues are posed in the Mideast. As we report in *National*, the first meetings between Clinton and Israeli Prime Minister Ehud Barak were promising. But the key task is to finally carry out the Oslo Accords’ protocols for economic development: the job which was sabotaged in years past by the World Bank and IMF.

In our *Feature*, LaRouche and associates document the insane and desperate maneuvers by the British-led financial oligarchy, notably Bank of England governor Eddie George’s theft of a billion dollars worth of gold from his own bank, in order to distribute the loot to his buddies from the IMF and the London Bullion Market Association. This is no “free market”—this is a raw power grab! The oligarchs are jockeying for position, to survive what they now realize is an inevitable collapse of the financial bubble.

Will you, personally, survive? As LaRouche makes the case, it depends on what you do now. And there is very little time left.



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By Lyndon H. LaRouche, Jr. That the oligarchs are looting their own institutions, should awaken you credit-card slaves from your dreaming. "In other words," writes LaRouche, "that means, 'Will I, my family, and our government, come out of this mess with the political power needed to create the needed *new money-system*, to replace the hopelessly bankrupt old one, the instant the crash of the present world system occurs?' People who ask the latter question, are sane; those who ask, 'Then, where do I invest my money?' are probably not sane — at least, not at the present moment; we hope their mental health might be improved by aid of what I report here."

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Can you, personally, survive this bust?

by Lyndon H. LaRouche, Jr.

July 18, 1999

The head of the Bank of England, Eddie George, has been caught running a theft-ring, stealing what is now approaching \$1 billion, or possibly even more, from his own bank. That fact, in itself, should warn you, that Eddie George must be expecting the world financial system, and your personal mutual fund account, to blow out and melt down very soon. If that is not enough to awaken you credit-card slaves from your dreaming, try the next set of facts about Eddie's gold scam.

Eddie's scam involved setting up a special, private market, for letting only certain cronies in on this raid on the Bank of England's gold reserves.¹ Tons of outsiders were eager to buy the gold at those prices, but were kept out. So much for Britain's "free market" policies. Eddie's cronies included some among the same batch of scavengers who were named in an earlier scam, the 1998 U.S. Federal Reserve bail-out of Long Term Capital Management (LTCM), as financial backers of professed "playing-field leveller" Vice-President Al Gore.²

But, that is not the end of the story. It becomes much worse. Leading bankers directing divisions of many of the world's biggest banks, are running world-wide scams, looting their own banks, in operations totalling to amounts nearly as big and bad, or worse than Eddie's pilfering of Bank of En-

gland gold reserves. Before these current, globalized swindles come to an end, it will be the taxpayers—including the U.S. taxpayers and ordinary bank depositors, who will have been cheated by the Bank of England and its Wall Street accomplices.

One of the toughest questions for honest accountants to answer, today, is, which, if any, among the world's leading banks might be, just possibly, actually solvent, among virtually all the others, which are not. For reasons which I shall point out to you in a few moments, the facts show, with absolute certainty, that the world's financial system, taken as a whole, is hopelessly bankrupt.

Against less than an estimated \$12 trillions-equivalent, and falling rapidly, of world trade as a whole, the largest component of world debt is not less than a still-zooming, estimated \$300 trillions-equivalent of short-term pure speculation, known as either "financial derivatives," or related kinds of financial trash-paper.

This derivatives bubble is currently expanding at a rate of not less than 70% per year, the rate of expansion currently necessary to keep the bubble from collapsing into the biggest financial crash in history. By early autumn, the rate of growth of that bubble needed to keep it from imploding, if it had not already crashed, would be skyrocketing far above the 70%-per-year rate, and still climbing like a rocket. The present situation in the world's financial system is comparable to the explosion of German Reichsmark hyperinflation, during the Summer and early Autumn of 1923. **[Figure 1.]**

Given the ratio of rate of growth, of hundreds of trillions dollar-equivalent of financial debt, to a few tens of trillions-equivalent real assets, world wide, and given the rate of skyrocketing of financial debt to presently collapsing assets against such debt-claims, the world's present financial sys-

1. What Eddie has done, is to sell the Bank of England's gold to his accomplices, at prices far below its value. The take on the margin of difference, runs into the equivalent of billions of U.S. dollars. See Richard Freeman and John Hoefle, "Eddie George's Strategy to Steal the Gold," in this *Feature*.

2. On the LTCM bail-out, and on the roster of carrion-crows working with Eddie George to loot the Bank of England's gold reserves, see John Hoefle, "Global Reverse-Leverage Collapse Is Underway," *EIR*, Oct. 23, 1998.



Eddie George makes a withdrawal from his own bank.

run under the cover of the “globalization” hoax, scams run from inside the world’s biggest banking and financial houses, this time on a “globalized” scale.

There is only one condition under which so many among the world’s leading bankers and private financial houses would, or could collaborate in running such schemes that openly, on that kind of scale. It occurs only when those swindlers are panicked by their knowledge, that the system is about to melt down; they are getting out with as much as they can, while the getting is still good. At this stage, it is only the proverbial poor suckers who are still duped into deluding themselves with the belief that they are “riding out the coming lucky correction.” Most of these bankers and leading financial houses are trying, desperately, to keep the public from facing the reality of the situation. Most among the swindlers who are denying the fact of the onrushing crash, are up to their lips in the same kind of financial sewage which they pretend, with their show of Nashville-Agrarian-style “genteel refinement,” does not exist.⁴

The most important fact to be learned from Eddie George’s scam, is that, in any situation

resembling the quality of international crises now piling up, the issues of raw political power soon overwhelm, and replace all ordinary kinds of finance and politics. That kind of period in history, which the present financial crisis reflects, has always been a time during which the greatest political, military, and related upheavals have tended to erupt with suddenness, and with the greatest violence. As we approach the end of this calendar year, any attempt to continue what has passed for “politics as usual” during the recent decades, is about to be

tem, the so-called International Monetary Fund (IMF) system, banks and all, is hopelessly bankrupt. Is that IMF, therefore, the same “proven expert” to which nations must turn, in utmost obedience, for advice?

So the story goes, on and on. Today, thoughtful leading bankers themselves are not certain as to which, if any, of the leading individual banks of the Americas or western Europe, if any, might actually be relative exceptions to the general rule. One of the big accounting problems, today, is the fact that, because of continuing deregulation mania within much of the U.S. Congress, and within relevant other agencies, no one knows how many tens of trillions of dollars-worth, or more, of unreported, off-balance-sheet derivatives and related debt, in addition to the estimated \$300 trillions figure, are actually hanging out there.

I can report, from personal experience over decades, that the basic principle in all of these scams, underlies the same methods used by professional swindlers in the case of numbers of the cases which I was involved in investigating, in both the U.S.A. and Canada, back during the 1950s, and later. This is the same kind of swindle, looting your own firm, through the magic tricks used, in former times, to run bunco operations through revolving doors in bankruptcy and probate scams.³ The difference is, these present, giant scams are being

proceeds of the loan, to cover delivery of merchandise, on credit, to customer “C.” Customer “C,” in turn, delivers goods, “under the counter,” to a retailer, “D.” “D” sells these at below average-retail (“discount”), mixed with sale goods for which “D” actually purchased and paid “C” and other manufacturers. “C” falls into bankruptcy; the bank loses; “D” runs off with the skim. Remember the famous “Salad Oil Swindle”? (Norman C. Miller, *The Great Salad Oil Swindle* [New York: Coward McCann, 1965]). As in arson as insurance fraud, there is collusion; there is theft at the expense of looted financial institutions. The second case is a legendary story from U.S. World War II days. A man employed in a high-security war-production plant came out of the plant, at his quitting-time, punctually each day. Each day, he was pushing a wheelbarrow full of sand. The diligent plant guards, becoming more curious with each passing day, searched through the sand with increasing zeal, looking for some valuable object concealed with the sand. After the war, one of the guards met the former wheelbarrow pusher at a local bar.

“Come on, Joe,” the guard said; “What were you stealing?”
Joe grinned. After a pregnant pause, he replied: “Wheelbarrows.”
Joe was using the same Plotto-scheme principle typically used by even the high and mighty. It is an old gag, but it continues to be used by swindlers of all shapes and sizes, like Eddie George today.

4. Like the Count Ugolino of Dante Alighieri’s *Inferno*.

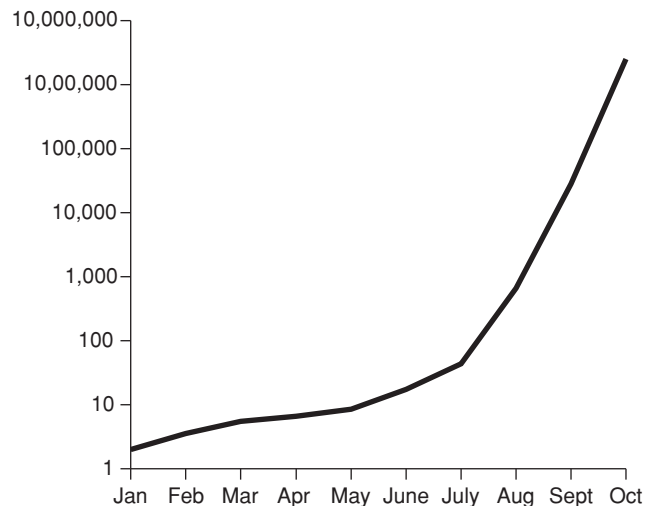
3. To get the idea of how this works, take the following two stories as typical of the principle involved in such swindles.

In the first case, banker “A” makes a loan to client “B.” “B” uses the

FIGURE 1

Hyperinflation in Weimar Germany, 1923

(trillions Reichsmarks outstanding)

Source: *Zahlen zur Geldentwertung in Deutschland 1914 bis 1923.*

blown violently from the world map of the decade or more immediately ahead.

In modern European history, such periods of crisis have always been foreseen among some of the influential people of those times, but, with rare exceptions, nations and their leaders have stubbornly refused to face clearly foreseeable consequences, until after those consequences exploded in their faces. Populations, and most of their leaders, cling to doomed old ways, even after global storms of extreme and protracted violence have begun to sweep the old world order from the political map. So, Europe was plunged into the follies of World Wars I and II, and into that Great Depression of the 1930s, which less foolish men foresaw, even before the ink was dried on the Treaty of Versailles, as “the economic consequences of the peace.”⁵

We can not afford to repeat those kinds of mistakes again; unfortunately, at the present moment, the U.S. establishment, like the governments and others in western Europe, seems to have a suicidal obsession, either out of raw political fear, or delusions, for clinging to the old ways which now threaten to wipe both today’s institutions and popular delusions from the map of world history. We might hope that the governments themselves would act to both change those institutions and rid themselves of those delusions, before it is too late.

It is possible, that you and your neighbors might, personally, survive the epoch-shattering crisis now rushing down

5. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920).

upon us all. The question is not, “Whether my money can survive?” The question is, “Will you and your family survive?”

In other words, that means, “Will I, my family, and our government, come out of this mess with the political power needed to create the needed *new money-system*, to replace the hopelessly bankrupt old one, the instant the crash of the present world system occurs?” People who ask the latter question, are sane; those who ask, “Then, where do I invest my money?” are probably not sane—at least, not at the present moment; we hope their mental health might be improved by aid of what I report here.

There are three things which you must know, if you are going to qualify as a potential survivor:

1. Why the global financial crash is now inevitable, and soon. Why the world is now overripe for the biggest bust in history, about now.
2. How you and the United States economy might survive the crash.
3. You must recognize and reject those popular delusions, those which have caused nearly all of you to continue to be fooled into acting as if you were political supporters of that mass financial lunacy which allowed this collapse of the system to become inevitable.

1. Why the crash is inevitable

Ask yourself, “Why is this crash inevitable?” There are two parts to the answer to that question.

First, in theory, an *uncontrolled crash* might have been prevented—last September–October, for example, if the President of the U.S.A., acting in cooperation with a significant number of other perfectly sovereign nation-states, were to have put the present international financial and monetary system, suddenly, into government-controlled bankruptcy reorganization. In that case, an uncontrolled form of world-wide “crash” could have been prevented. In practice, so far, no prospective head of state of the U.S.A. or western Europe, except for this Democratic Presidential pre-candidate, has the combined inclination, knowledge, and guts to do such a thing; and, I am not President—at least, not yet.

Therefore, if President Clinton does not act as I would have acted, soon, it is the big, chaotic panic of a bust which we must look forward to, soon. As long as that is the case, a wildly uncontrolled global financial crash, is inevitable for the near future. Whether before New Year’s Day 2000, or not, is still in doubt. Either way, controlled or uncontrolled, the crash will occur soon, and, among other things, it will bankrupt every greedy sucker who feared that he might get out of

the market “too soon.” Many among the big names, like Eddie George’s cronies, are in the process of bailing out, now.

For the second part of that answer: under the condition I have just described, the crash is inevitable, because there is no way in which the present global financial system could continue to exist, except under the kind of government-supervised bankruptcy-reorganization I had wished President Clinton might have launched last September. With nothing better than that one, only existing real alternative available, the world’s present financial system is hopelessly bankrupt. Nothing could save it. We could save the world’s economies, but we could not save neither the present world financial system, nor the present monetary system. Only fools would attempt to bail out either of the latter two institutions.

The crash is already on

That financial crash of which we are speaking, is already here.

Up to this moment of writing, there have been many recent crashes, including that of June 10-11, 1999. The new period of global financial collapse, which began with the outbreak of the Brazil crisis (which fools claim that George Soros helped to prevent), never stopped. It has taken the form of a series of increasingly frequent financial crises.

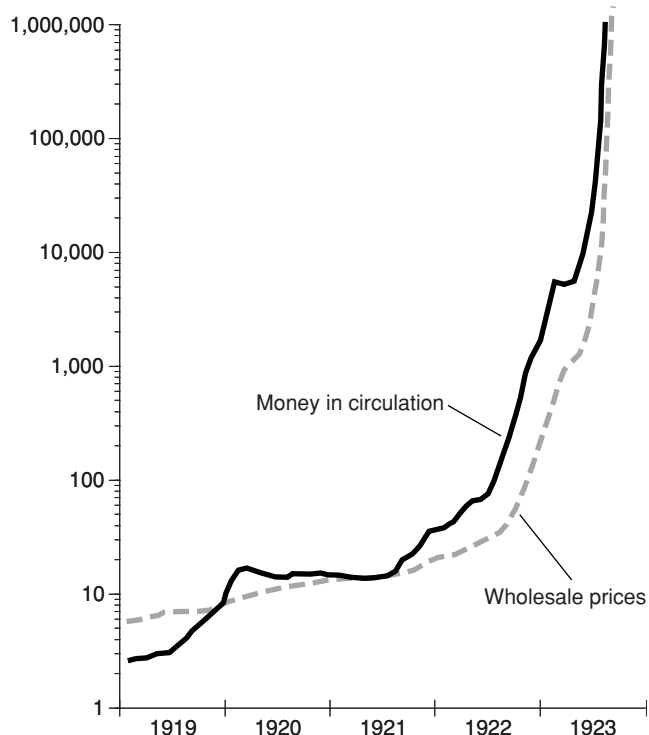
So far, overall, the new round of collapse of the world financial system which erupted in February 1999, has not yet assumed the form which people commonly associate with their more or less distorted image of the 1929 stock-market crash. Nonetheless, the real crash is already here. It has been here since February 1999.

Up to the present moment of writing, the February-July phase of the ongoing blow-out, has taken the following form. Imagine that you are walking across what you had thought to have been solid ground. Then, you experience an eerie feeling, as the ground around you seems to turn soft and wobbly, as you might expect from past experiences of earthquakes. Gradually, what you had thought was solid ground, seems to turn into quicksand. It becomes more and more dangerous. That is another form of a generalized financial crash, one of the worst kinds.

Soon, that will change. At some point soon, you will recognize that we have reached a condition comparable to the verge of the Autumn 1923 disintegration of the Weimar Germany Reichsmark. When that comes, it is more likely to erupt in a form recognizable as more of a “nuclear-style meltdown,” than the so-called “1929 style” of crash.

The reason for the present weeks quicksand effect, is that every leading institution of relevance is in a very special kind of “crisis management” mode. As Eddie George’s looting of the Bank of England typifies the situation, these institutions are dumping financial and other assets left and right, even at fire-sale prices, turning every financial asset, if possible, into either hard assets, or as much cash as they can squirrel away for the day after the collapse of the entire system has

FIGURE 2
Germany and hyperinflation, 1921-23
(index 1913 = 1)



Source: Knut Borchardt, “Wachstum und Wechsellagen 1914-1970,” in Hermann Aubin and Wolfgang Zorn (eds.), *Handbuch der deutschen Wirtschafts- und Sozialgeschichte*, Stuttgart: Klett, 1976, vol. 2, p. 699.

touched bottom.

At the same time, the same institutions are lying wildly, promising that there will never be an actual crash. That is being said just to keep the proverbial suckers — such as mutual funds investors, and duped members of the U.S. Congress — quiet.

This combined effort, by the so-called crisis managers, to squirrel away cash and hard-commodity assets, is in the process of producing an effect comparable to what happened in the Summer phase of the 1923 Weimar Germany Reichsmark hyperinflation. The attempt to maintain squirreled monetary assets, is at the point of generating a hyperinflation in hard commodity assets, like the Summer and Fall of 1923 Germany. [Figure 2.]

What is happening world-wide, as of this moment, is that the relevant institutions are locked into that increasingly frantic sort of crisis-management mode, which has itself become the cause for the new phase of the ongoing quicksand-style crash. Crucial is the frantic traffic launched in the effort to prevent what is called “the Yen carry trade” from blowing out the system in a thermonuclear implosion. That effort to

“crisis-manage” the Yen carry-trade bubble, has been transformed from what had been foolishly believed to have been an at least temporary solution, into the new form of the crisis. The crisis-management “medicine” has become a more terrible danger than the disease whose effects it was supposed to control. [See box.]

Given, that terrifying present situation, the good news is, that government would be capable of protecting, intact, the pensions and modestly sized savings of ordinary people, and will keep needed local banks operating, even if those banks are hopelessly bankrupt, and kept alive only as needed social institutions of localities, under government-directed bankruptcy reorganization.

The good news is, also, that the power of the U.S. Federal

Government, acting under the “general welfare clause” which is the fundamental law of our Constitution, is the basis for preventing waves of foreclosures on residential housing and similar situations. Apart from those actions, every other financial claim will either be wiped off the books (at least \$300 trillions worth world-wide), “frozen,” or subject to a schedule of renegotiations.

It is past time that each of you faced up to that reality. Get out of the dream-world, and into the real world. Do it now.

Later, here, I shall identify the delusions of every fool who thinks that the world’s financial system is “a zero-sum game.” Anyone who believes that financial crashes occur because “some people talk us into it,” are not economists; they are mental-health cases, and definitely not healthy ones. That

What is the ‘yen carry trade’?

In August 1995, the Bank of Japan drastically slashed interest rates to 0.5%, and the Japanese government, in cooperation with the U.S. Treasury and Federal Reserve, forced the yen sharply lower in order to avert a collapse of the Japanese economy and a meltdown of the Japanese banks. Since that time, high-risk hedge funds have indulged in a gambling practice known as the “yen carry trade.” The gambling involves massive yen borrowings in what the speculators have chosen to regard as a “one-way bet.”

By all market insider accounts, the hedge fund most exposed in Japanese yen borrowing has been the offshore Tiger Management LP, which runs the Tiger and Jaguar funds out of Curaçao, Netherlands Antilles, also the home of George Soros’s Quantum Fund.

The funds would borrow yen by the carload from Japanese banks, and then turn around and use the cheap yen, often costing little more than the official 0.5%, to buy dollars with the borrowed funds. The dollars were then used to make leveraged bets on U.S. or other stocks and bonds, which often paid 5-8% or more. So long as the yen showed no sign of becoming strong again, the billions of dollars in Japanese yen credits of these hedge funds could always be repaid at a huge profit.

That was the game that blew up in Tiger’s face on Oct. 7, 1998, when the fund lost at least \$2 billion in one night, representing a loss of 10% of its assets, said to be \$20 billion at that time. This loss occurred when the yen rose dramatically against the dollar, as a consequence of the Long Term Capital Management (LTCM) debacle, and of course, Tiger had bet the wrong way. Tiger was forced to liquidate large stock and bond positions in New York, and

across Europe, in order to buy yen to cover its Japanese loan obligations.

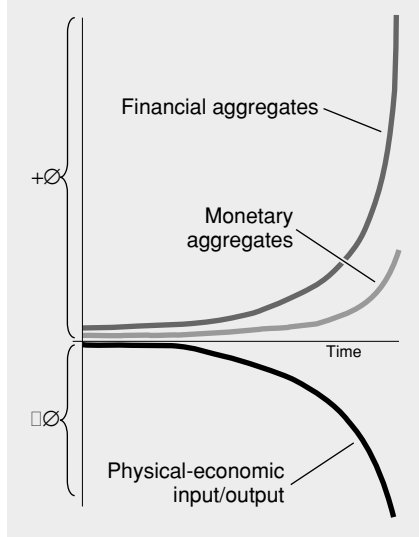
After the LTCM debacle in October 1998, Tiger and other hedge funds got out of their yen loans, bleeding profusely in the process. When, in February 1999, the Bank of Japan effectively pushed interest rates to zero in an attempt to jump-start the depressed Japanese economy, the lure of yen borrowing for dollar speculation became “irresistible” to Tiger and other hedge-fund speculators. By spring 1999, Tiger and the same hedge funds were gambling on the yen-dollar again.

By May, the Japan Center for International Finance reported that the “yen carry trade” held by overseas hedge funds had risen to \$8 billion, up from \$3.5 billion in April. The funds were betting that the Japanese economy would continue to collapse, and the yen with it, falling to 127 or lower. They were by no means alone; this was the universally held illusion.

In addition, the major culprits, the banks — which had lent billions in unsecured off-balance-sheet credits to LTCM to leverage its speculative bets on Russian GKO bonds to Japanese yen — quietly began to resume lending to hedge funds in April and May. The roulette wheel was starting to spin wildly again, with all eyes on the yen. (See also our accompanying chronology.)

When the Japanese government’s Economic Planning Agency released astonishingly strong first-quarter Gross Domestic Product growth data on June 10, showing nearly 8% annual growth in the economy, the hedge fund bets on a weaker yen exploded. The yen soared on the news of the data. Tiger Fund and the other hedge funds which had gone back into the Japanese yen carry trade casino, faced sudden ruin when markets opened on Friday, June 11. To cover its yen carry trade losses, Tiger was forced to panic-sell its holdings in U.S. and European bond markets, and convert its dollars and euros into yen. — *Bill Engdahl*

FIGURE 3
A typical collapse function



discussion comes later in this report, under the heading of psychological factors responsible for the financial crash. That said, now look at the facts about the crash itself.

How this collapse was organized

Since approximately 1966-1967, the world economy under the International Monetary Fund, has been following a three-pronged track, just as I have described this by my now world-famous "Triple Curve." [Figure 3].

The top curve shows a running average of trends in growth, a hyperbolic curve now zooming into the steepest part of its upward slope. That, the approaching world-wide financial crash, is the big financial "balloon note," whose growth has been sending the Dow-Jones skyrocketing over the broad sweep of the 1988-1999 period to date.

The upward curve just below that, not as steep as the financial curve, describes the trend in expansion of money supply. This trend has been dominant since the aftermath of that Trilateral Commission/New York Council on Foreign Relations program, called "controlled disintegration of the economy," which was introduced by Federal Reserve Chairman Paul A. Volcker, over the interval 1979-1982.

It is the type of measures introduced since the enacting of the wildly insane Garn-St Germain and Kemp-Roth laws, which have caused a cancerously growing financial bubble, which, in cahoots with the Federal Reserve System, have propelled a self-feeding rate of expansion of the money-supply.

To see the result of that, look at the way the pattern of deregulation measures since Garn-St Germain and Kemp-Roth, has fed an increasingly highly-leveraged growth of this

vast, ever-blooming financial bubble. This bubble is a copy, in principle, of the famous Tulip bubble of the Seventeenth Century, and the two John Law-style bubbles which bankrupted much of France and England during the early Eighteenth Century. It is similar to the debt-bubble which plunged mid-Fourteenth-Century Europe into a prolonged "new dark age." The difference is, that the present bubble is global, and more deadly than any other financial bubble known in earlier world history.⁶

Next, look at the bottom of the three curves, the one curving downward: *the long-term trend in decline of real physical-economic incomes and outputs of the U.S. economy, since 1966-1967.*

The measures of deregulation of basic economic infrastructure, banking, transportation, and agriculture, which the Trilateral Commission introduced through the Carter Administration, in 1977-1981, were followed by that savage sort of Wall Street-directed financial deregulation, a legalized scam which has continued to follow the pattern set by Garn-St Germain and Kemp-Roth. These combined measures of Carter Administration and post-Carter deregulation, have been reinforced in their effects, by a continued acceleration of the "post-industrial" utopian program launched globally in 1972.⁷

The spread of the policy of "post-industrial" utopianism, which the Carter Administration unleashed in full inside the U.S.A., has gutted our nation's maintenance of its basic economic infrastructure, agriculture, and industry, replacing that production of real wealth upon which continued human existence depends, by the inedible economic hot air of "services" and "information."

The Carter Administration's Trilateral deregulation program, followed by the Republican drive for Garn-St Germain and Kemp-Roth models of financial deregulation, set the trend for the process of step-by-step disintegration of the U.S. real economy. This disintegration has continued to unfold, and accelerate, during the entire 1977-1999 period to date.

Now focus attention upon the bottom of the three curves. The downturn represented by this curve, reflects the way in which the growth of the monetary and financial bubbles has accelerated the per-capita collapse of net real national income and physical net output of the U.S.A., over the course of the 1966-1999 period to date. [Figures 4-7.] A similar pattern has been seen throughout all of the Americas, in Africa, and in western Europe and Japan, during most of the same two-

6. For that reason, our financial and monetary officials are rightly identified today as "bubblers."

7. Canadian oligarch Maurice Strong launched the program as General Secretary of the 1972 Stockholm conference on the environment, where he warned about the alleged onset of global warming, the devastation of forests, the loss of biodiversity, the polluted oceans, and the population explosion. See, Scott Thompson, "Maurice Strong Discusses His Pal Al Gore's Dark Age 'Cloak of Green,'" *EIR*, Jan. 29, 1999; Michele Steinberg, "The Conspirators in Gore's Cabinet," *EIR*, Feb. 5, 1999.

FIGURE 4

U.S. machine tool production

(billions 1982 constant \$)

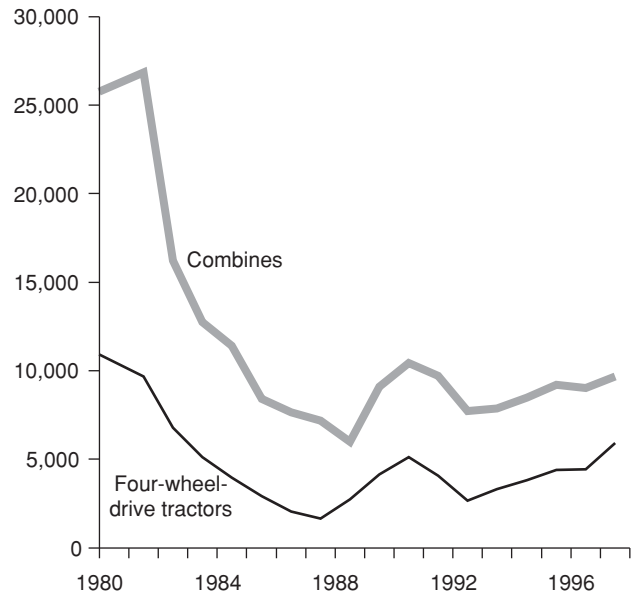


Source: Association of Manufacturing Technology, *The Economic Handbook of the Machine Tool Industry*, various years; various sources; *EIR*.

FIGURE 5

U.S. shipments of four-wheel-drive tractors and combines, 1980 to 1997

(number of units shipped)



plus decades as a whole. [See “Triple Curve” article, in this *Feature*.]

This third, downward curve, draws attention to the most important side of today’s real economic problem. Follow my description of how this side of the process has worked. After that is clear, return to the relationship among the three curves considered as a single physical-economic function.

The Bush Leaguers raped our economy

The current, skyrocketing rates of mergers and acquisitions, globally, reflects a continuing trend of economic cannibalism, launched by Garn-St Germain and Kemp-Roth, through “junk bonds” and related measures, over the entire 1982-1999 interval to date.

Admittedly, the present, permanent national-debt crisis of the U.S. government, was created through Trilateral Commission policies rammed through under President Jimmy Carter. However, it was foolish Kemp-Roth, which caused Carter’s national-debt bubble to zoom upward; this created the foundations of the present global “derivatives bubble.” Kemp-Roth did this, by dumping the principles of the Franklin Roosevelt-modelled, Kennedy investment tax-credit, in favor of slashing the tax rates on purely parasitical forms of financial capital gains. Seeing how Kemp-Roth set this pattern, will help you to understand why the current rise of the Dow-Jones index depends upon destroying what remains today of the real economy of the U.S.A. and other nations.

The fact that the rate of mergers and acquisitions on a

world scale, has skyrocketed at the rates seen during the first half of 1999, is one of those crucial facts, like Eddie George’s gold scam, which warns sensible people that the world’s financial system is at the verge of a melt-down—something with similarities to the model of a thermonuclear detonation.

The object of such junk-bond-style mergers and acquisitions, like the looting of the U.S. savings and loan industry by Trilateral Commission veteran and Vice-President George Bush’s cronies, is to take over and loot banks and other industries, for the purpose of stripping away their salable assets, and leaving the emptied husk, as they did, on the doorsteps of those financial orphanages known as our bankruptcy and criminal courts.

They said the merger would make the economy better, by “trimming away fat”; actually, what the junk-bond raiders stole, was only what they considered “flesh and bone.” Like Seventeenth- and Eighteenth-Century pirates seeking financial respectability in fashionable English countrysides, these modern emulators of the bloody old sea-raiders, used the “financial income-stream” generated by junk-bond-style and similar looting, to float highly leveraged financial capital gains on markets, thus transforming themselves from legally redeemed, sea-going night-riders, into persons, like the cronies of Britain’s former Prime Minister Harold Wilson, claiming knightly honors as steadfast pillars of the financial community.

FIGURE 6

Industrial energy consumption per household

(millions of BTUs)

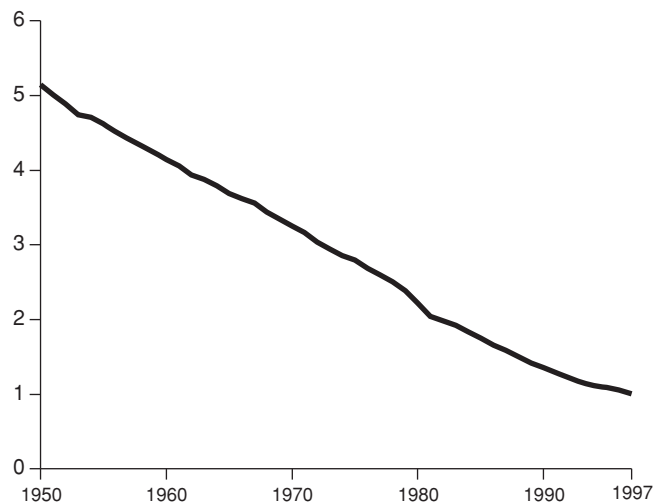


Sources: U.S. Department of Energy, *Monthly Energy Review*; U.S. Department of Commerce, Bureau of the Census, *Population Surveys*, various years.

FIGURE 7

U.S. railroad mileage

(miles per 1,000 households)



Sources: Association of American Railroads; U.S. Department of Commerce, Bureau of the Census, *Population Surveys*, various years.

Looking at these effects of Garn-St Germain and Kemp-Roth together, shows quickly how those pieces of legislation dovetailed, to bring about the way in which that big swindle has worked, since 1982, up to the present time.

If we compare the combined effects of Carter Administration deregulation plus Garn-St Germain and Kemp-Roth, with what a post-1981 economy would have looked like under the Kennedy Administration's investment tax-credit and related pro-agro-industrial growth policies, we can quickly calculate a prosperous U.S. economy emerging from the Kennedy policies, as opposed to the catastrophic results produced by the combination of Nixon's post-August 15, 1971 "floating exchange-rate" folly and the combination of Carter Administration and Kemp-Roth-type follies of the 1980s.

If we take into account essential costs of maintaining pre-existing levels of national productivity, which were taken off the books at various points since August 1971, and if we take into account the degree which the U.S. economy has limped along through its use of a "floating exchange-rate system" of traffic in international financial loans, to loot other nations, such as those of Central and South America, the U.S. national economy has not enjoyed a profit in net real output since about 1971.

Look at changes in the per-capita market-basket of purchasing power received per employee for a forty-hour work-week, compared with 1966-1970 levels. Look at savage cut-backs in maintenance of essential basic economic infrastructure, since 1971. Look at the catastrophic cut-backs in quality of education, in hospital-bed-days, and other essential ser-

vices. Look at the increase in commuting time per week forced upon employees roaming ever further to increasing number of places of employment, per capita of labor-force. Look at the increased ratio of household debt to personal net income, per capita and per household. Look at the productive capacity and employees lost to "out-sourcing" and related looting of the earning-power, and physical productivity of the U.S. economy as a whole.

Look at the range of those domestic U.S. industrial facilities, which were indispensable in enabling the U.S.A. to put a man on the Moon in 1969, which have not existed any longer since years, even decades. [Figures 8-10.]

In part, the downward trend of a formerly successful U.S. economy, a downtrend institutionalized under Nixon and Carter, was to a significant degree a result of sheer stupidity about economics now widespread among the present generations' leading political and financier circles. It has also been, most emphatically, the result of sheer ideological lunacy, of the wild-eyed, utopian monetarism of the Mont Pelerin Society, lunacy of the Thatcherite variety.

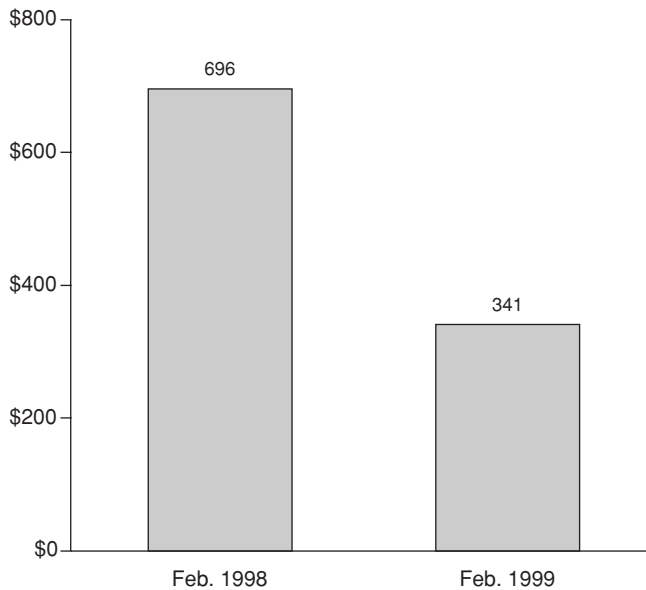
That combined effect should call to our attention, the fact, that Mrs. Thatcher's record in economic matters, like that of Senator Phil Gramm, shows that the fact that certain politicians are nasty, does not necessarily mean that they are also intelligent. One should not be surprised that the results of putting such political figures into power, is usually a lot of nastiness, but, as Thatcher's long reign as Britain's Prime Minister also shows, very bad economic performance.

So, the Bush Leaguers, and other Trilateral Commission

FIGURE 8

U.S. machine tool consumption collapses 51%, February 1998 vs. February 1999

(millions \$)



Source: Association for Manufacturing Technology; American Machine Tool Distributors Association; *EIR*.

figures of the 1970s and 1980s, raped the U.S. economy, and set us up for the increasingly catastrophic state of world financial affairs since the Mexico crisis of 1994-1995.

2. The solution

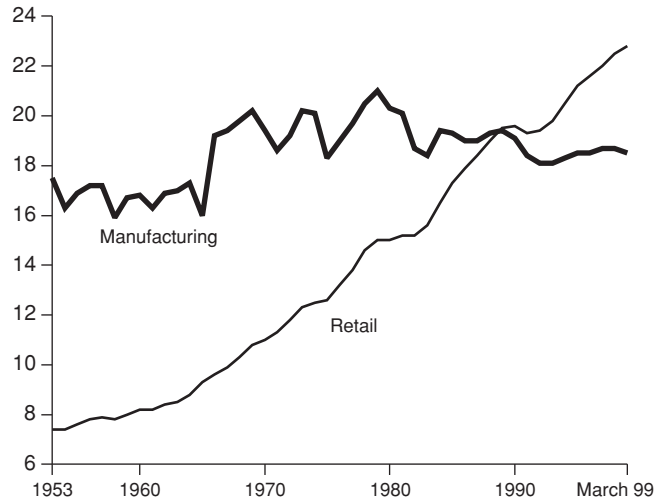
The key phrase, which brings justified hope to any nation suffering a general financial collapse, is the sound of those reassuring words: "After all, now that the system has collapsed, we can safely say that it was all really nothing more than just a lot of paper." Similarly, with the wondrous words, "You're all just a pack of cards!" Lewis Carroll's fictional Alice escaped to the safety of reality.

There is a lesson to be learned by Americans (and others) from the relative success of Russia's recent Primakov government, up to the point Primakov was ousted. The savage, IMF-directed looting of Russia during most of the past six years, had reduced that nation's economy to such a depleted state, that financial assets as such mean relatively very little today. As Primakov's government briefly demonstrated, by its notable few months of relative economic successes from doing nothing more than a few very sensible and obvious things, Russia has no choice, if it wishes to survive, but to forget about its ruined financial system, and the ruinous delusions

FIGURE 9

U.S. retail employment vs. manufacturing employment

(millions of jobs)



Sources: Bureau of Labor Statistics, U.S. Department of Labor, *Employment and Earnings*, various years; *Handbook of Labor Statistics*.

of its so-called "liberals." Amid the ruins of the bankrupt, liberally destroyed present economic system, Russia is forced now to abandon the foolish advice of the bankrupt IMF system, and to rely instead, essentially, on the remaining, built-in physical-growth potentials of its physical economy.

The same will soon be clearly true for the United States, as it now proceeds, pathetically unprepared, to enter the next century.

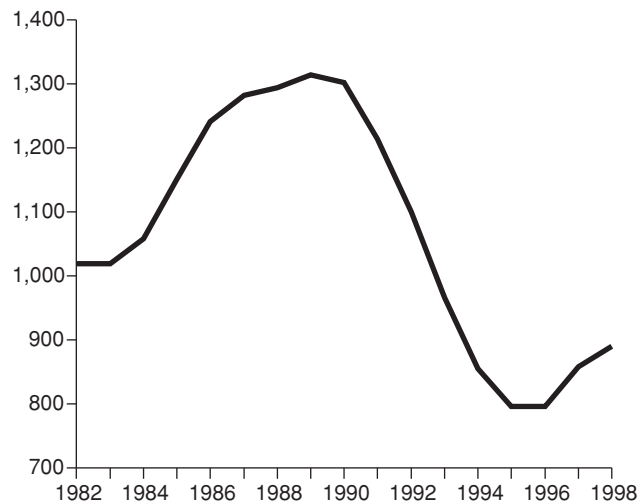
Whether you are presently ready to believe it, or not, the fact is, that we in the United States are entering a situation not unlike that which struck Russia over 1992-1999 to date. Sooner than most of you will wish to believe, that fact will be brought home to you very soon. Then, you will curse the day that anyone ever suggested it would be better to have a "post-industrial society." Once you have finished your outbursts against the "post-industrial" freakishness, you will take a deep breath, and smile in relief. You will then smile, because you have realized that our situation need not be a hopeless one. "After all, it was just a lot of paper. Forget that paper, and now get on with our lives."

The solution is elementary in principle. Put all that foolish, failed paper into appropriate forms of government-supervised bankruptcy proceedings, set up a new credit, monetary, and financial system quickly, as Treasury Secretary Alexander Hamilton did so successfully. Get employment in real, physical output expanding quickly. Things will soon get better than they have been in decades. The key is: Don't cling to that sinking ship. It was only paper, and you were drowning in it, anyway.

FIGURE 10

U.S. aerospace industry employment

(thousands of workers)



The measures to be taken

Therefore, certain facts must be stated to each of you, personally, as plainly as possible. As President Franklin Roosevelt understood he must say that, at a point of great, frightening national crisis, then, so I must say to you today: In the face of this global financial crisis, “we have nothing as much to fear, as fear itself.” Therefore, someone must address you now so, again, as this terrible crisis is unfolding. For reasons which should not require much explanation, the responsibility for saying the things needed to allay your fears, lies, for the moment, with me. It is I, for special reasons of the moment, who must explain certain things which I am best qualified professionally to say, both to you as citizens, and to the relevant officials of our government.

What I must say, will seem frightening at first. I must say it nonetheless, because it is the truth, and because you have the right and need to know the truth. Only when you see, that, terrible as the crisis is, there are happy solutions available, can you be kept free from the chaotic sorts of fears which might cause our nation’s people and government alike, to be driven by fears into doing those sorts of desperate and foolish things which must be avoided.

Therefore, I must identify the problem. Admittedly, the truth is frightening. Nonetheless, you must hear that truth; my purpose is to show you the safe and calm way to walk out of something analogous to a burning theater. If we are to allay that greatest danger, “fear itself,” we must face consciously the problem we are committed to solving.

For a benchmark, in planning the needed economic recovery, look back to an example from post-World War I Germany, up to the interval of Adolf Hitler’s legal coups d’état of January 1933 and June-August 1934. Look at a Germany

ruined by Versailles conditions similar to those recently imposed upon Russia by the IMF, that during 1992-1999 to date. Look at the 1923 Reichsmark hyperinflation, but concentrate now on two events from the interval 1931 through that London-directed, January 1933 coup d’état against the von Schleicher government, through which London, aided by the New York firm of Brown Brothers, Harriman, brought Hitler to power in Germany.

Look first, at a secret, 1931 Berlin, very high-level meeting of the pro-American System Friedrich List Society. At this meeting, at the prompting of economist Dr. Wilhelm Lautenbach, a recovery proposal was introduced and adopted, secretly, by the leading inner circles of Germany’s patriots.⁸ This recovery proposal began to be implemented under patriotic, anti-Hitler Chancellor Kurt von Schleicher. Had the Schleicher government, and its economic-recovery policies, not been overthrown, in favor of Adolf Hitler, by a British circle using von Papen, the recovery programs of the Schleicher government in Germany and of President-elect Franklin Roosevelt in the U.S.A., would have been largely identical in effect.⁹ The Hitler regime, and the prolonged great Depression, the ensuing World War II, and the Nazi death-camps, would never have occurred.

Later, aspects of the same policies presented by Lautenbach in 1931, were adopted, with U.S. agreement, by German bankers under the leadership of Deutsche Bank’s Hermann Abs. The result was the exceptionally successful “German economic miracle” of reconstruction, as associated with the now still-existing Kreditanstalt für Wiederaufbau.¹⁰ The uniquely successful methods used, in these cases, was a consistent reflection of what is known world-wide as the American System of political-economy, the system associated by name with Alexander Hamilton, Mathew Carey, Friedrich List, and Henry C. Carey.

These are the methods, the proven precedent for success, which must be adopted again, to overcome what would be otherwise the worst, most prolonged economic depression in modern world history. Any sane person, who wishes to survive, will now absolutely rely upon insight into the fact, that nothing other than those proven, superior methods of economic recovery must be adopted and used afresh.

Remember: “It is only paper” that is falling now. That paper is the global economic cancer that is threatening the life of the United States, and also the world in general. Remove the cancer, to save the patient. Introduce the immune factors of economic policy needed to prevent that cancer of worthless speculative financial paper from growing back.

8. Michael Liebig, “Lautenbach’s Program for German Recovery,” *EIR*, Jan. 8, 1999.

9. Michael Liebig, “Recovery Program Could Have Blocked Hitler’s ‘Legal Coup.’” *EIR*, March 5, 1999. Speech to the Schiller Institute’s Presidents’ Day conference, Feb. 14, 1999.

10. Lothar Komp, “How Germany Financed Its Postwar Reconstruction,” *EIR*, June 25, 1999.

The first step, is to have a consortium, of several cooperating governments, each assert their perfect national sovereignty, and, declare, as their first joint action, the effectively global nullification of all forms of gambling debts such as “junk bonds” and “financial derivatives.” That action, sweeping about \$300 trillions-equivalent of purely parasitical, current debt from the world system, is the indispensable first step upon which escape from history’s worst economic depression depends, absolutely, now. That debt, and related nominal financial assets, are to be swept away as if retroactively, as if they had never existed.

Clearing away that purely parasitical debt, in that way, is the absolute precondition for the survival of nations, including the U.S.A., today. A government which lacks the guts to do precisely that, in concert with a power-bloc composed of like-minded other governments, is in fact no government at all, and that would be made very clear, very soon, after the failure to seize the moment of opportunity to do what is absolutely necessary as a first step.

Following the declaration of the nullification of those categories of debt, the more or less simultaneous next step, is to organize a general, governments-directed bankruptcy-reorganization of other forms of indebtedness. In the case of the U.S.A. itself, the point of reference from which this is to be done, is nothing different than the 1789 U.S. Federal Constitution, especially the fundamental law of the U.S.A., as embodied in the Preamble of that Constitution, especially its so-called “general welfare clause.” Other nations are well-advised to emulate this feature of the U.S. constitutional model.

On this account, there are two broad principles of practice to be served. First, the constitutional integrity of the U.S. Federal government itself must be defended by all of its patriots. Without that constitutional integrity of that perfectly sovereign authority, nothing else which is now essential would be feasible. Second, the methods used to conduct the financial reorganization of the hopelessly bankrupt U.S. financial sector, must be conducted in ways which best serve the constitutional mandate of the “general welfare clause.”

That means, as U.S. Treasury Secretary Hamilton elaborated this policy, the integrity of the principal amount of the U.S. sovereign debt, principally the balance of the principal amount on the official debt of the U.S. Treasury, must be maintained.¹¹ Everything else is negotiable under government-supervised bankruptcy reorganization, that in ways which are in accord with the U.S. sovereign interest and primary internal constitutional obligations.

The latter consideration means, that every other aspect of financial reorganization must be subordinated to two objectives. First, the preconditions for an early and rapid gen-

eral recovery of essential forms of physical production and distribution must be satisfied. Second, the general welfare of, especially, the weakest and most vulnerable portions of the population, must be defended as a matter of course. Consider the second requirement, first, before turning to other matters.

Insofar as personal savings, health-care provisions, and pensions are concerned, these claims must be met in full, up to some reasonably specified maximum amount for each individual case. Similar considerations apply to the working capital of socially essential institutions, including privately owned business institutions whose regular and orderly functioning is essential to the orderly maintenance of the well-being of the local populations. These and related provisions are given priority under what may be fairly described as “anti-chaos” measures. It must be the object of bankruptcy reorganization, that normal functioning of households and communities must be continued virtually from proverbial Day One of the placing of the national economy under the protection of generalized bankruptcy-reorganization.

Otherwise, the general rule for initial phases of generalized financial-bankruptcy reorganization, is to freeze everything else in sight, and to organize a controlled release of funds, either as loans or otherwise, against the principal value of sums relegated to frozen accounts. The general rule, is that useful production and distribution of needed physical goods, must be uninterrupted, and that essential institutions remain standing and functional, even if they might be judged as insolubly bankrupt. Keep things which must function, functioning, and sort out the financial accounts at leisure.

Take the case of bankrupt local banks, for an example.

A local bank is a place of deposit for local citizens and local firms, and an instrument through which loans and other essential financial services to the community are administered. Thus, even in the case the local bank were totally insolvent, its function and related operations must (usually) be continued as if it were a fully sovereign institution. The preferred object of bankruptcy reorganization of such banks, is to keep the bank alive and functioning as a working institution of the local community, and, hopefully, to restore it to financial independence through some process of financial reorganization.

In other words, the policy must be, to keep all essential features of national functioning and community life working, as if without missing a step, in the transition from a state of seemingly hopeless national financial bankruptcy, into a fully functioning society with a fully functioning economy, but an economy stripped down, for the moment, to bare essentials of continued defense of national security and of the general welfare.

Organizing economic growth

The United States, as a national economy, is, like most of the other nations of the world, presently financially bankrupt.

11. Alexander Hamilton, *Report on Public Credit*, in *Papers on Public Credit, Commerce and Finance*, Samuel McKee, Jr., ed. (New York: Columbia University Press, New York, 1934).

It is bankrupt, in part, because of a parasitical form of financial bubble; but, it is also bankrupt, because, in net effect, it is not currently producing enough to meet even its own internal needs. So far, we have focussed on the first cause of that condition of bankruptcy. Now, we must address the second.

Focus upon the third, the lower, of the three curves of my Triple Curve representation, as shown above, of a typical collapse function. As measured in real, physical-economic, rather than the merely nominal, financial, yardsticks of our super-polluted present financial system, the U.S. economy has been declining over the course of the recent thirty years. This decline began, during 1966-1971, as a relative decline in the net rate of real economic growth. After 1971, and, especially since 1976, there has been a persisting net absolute collapse of the economy over the entire period 1977-1999 to date. This point is made clear, when we examine the sundry ways, by means of which the U.S.A. has used the present, post-1971 form of the IMF system, the so-called "floating-exchange-rate" system, and globalized financial deregulation, as a way of looting other nations to bail out a self-inflicted U.S. national economy itself.

The use of a fraudulent system of IMF-coordinated "international financial loans," to loot the nations of Central and South America, repeatedly, over the 1971-1999 interval, is typical of the looting operation involved. The use of "outsourcing," as a way of looting nations such as Mexico, to subsidize the U.S. economy, while also destroying the economy and productive employment of the population living inside the U.S.A., is another relevant example. Such is the looting-process run, essentially, in cooperation between the world's dominant financial system, the London-centered British Commonwealth system, London's junior financial partner, Wall Street, and what U.S. hero General Smedley Butler exposed as Wall Street's usurpation of control over the U.S. military establishment.

In short, even if we eliminate the crushing debt-burden caused by the cumulative follies of U.S. policy over the recent thirty years, we have not eliminated the fact that we are currently producing at levels, which have been driven down, during the recent thirty-odd years, to a point way below that needed to maintain the kind of average standard of living and per-capita productivity, which we had achieved during the middle to late 1960s. Getting rid of the financial parasite, is indispensable, but not sufficient. Additional measures of economic recovery are needed, even merely to bring the nation back up to break-even levels of physical-economic input and output.

Let us look at this problem in the simpler way any reasonably literate and intelligent U.S. citizen might understand what we are talking about here.

Go back to the early years of the U.S. post-war economy, 1946-1955. Then, compare relevant figures from that period with the Kennedy economic recovery, 1961-1963, from the Eisenhower period's slide, under Arthur Burns' influence,

into a deep, stubbornly prolonged recession, 1956-1960.¹² Look at the periods 1946-1955, and 1961-1963, as setting a bench-mark of comparison for studying the relevant downturn in the U.S. economy since 1967-1972. Use this bench-mark as a way of gaining rule-of-thumb qualities of insight into the qualitative degeneration of the structure of employment of the U.S. labor-force since 1967-1972, most emphatically during and following the ruinous effects of the interval 1977-1982.

For this purpose, we are obliged to place the emphasis on categories of composition of the raw employment of the total labor-force. After 1972, Gross National Product and National Income statistics, are polluted, increasingly, by effects of the pyramiding of fictitious capitalization, and, therefore, of the costs attributed (i.e., as incurred by) to that capitalization. After 1982, the official U.S. government and Federal Reserve statistical reports are so transparently, but chaotically faked for purposes of "political spin," that such official sources no longer represent an even approximately accurate time-series. An insightful study of structural composition of employment of the total labor-force, is therefore the best first-approximation indicator of the relevant changes to be considered here.

Two aspects of overall patterns of employment must be kept in mind. First, there is the matter of employment in direct generation of output; second, there is employment related to the maintenance and increase of the physical-economic form of capital-intensity of production and its output. In the capital goods sector, the machine-tool sector is of crucial importance, and the smaller-sized machine-tool-design sector, and equivalent kinds of capital-goods-related functions, the most crucial.

Those noted qualifications listed, compare the composition of employment according to the broad following categories. Development and maintenance of basic economic infrastructure (hard), basic economic infrastructure (soft)—such as health-care and education, transport of physical goods, agriculture, manufacturing, services performed by the physical-science and engineering professions, employment categories which were traditional prior to 1967, and those which have blossomed as side-effects of "post-industrial" fads of the recent thirty years. [Figures 11-12.]

The changes shown by such comparison of structural changes in composition of employment, point to the reasons why, first, the U.S. economy is presently operating way below physical-economic breakeven levels, by comparison with 1966-1971, and, second, what kinds of changes must be made to reverse that decline.

This, in itself, is an area of major topics of policy deliberations. Therefore, what I shall offer here are merely some cru-

12. The deep Eisenhower recession, is defined, more narrowly, as from February 1957 through mid-1958. However, the recession of 1957 was triggered by a lunatic consumer-credit bubble of 1956, and the effects of the recession were continued beyond the Summer of 1958, into election-year 1960.

FIGURE 11

Number of paychecks required to pay off household debt

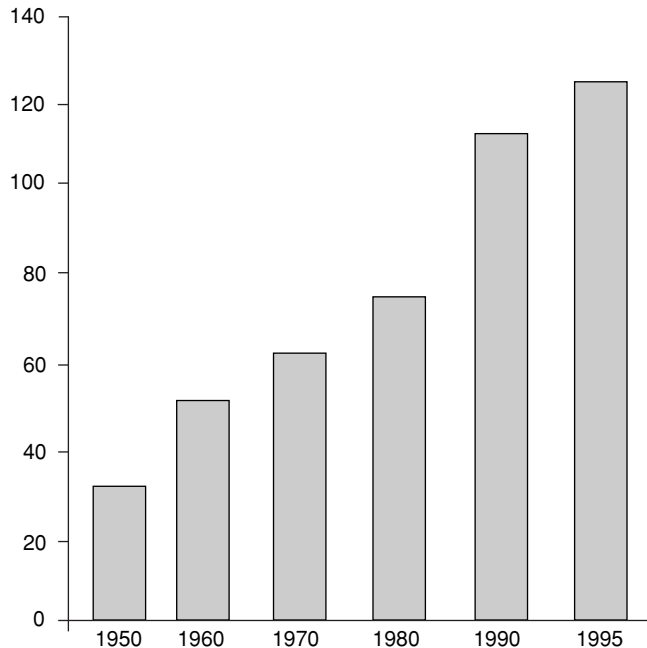
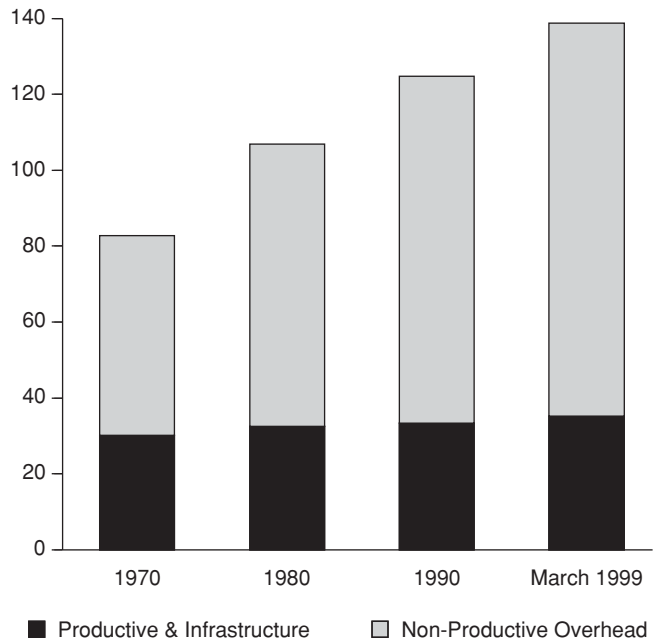


FIGURE 12

U.S. labor force, 1970-99; non-productive overhead grows

(millions of workers)



Sources: Bureau of Labor Statistics, Department of Labor; U.S. Department of Education; American Medical Association.

cial illustrations of the policy-issues which a genuine physical-economic recovery involves.

A genuine economic-recovery policy requires that government adopts certain general policy objectives governing its role in fostering a relatively rapid, feasible rate of net physical-economic growth, above what might be described as a “break-even” level of structural composition of labor-force employment. In general, we must emphasize a leading role of expanded development of presently much-depleted basic economic infrastructure in fostering a “New Deal” style of employment-driven physical-economic recovery, an increasing ratio of capital formation in agriculture and manufacturing, and increasing levels of employment in manufacturing, especially in high-technology enriched capital-goods products. This also means an emphasis on greatly increased power generation, and emphasis upon capital-intensive and power-intensive modes of advancement of technology in product design and modes of production.

It means, on the other side, a slashing of employment in parasitical categories such as so-called financial services and other post-1967 changes in the nature and relative quantity of employment in unskilled, or low-skilled services.

Government has two general means, in addition to consultation, to foster such changes in structural composition of employment. One is public policy respecting flows of credit; the second, is taxation policy. The Kennedy investment tax-

credit policy supplies a useful standard of comparison for defining a useful sort of tax policy: a tax policy premised upon an appropriate notion of the preferences dictated by clear national interest.

To conduct such a recovery program under the conditions we must foresee for the beginning of the coming century, there must be a clear understanding of the difference between issuing money, and issuing credit. Through the proper application of public credit for fostering programs of economic growth in the national interest, the progress payments made in connection with those programs generates an increase in the income and tax-revenue bases of the national economy. This expansion of the income and tax-revenue base expands the platform for launching an enlarged flow of credit. On the condition, that the programs selected for such assigned priorities, have the effect of increasing national income, both per capita and per square kilometer, a self-feeding spiral of real economic growth can be sustained indefinitely.

As part of this, the responsibility of a recovery policy by government must be, not to foster the recovery of levels of employment in relatively undesirable categories of the present structure, while fostering increases in employment in the relatively most desirable categories, those which contribute relatively the most to the scale and rate of productivity of

output of the nation's physical economy, per capita and per square kilometer.

We have done that before, several times in our nation's history. We can, and must do it again.

3. Zero-sum brains

Now, you must look inside yourself, to discover there, inside yourself, those bad habits of thought which might cause you yourself to contribute to ruining our nation's chance of survival.

Did you know, that Alan Greenspan, the Chairman of the Federal Reserve System, has bragged publicly that he is clinically insane?¹³ Did you know, that many among the world's leading bankers and other financial houses, are also victims of the same form of clinical insanity which Alan Greenspan has claimed to be suffering?¹⁴ Did you know that many of the highest-paid stratum of people in Wall Street, are suffering the same form of mass insanity exhibited by those caught with their derivatives down, when LTCM crashed, last September? This is not a case of a new variety of "sexually transmitted diseases." Although apparently infectious, the disease is purely psychological. The form of mass insanity suffered by each and all of these fools, is best identified as "the zero-sum brain" syndrome.

All of those persons to whom I have just pointed, as clinically insane, were trapped by their own delusions, as "true believers" in a world which does not exist. All were caught, financial red-ink-handed, in a lunatic cult, known as the Black-Scholes formula, the Nobel Prize-winning insanity for which Robert C. Merton and Myron S. Scholes were awarded the 1997 Nobel Prize in economics.¹⁵ This was the formula

13. E.g., Alan Greenspan, testimony before the House Subcommittee on Finance and Hazardous Materials, Committee on Commerce, March 3, 1999, titled "On Investing the Social Security Trust Fund in Equities": "The transfer of Social Security assets from U.S. Treasuries to equities would not, in itself, have any effect on national saving. Thus, the underlying economic assets in the economy would be unchanged, as would the total income generated by those assets. Any increase in returns realized by Social Security must be offset by a reduction in returns earned on private portfolios, which represent, to a large extent, funds held for retirement. Investing Social Security assets in equities is, then, largely a zero-sum game. To a first approximation, aggregate retirement resources—from both Social Security and private funds—do not change."

14. I refer to a list of leading world banks and their associates in the operations of the Long Term Capital Management (LTCM) hedge-fund, which was bailed out—at your expense—with the help of Alan "your money" Greenspan's Federal Reserve System, during September 1998. Banks known to have been caught in the LTCM crash include: Bankers Trust, Bank of Italy, Barclays, Bear Stearns, Chase Manhattan, Citigroup, Crédit Agricole, Crédit Suisse First Boston, Deutsche Bank, Goldman Sachs, ING Barings, J.P. Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter, Paribas, Société Générale, and UBS. (This list includes all banks that participated in the bail-out, and a few who didn't, but had money in LTCM.)

15. John Hoefle, "One Derivatives Disaster After Another; Will They Never Learn?," *EIR*, Oct. 9, 1998.

which engineered the collapse of the Long Term Capital Management hedge-fund.

"So what?" a representative of the Nobel Prize committee said, in effect, when this result of the Merton-Scholes award was pointed out to him by *EIR*. He claimed, that the Nobel Prize committee had never intended, that admirers of Merton's and Scholes' formulations could have been so dumb, as to overlook the fact that the Prize-winners' mathematics is only an academic game, which does not correspond to the real world.

Even after the experience of the LTCM collapse, last year, this year, June 10-11, to be exact, and, more recently, this July, have rolled around. Leading hedge-funds and their bankers have been freshly exposed by these recent developments, as having played the same financially suicidal game, bigger and worse than ever, which they had played, with such nearly fatal results, in the Spring through Summer of 1998.

In other words, all those victims of the zero-sum-brain syndrome, fell prey to their own personal clinical insanity. At last report, most among both the world's biggest banks, and the central bankers of most nations, are even more insane today, than they were in August and September of 1998. There are no signs that their mental health is about to improve.

Unfortunately, most investors in mutual funds, when the funds go down, will also have to be diagnosed as victims of the same form of mass insanity.

So far, this form of insanity is controlling not only those bankers and financial houses. Up to this moment of writing, the governments of the G-7 nations, like the International Monetary Fund and World Bank, are being controlled, politically, by this same, currently fashionable, Wall Street style in lunacy.

The biggest chunk of contributors to the Year 2000 Presidential pre-candidacies of both George W. Bush and his patsy, Vice-President Al Gore, come from the same big Wall Street set of "irrationally exuberant," "zero-sum gang-bangers" involved in the LTCM and similar—past, present, and future—hedge-fund catastrophes. These are also among the biggest contributors to right-wing conservative congressional campaigns, and so on and so forth.

The facts are, that the situation is much worse than those facts, by themselves, would indicate. Much of the pro-deregulation legislation being pushed through the Congress now, has been, in effect, bought and paid for by the same pack of Wall Street loonies caught in the LTCM crash. Being the kind of Democrat who is bought and paid for by the same Wall Street desperadoes' influence, is what Vice-President Al Gore has called "The Third Way."

Everything the U.S. and other G-7 governments did, from the Washington, D.C. September conference, on, has shown itself to be a case of colossal folly by each and all of the governments and monetary institutions complicit in those agreements. They each and all agreed to continue to run the world economy according to the rules of the game invented by the world's biggest lunatics, the zero-sum game. As a

result, the crisis is far more hopeless today, than it was in October 1998; the real economy has shrunk at the fastest rate in the past thirty years; only the financial bubble and the fools have become bigger.

So, when the present world financial system goes down in a bust, as it will soon, it will be that form of mass clinical insanity which will have been chiefly responsible for the crash.

How do you define insanity?

Pause, for just a moment, at this point. Some readers will object: "Okay, so, I admit: those guys were living in a fantasy-world. Lots of people spend a lot of time occupied by their variously childish or adolescent styles in fantasy-life; that doesn't mean that all of them are necessarily insane."

True! Then, what is the difference between a bit of dabbling in fantasy, even a lot of it, over the course of the day, and being actually insane? The difference between day-dreaming and insanity, is that the day-dreamer still benefits from being capable of distinguishing between fantasy and reality, even if he has to be pushed, sometimes, into reluctant admission of that fact. When the dreamer resists all reasonable efforts to bring him back to reality, his influence within society should be considered as that of a functionally insane person, such as Alan Greenspan.

Admittedly, there are border-line cases, cases which have not yet crossed that border line, into outright insanity. Consider some commonplace, functional types of border-line cases.

Take the case of high-powered super-salesmen, for example, whose ability to lull buyers into admiring the salesman's show of "deep conviction," is responsible for the sad ending likely to be suffered by the mutual funds or other sort of customer.¹⁶ That sort of salesman, while he is selling, blocks reality out of his, or her mind. He, or she, constructs what is adopted as a persuasive fantasy. The target of this attempted seduction is intended to perceive, that the sales representative is so much "in love" with the prospect, that the customer is persuaded that such a loving and important person would never do his customer wrong.

Such sales types (the legendary type who might sell ice-cubes to the Eskimos in winter-time) will often express their view, if only privately, that "I could not sell" unless the selling were motivated by such a fantasy-life. ("Don't pop my fantasy-bubble, or I won't be able to sell in the morning, and, then, we'll all go hungry!" such a poor fellow may scream at his wife.) Away from the selling territory, they come back to

16. Decades ago, during the 1950s and 1960s, I did a series of precautionary studies of this sort of salesman behavior, in an effort to weed out this common cause of avoidable customer complaints against the firms employing the relevant sales personnel. Companies which were too easily impressed by the front-end side of the sales performance of such representatives, often let themselves be blinded into the medium- to long-term costs of the after-effects of the same salesman performance they had admired at the time the sale was initially closed.

some sense of everyday real life, if only in small matters, but such returns to reality do not occur without the hangover-like emotional effect of sobering up after a fantasy-binge.

Similar patterns are to be observed in the cases among even learned professions whose professional activities, performed as personal services, involve resort to the salesman-like musterings of the "bedside manner," as this is practiced by those among today's professional, truth-hating perverts known as "facilitators." We shall turn attention to a very special importance of this problem of a "services"-oriented economy, a bit later here.

The salesman-type I have described, is highly neurotic, but that does not, by itself, signify that he or she is actually insane. The cross-over to clinical insanity, occurs at the point the fantasy-ridden individual, such as Alan Greenspan, Professor Milton Friedman, Zbigniew Brzezinski, or Jeffrey Sachs, makes the cross-over, away from recognition of the existence of a real world, to dwell entirely within a mind-set which is inherently of the form of a destructive fantasy-life. The operative term is "destructive."¹⁷

Alan Greenspan's zero-sum mind

In this case, as typified by Alan Greenspan, we are focused on a special form of a process of crossing-over from the sickly state of a mind which is richly polluted by its fantasy-life, to outright insanity. We are focussed on the specific clinical form of insanity identified as the case of "the zero-sum mind."

As the case of Eddie George's gold scam makes the point, under conditions of severe stress, such as a general financial crisis, this pathological syndrome tends toward outright criminal insanity. The form of such insanity—and criminality—on which we are focussed, is the gambler's mind-set, as typified by the lunatic belief that a national, or world economy, is something so characteristically inhuman—better said, so anti-human, so essentially fascist—as a variety of what von Neumann defined as a zero-sum game. That is the focus of my subject here.

As in much of the ordinary neurotic's childish or adolescent forms of fantasy-life, the fantasy-ridden person is a *symbol*-minded creature, like the putative inventor of the zero-sum game—who happens to have been, not that mastermind who recently claimed to have invented the "Internet," Al Gore, but the late John von Neumann. Like most childish fantasies, the symbol-minded idea of the zero-sum game, may become, like its cousin, the assembled masses at an Adolf Hitler Nuremberg rally, highly complicated in detail of its

17. The significance of the qualifying term, "destructive," is that if a bad habit shows no destructive effects, the victim of an illusion lacks the kind of evidence which would force him to recognize the factual moral or other sort of wrongness of his ostensibly harmless form of errant habitual opinion. It is when an habitual opinion persists in opposition to clear evidence of destructive, or self-destructive results, that the red line separating ordinary delusions from functional sanity is defined in practical terms.

organization, but is a product of a state of mind, like that of Wall Street's master-minded Al Gore, which is in no way capable of profound and truthful, actually human thought. All symbol-minded fantasies of this childish or adolescent type, have the characteristics of games which children and sports-fanatics "make up." Sometimes, such fantasies become complicated, but they are always superficial, nonetheless, never part of the real world.

The linear mathematics of LTCM's Black-Scholes formula, is such a game. It represents a form of constructing a chain-letter form of bubble, a fantasy-life. That linear fantasy-life serves the deranged mind as a substitute for the real world. This is one of the factors which, all too often, causes so-called "pure mathematicians" to turn obviously insane and withdrawn, even at a young age when they should be outgoing, witty, and pleasantly frisky. In the case of John von Neumann's behavior, when he was confronted personally with the disproof of his life's work by Kurt Gödel, the lifelong burden of his enraged reaction, from that point on, through the remaining decades of his tormented life, typifies the psychosis-tending personality disorders not rare among such cases.¹⁸

The same pathology is reflected among young computer programmers and related specialists, or among avid addicts of a game of the form of Go. Video games are high-risk behavior, on this specific account. In those games, the pre-programmed engagement of childish passions is led toward the point, that the addicted personality becomes emotionally dissociated from the real world. One might compare such behavioral situations to those risks of desensitization to be overcome by a mind living within the life-support system of a time-capsule, or, exposed to the "cabin fever" of long-term interplanetary flight.

Indeed, typical psychosis is a model of the state of mind which such pathological environments—such as "sensory deprivation"—tend to induce among what would have been, otherwise, more or less healthy personalities. Look at the case of Wall Street's symbol-minded economists from this vantage-point.

The axiomatic distinction of various such problems of this same general class, whether as the root of psychosis, or merely

18. Von Neumann sat in the room where mathematician Gödel presented a conclusive proof, exposing as a fraud Bertrand Russell's principal theorem of linear mathematics. This was the merely conjectured theorem, which Russell disciple von Neumann had adopted as his life's work. "Johnny" von Neumann took Gödel's good news with a sweet smile, but, later, privately, admitted, and exhibited his bitter hatred against Gödel's success. "Johnny" reacted to this set-back, by leaving serious mathematics, for the favorite mathematical sport of Paolo Sarpi's household lackey Galileo, the linear mathematical theory of gambling games. "Johnny" spent the remainder of his life chiefly in dedication to proving that every economy, even the workings of the human mind itself, could be reduced to terms of curve-fitting models based upon methods for solutions for systems of simultaneous linear inequalities. From this came such derivatives as the fatal folly of the Black-Scholes formula. Another Russell disciple, and Hilbert reject, Norbert Wiener, showed similar fits of obsessive rage when crossed on similar points of Russell-like doctrine.

pathological forms of fantasy-life, is the substitution of mere symbols for physical reality. This sort of pathological syndrome appears commonly on one, or both of two levels. It occurs in a relatively more subtle form, in the tendency of the cognitively illiterate, to substitute blind faith in the reality of those mere symbols known as sense-impressions, for physical reality. It appears in the more radical, more vicious form, as in the case of the person whose study of formal mathematics leads him into a state of virtual psychosis, where the use of mere symbols is carried to the extremes of the modern logical positivist, such as von Neumann, or Merton and Scholes, with whom empty symbols are substituted for even sense-impressions.

In economics, the common expression of such Lockean empiricist's or logical positivists' tendencies for psychotic forms of behavior, is the substitution of money for physical-economic reality. Typical of the pathological extreme to which this pathological state of mind is carried among the population in general, is the legendary, rather commonplace case of what is so obviously a mentally unbalanced housewife, as she who retorts, "I don't have to worry about what happens to the farmers. I get my milk from the supermarket"—or, "my bread from the Internet." She has substituted mere symbols, the notion of cash, or perhaps only a credit-card, at the counter, the "magic of the marketplace," for the human production of reality. She is exhibiting a more extreme

The Way Out of The Crisis



A 90-minute video of highlights from *EIR's* April 21, 1999 seminar in Bonn, Germany.

Lyndon LaRouche was the keynote speaker, in a dialogue with distinguished international panelists: **Wilhelm Hankel**, professor of economics and a former banker from Germany; **Stanislav Menshikov**, a Russian economist and journalist; Schiller Institute founder **Helga Zepp-LaRouche** from Germany; **Devendra Kaushik**, professor of Central Asian Studies from India; **Qian Jing**, international affairs analyst from China; **Natalya Vitrenko**, economist and parliamentarian from Ukraine.



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form of the insanity, which impelled formerly wealthy stock-traders to jump from Wall Street buildings back in 1929. For what did they jump—for Hecuba, perhaps? For symbols on paper! For the sake of pieces of paper which had suddenly revealed to their symbol-minded possessor, that they were still, after all, nothing but paper. That is the form of clear-cut insanity on which I am focussing your attention here.

In economics, von Neumann's notion of a zero-sum game, begins with the purely arbitrary, and false assumption, that economy, whether in the mode of barter, or monetary exchange, starts with some fixed magnitude. Thereafter, one person's gain is presumed to occur only as someone else's loss. What is outlawed by von Neumann's deranged mind, is the notion that the buyer may gain from the productive use of that which is supplied by another, that the economy is caused to grow by the productive use of that which may be purchased. That, thus, in such exchanges between A and B, neither A nor B loses, but both may enjoy a gain which might appear in their accounts as profit, without diminishing anything which is the other's.

Thus, the characteristic mental derangement of an Alan Greenspan, is the assumption that derivatives can not be bad, because what one speculator might lose, is offset more or less exactly by what some other speculator has gained.

Your escape to sanity

What is the alternative to such forms of symbol-mindedness? Where is the reality lurking behind the illusions which each generalized financial collapse, such as 1929's, exposes as having been "nothing but paper falling"? The point to be made is, in essentials, one I have presented, repeatedly, in earlier locations. Therefore, it is sufficient to summarize the core of the argument here.

Money is nothing more than *a medium of exchange*. It has no inherent propensity to grow of its own accord. The fact that a charge may be made for the loan of mere money, does not mean that mere money actually earns a profit in the sense of causing, of generating such profit in the real world existing outside the domain of mere paper.

The common academic use of the word "utility," as that usage was introduced by certain British and Viennese economists, is essentially a hoax, a fraud. The fact that money has a usefulness as a medium of exchange, does not imply that money itself commands any gain other than compensation for the actual costs of printing and circulating the stuff in ways which a medium of exchange may, as merely a medium of exchange, facilitate employment, production, and trade. Money has no sane claim to any pre-assigned or other "natural" rate of profit, rent, or interest. Money itself could not produce anything which would generate such a margin of gain in the real—that is, physical—economy.

Money is never more than a political fiction. In any sane national economy, money is circulated as a legal medium of exchange solely by the sovereign authority of some sovereign

nation-state.

In the history of the U.S.A., the first such issuance of money was by the Seventeenth-Century Massachusetts Bay Colony. The manner of creation and use of that currency is explained by Cotton Mather,¹⁹ and also, later, by Benjamin Franklin.²⁰ It was issued solely to serve as a medium of exchange, issued to promote trade, and therefore increase volumes of production of useful goods.²¹

Such sovereign issue of currency is created for circulation by that sovereign government, which pledges its political power and authority to give negotiable value to that currency. It is the power, and willful commitment of that state to defend the value of its currency, that by means including sundry protectionist measures, which establishes and maintains the currency's value in terms of physical goods. The purpose of the issuance of such currency, is not to promote trade; it is, as in the case of the Massachusetts Bay Colony, to promote an increase of production by facilitating trade. It is this production, not the mere trade in produced articles, which underlies the value represented by money in trade.

The proper form for issuance of money is, in the first instance, as credit extended by the sovereign government. This credit is issued to promote useful employment, development of basic economic infrastructure, increase of the scale of agricultural and industrial employment, and so on. The issue of state-created credit for purchases on government account, or as loans, must then be supported by the issue of currency at the place where the credit issued in the form of a government contract (such as a check) is presented for cash payment.

The usefulness of money placed in circulation, as a medium of exchange, will usually ensure that the added amount of such money put into circulation will be but a fraction of

19. Cotton Mather, *Some Considerations on Bills of Credit* (Boston, 1691). See H. Graham Lowry, *How The Nation Was Won: America's Untold Story* (Washington, D.C.: Executive Intelligence Review, 1988), p. 40.

20. Benjamin Franklin, *A Modest Inquiry Into the Nature and Necessity of Paper Currency* (1729), reprinted in Nancy Spannaus and Christopher White, eds., *The Political Economy of the American Revolution*, second edition (Washington, D.C.: Executive Intelligence Review, 1996).

21. These arguments by Mather and Franklin represent the precedents for the use of money under the U.S. Federal Constitution. This was in contrast to the money-systems of Europe. It must be taken into account, that, by definition, no parliamentary form of government constitutes a sovereign republic. Parliamentary government of the European model, even to the present day, is a relic of feudalism, not a product of the establishment of sovereign nation-state republics corresponding to the model of the U.S. 1789 Federal Constitution. The parliaments developed as popular encroachments upon the authority of the preexisting form of state power. The relationship between the state power of the United Kingdom, exclusive to the monarchy itself, and the elected parliament, overturned at the pleasure of the monarchy, is typical of European parliamentary systems generally. Thus, the traditional currency and central banking systems of European parliamentary governments have a different legal basis than are consistent with our original Federal Constitution.

the total production and circulation of goods effected through the original emission of government credit. That customary relationship breaks down only when some crisis of the financial system, such as that under way today, intervenes to produce a contrary effect.

The intrinsic worth represented by that currency will never be anything other than a reflection of the volume and rate of increase of productive employment and output of produced goods in that national economy, per capita and per square kilometer.

Take the case of current disputes over the funding of reconstruction of the war-ravaged Balkans. What is said on this subject by sundry G-7 governments and relevant international institutions, is insane babble, when compared with the actual requirements for such a reconstruction program. The idiotic babble assumes the form of the expressed, ignorant assumption, that the launching of a reconstruction program estimated at a certain amount in results, requires the issue of a corresponding amount of money advanced as contributions.

In reality, any sane reconstruction program is financed not by loan of money, but by issuance of created state credit, credit created by the various assisting and assisted governments involved. The credit is issued as letters of state credit, not money, to those parties which contract to fulfill the relevant elements of the reconstruction program. These issued credits will be supported, eventually, by minimal interest-rate loans, of maturities of up to between twenty and thirty years maturity. Much of the state credit issued to launch the reconstruction program, will be offset by the long-term loans charged to recipient economies, or to the privately owned enterprises and other assets which are created as benefits of the reconstruction effort.

The role of Germany's Kreditanstalt für Wiederaufbau, in steering the exemplary success of post-war reconstruction, is a model of the way in which repeated rollover of a relatively small amount of initial issue of state credit, can produce a very large amount of resulting reconstruction.

So much for the matter of currency and credit itself. We are now free to address the heart of the matter.

The fundamental principles underlying the function of all economies, are peculiarities of human individual and social behavior inhering in those qualities which set the human species absolutely apart from, and above all other living species. This distinction, is that non-deductive quality of cognition through which, among other results, mankind is able to generate validated discoveries of universal physical principles. It is these discoveries of validatable universal principles, which enable the human species, uniquely, to increase its power within and over the universe. This increase is reflected, inclusively, in increases of man's increases in his own demographically expressed physical power to exist, as reflected in demographic characteristics of both family households and populations in general, and in the increase of man's power over nature, per square kilometer of the Earth's surface. These

increases are expressed in terms of what I have defined as *potential relative population-density*.

Thus, the essence of economy is expressed primarily in terms of the increase of man's physical power over nature. The rate of gain of that power, as measurable primarily in per-capita and per-square-kilometer terms, is the source of true profit. It is the rate of that gain, relative to the previously established scale, which represents a definable physical-economic value, independent of the notion of a money-value.

Thus, the value of milk is expressed both as the importance of milk to the changing physical-economic characteristics of the population as a whole, and as the cost of producing and maintaining the farming operations which produce that milk. Or, the value of public education, is the rate of increase of the productivity of the population as a whole, as measured in physical-economic, rather than monetary terms.

For example, the most significant portion of the total physical-economic activity of a modern economy, is the development and maintenance of the basic economic infrastructure of the surface-area taken as a unified whole. By the nature of that task, competent such development and maintenance could not occur, except as a direct economic activity of the government, rather than private entrepreneurship, or by government-regulated public utilities. This state role in the economy, is thus the largest and most highly capitalized section of healthy modern national economies.

The so-called private sector, is more or less indispensable, because the generation of technologies depends upon the leading role of those specific types of entrepreneurs who translate scientific and technological progress into those designs and modes of production which are the cutting edge of realized rates of growth of productivity. Yet, without basic economic infrastructure's functional development of the land-area in which entrepreneurial gains in productivity are to be realized, productivity gains will be stifled, just as good seeds may be ruined for lack of pre-developed crop-growing fields.

It is the physical relationship of the population as a whole, to its own perpetuation through the development of the productive land-area as a whole, which is the domain of real economy. The driver of that domain, is the development and employment of the cultivated cognitive powers of the individual person. It is in this way, that the modern sovereign nation-state excels far above any other conceivable form of social organization, in promoting the maintenance and improvement of mankind's power in, and over the universe.

The rest is only paper.

Between the cracks

Why must empiricists such as John Locke, or positivists such as John von Neumann be considered as necessarily functionally insane? It is not that such empiricists and positivists might prove to be insane sometimes. In certain crucial respects, any empiricist or positivist is intrinsically insane,

when such beliefs and practices are judged in functional terms. The reason for this curious coincidence lies, so to speak, between the cracks of both sense-impressions and symbols.

The issue is the same I have addressed in earlier locations, the form of delusions consistent with the absurd belief that that universe itself is organized according to the false, but popular axiomatic belief, that the physical universe can be accurately represented mathematically according to the assumption that causality is organized in a way which is congruent with the notion that everything is linear in the infinitesimally small.

Thus, when the empiricist screams, "But, I have the facts!" he is engaged in perpetrating the deception that the phenomena which he chooses to refer as "facts," are linked together physically by a principle of simple linearity in the infinitesimally small. In other words, his fraud lies in the screaming fact, that he is playing the childish game of "connect the dots." The dots to which he refers, may be real phenomena, but his fraud lies in the fact that he is insisting that you buy his wild presumption that those dots are necessarily connected by straight lines.

In economic science, the important facts are not objects, but those *changes* in the picture of the economy brought about through those kinds of changes in human behavior which are not limited to, but typified by scientific and technological progress. This idea of change is typified by the statement, in economic science, that the primary empirical fact is the study of increases, or decreases of the physical-economic productive powers of labor, per capita, and per square kilometer. It is the *connection* among those changes themselves, not a connection among the dots of sense-perception, which is the primary subject-matter of economics as Gottfried Leibniz defined it, as a branch of physical science.

Therefore, you must ask, "What is that connection?" The connection is the unique power of the cultivated individual human mind, to generate an experimentally validatable discovery of a universal principle, such as a universal physical principle. It is the increase of mankind's power in and over the universe, through the applications of minds cultivated in a relevant accumulation of mastery of these validatable principles, which is the only source of mankind's increased physical-economic productivity. That is the only source of true economic growth, the only source of true, physical-economic profit.

Thus, it is the private entrepreneur, functioning as a master of the work of machine-tool design, working closely with the frontiers of scientific progress in universities, who typifies the quality of entrepreneur of the most crucial importance for the success of an economy organized according to what Hamilton, among others, defined as the American System of political-economy.

As I have indicated in earlier locations, the picture of the connection among the "dots" of physical-economic progress,

is by no means the linear connection superstitiously adopted as Euclidean geometry, or arithmetic. The connection assumes the geometric forms of a Gauss-Riemann hypergeometry, or what Riemann defined otherwise as his notion of a multiply-connected manifold among validated universal physical principles. The connection defined by such a manifold is a regular form of non-constant curvature, in other words, an axiomatically non-linear curvature. But, that as such is a subject for another place on another day. It is sufficient that you know that those who call themselves mathematicians, or mathematical physicists, and who propose to "connect the dots" in a linear way, as von Neumann did, are not dwelling in the real universe.

What is to be stressed here, at this point, is the following.

The relationship among money-prices is in no way congruent with the relations among real elements of the processes of physical-economy. It is not the supermarket which produces the milk, it is the farmer. The attempt to deduce milk from a theory of supermarket prices, is the behavior of a certifiable lunatic.

Similarly, the assumption, by the followers of professed satanist Bernard de Mandeville and Friedrich von Hayek's Mont Pelerin Society, of the existence of an "invisible hand" of evil mysteriously generating the benefit of a "magic of the marketplace," is the religious worship better suited to be performed by witches, not a representation of the processes of cause and effect in the real world. The only "invisible hand" which should concern you, is Wall Street's hand hidden in your pocket.

If you wish to have something which works as intended, design, build, and operate it to do so. The same principle applies to national economies. The difference between a building or a highway, on the one side, and an economy, on the other, is that the performance of an economy depends upon the cultivation of those cognitive powers of the individual human mind, by means of which mankind discovers not only experimentally validatable universal physical principles, but those Classical-artistic and related principles of statecraft, by means of which a society does what no manufactured object, nor lower form of life can do, make those discoveries of universal principle, by means of which mankind's power in, and over the universe is increased to such included effects as generating a genuine physical-economic profit.

It is building the protectionist policies of the American System of political-economy, around this principled conception of the unique contributions supplied by a suitably cultivated form of the individual human mind, which is the best existing known principle governing the way a successful form of economy works. That is something an immoral swine like John Locke, or a deranged positivist like John von Neumann, could never accept. We better accept it; we have reached the point, that that is the only premise upon which our nation, this civilization, might survive the great financial collapse which is descending upon us all now.

LaRouche's 'Triple Curve Collapse Function' models economic breakdown

Figure 1 shows the schematic first used by Lyndon LaRouche in Europe in 1995 to depict and forewarn of the process of economic collapse we now see unfolding. Since that time, *EIR* has published numerous feature-length, detailed studies of various interconnected aspects of this collapse process. Here we present a series of graphical snapshots of each of the three multiply-connected curves, to show "how far gone" the process is toward historic-scale blowout. As LaRouche discusses elsewhere in this *Feature*, the increasing disparity of the curves reaches the phase of shock-wave, which is where we stand today.

Hyperbolic rise of financial aggregates

Figures 2 through 4 show three of the more dramatic features of the bubble-state of financial valuations over the past 20 years. As shown in Figure 2, the Dow Jones (formerly Industrial Average index, consisting of just 30 hand-picked corporate stocks, has levitated from an index level of 1,739 after the October 1987 crash, all the way up to over 11,000 as of this past June.

Figure 3 shows the soaring value of mergers and acquisitions of corporations internationally and in the United States, to the point of the \$2.5 trillion announced in 1998. In the first

six months of 1999, the pace has picked up to \$1.5 trillion of deals announced so far worldwide, during this calendar year. In the United States, in 1999, there were \$340 billion of deals in the first quarter, and \$540 billion in the second, making the second quarter the second-highest quarter ever, after the \$679 billion second quarter of 1998.

Figure 4 shows the rise in estimated level of the nominal value of financial derivatives contracts worldwide, a category of speculation that only emerged in the late 1980s, coincident with Alan Greenspan's appointment as chairman of the Federal Reserve System in 1987.

While examining these charts, keep in mind how various kinds of leveraging work and interconnect.

First, margin debt. Individuals and institutions borrow from brokers in order to play the stock market. From the end of 1992 to the end of 1998, customer margin debt borrowing jumped from \$44 billion to \$141 billion, a compounded annual growth rate of 21.4%. But from the end of 1998 to the end of May this year, customer margin debt borrowing rose from \$141 billion to \$178 billion, an increase of \$37 billion. *This is an annualized growth rate of margin debt for 1999 of*

FIGURE 1
A typical collapse function

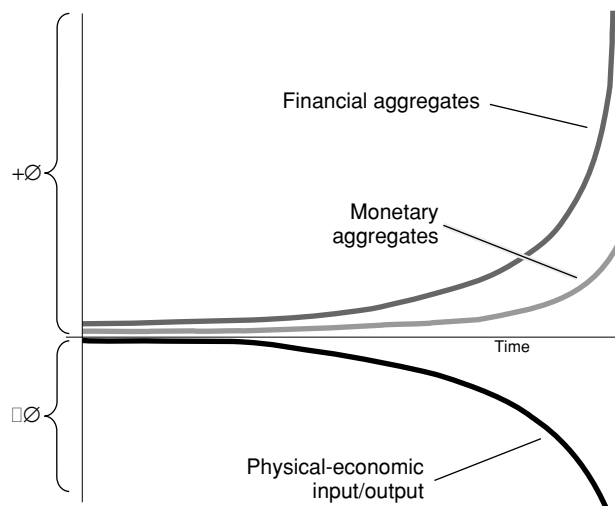
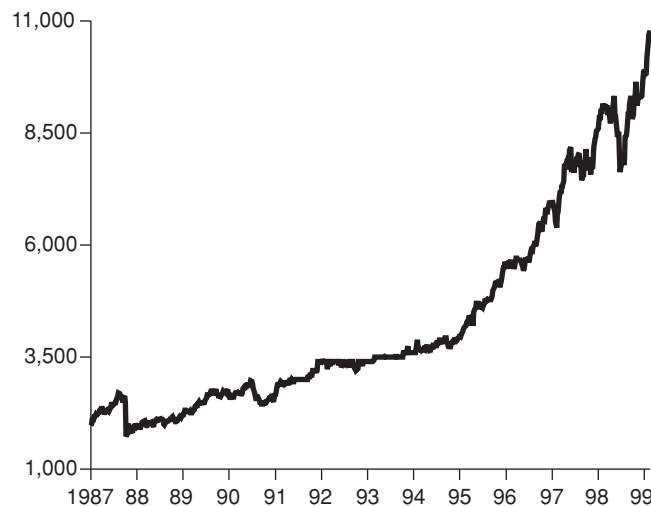


FIGURE 2
Dow Jones Industrial
(Average weekly closings, 1987-99)

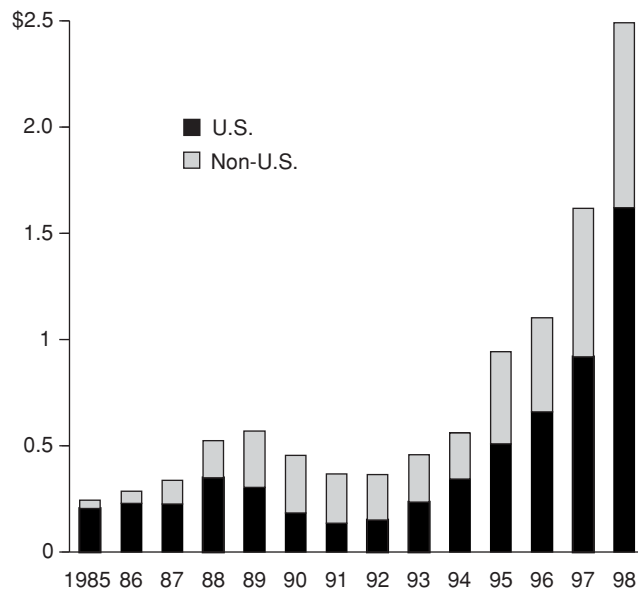


Source: Dow Jones.

FIGURE 3

Global cartelization escalates: value of announced mergers and acquisitions

(trillions \$)



Source: Securities Data Co.

74.9%, unprecedented in U.S. history.

A second form of leverage underpinning the stock market, is through mergers and acquisitions, in which buy-out firms can borrow \$5 for each dollar of their own money that they employ when they take over a firm—that is known as debt leverage.

Then, there are stock-based derivatives—such as the Standard and Poor’s 500 futures index—which are used to play and rig the stock market. The combined value of these stock-based derivatives is several trillions of dollars, out of the approximately \$175-plus trillion in world derivatives overall shown in Figure 4.

When “reverse leverage” strikes, broker margin loans are called in, or speculator/investors have to dump stocks to meet margin calls, and the derivatives bubble of options and futures collapses. De-leveraging in one sphere will trigger de-leveraging in another sphere, collapsing the system at lightning speed, because all these spheres are interconnected.

Even before the point of *all-out blowout*, the insanity of the present period is shown by its mega-mogul, Bill Gates, and his company Microsoft (see box, p. 33).

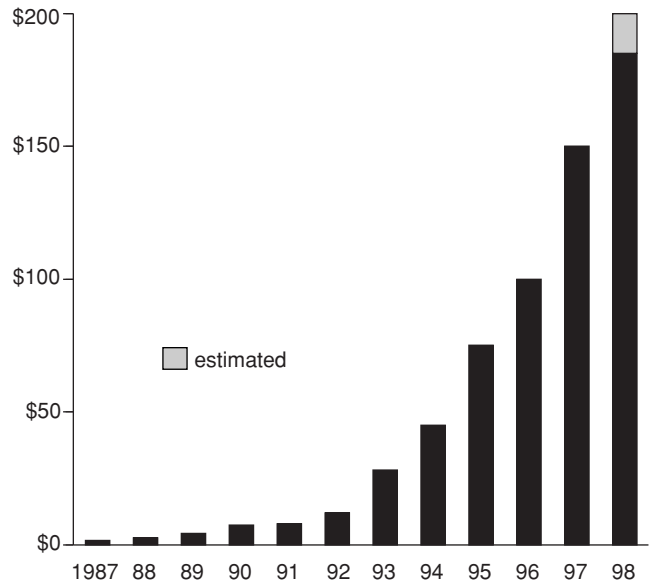
Monetary inflation

Figures 5 and 6 show just two monetary-related trends, integrally connected with the recent policy of promoting hyperinflation in attempts to keep the financial bubbles afloat. Figure 5 shows the rise in the level of the U.S. money supply,

FIGURE 4

Global derivatives holdings

(notional principal value outstanding, trillions \$)



Source: EIR.

called M-3, especially from 1995 to the present. Figure 6 shows the soaring rise, from 1997 to the present, in yen value of Japanese government bond issues, related to the pumping of liquidity into their hyperinflated financial sector.

Physical-economic inputs and outputs plunge

The next graphics show the process of economic contraction that has taken place in selected national economies, as part of the process of “feeding the bubble,” at the expense of developing and sustaining basic economic inputs and outputs. This is evident over the past two to three decades. Then, since summer 1997, when there began a blowout process in which whole sections of the global financial system’s bubbles became unsustainable, and went unpaid—inflated share values, hedges, futures, national debts, etc.—we went into a new, accelerating process, in which *basic economic activity* itself is shutting down—manufacturing, farming, fishing, water and power provision, health treatment, and so on.

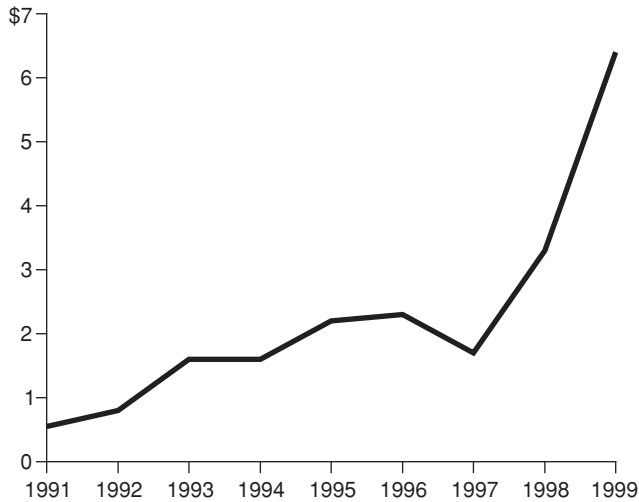
Figure 7, for the United States, illustrates the point that over the last 15 years, while funds have flowed into mergers and acquisitions, there has been no increase into investment for new plant and equipment. Moreover, the lower line would be negative, not just static, if the money going into computer and telecommunications investment were not included. During the past 15 years, investment in steel and metals, and facilities and equipment for all kinds of basic manufacturing, has *declined*.

Figure 8 and 9 indicate for two basic industrial categories

FIGURE 5

U.S. money supply (M3)

(trillions \$)

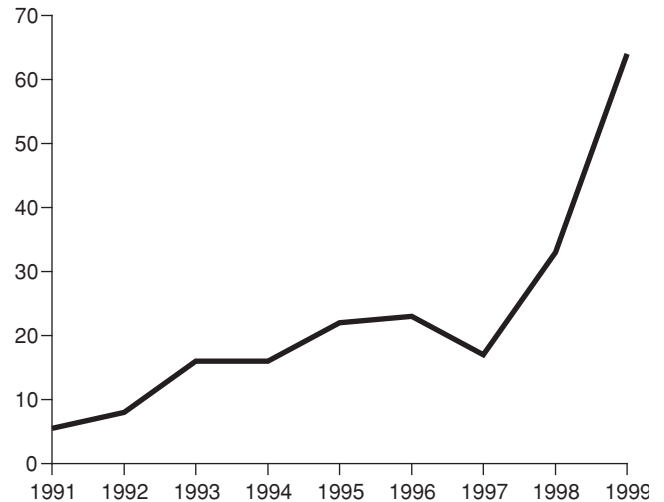


Source: Federal Reserve.

FIGURE 6

Japanese government bond issues

(trillions yen)



Source: Japanese Ministry of Finance.

ries—machine tools and farm equipment—how, since the 1997 break-out of global crisis, output levels are dropping sharply.

The same is true for Germany. **Figure 10** shows this in terms of the decline in the number of machine-tool workers declining from 1970 to 1995. Then came a precipitous decline in recent months in the German machine-tool sector.

The following brief survey, gives nation-by-nation headlines on the degree and scope of the current breakdown in basic production and consumption levels.

United States

During the 18 months since January 1998, the U.S. manufacturing workforce has lost 487,000 jobs. During 1998, some 265,000 manufacturing jobs disappeared. Over just the first six months of this year, 222,000 have gone, with 35,000 lost in June alone.

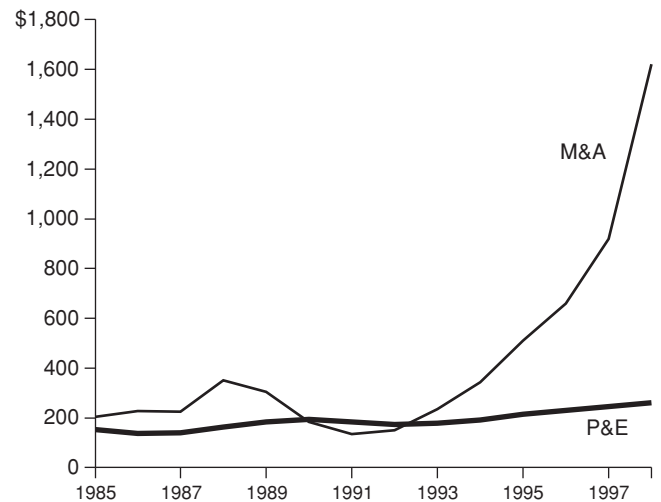
The machinery and equipment manufacturing sector is contracting drastically. On July 7, the world's biggest mining equipment maker, Harnischfeger Industries, which also makes huge paper-mill machines and earth-moving machines, filed for Chapter 11 bankruptcy. The firm, based in a Milwaukee suburb, said it had been hit hard by chain reactions of non-payments and cancellations beginning in Asia in 1997, and proceeding since.

Caterpillar, the world's largest maker of heavy construction and earth-moving equipment, reported that its orders and sales are down to the extent that profits fell 36.5% from the second-quarter of 1998 to the present, and prospects are wors-

FIGURE 7

Mergers and acquisitions vs. manufacturing expenditures for new plant and equipment

(billions \$)



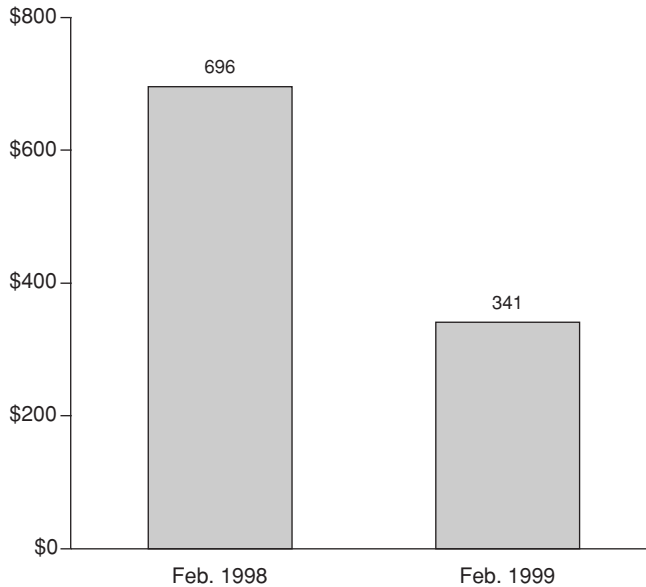
Source: Securities Data Co., Economic Report of the President, *EIR*.

ening still.

Deere & Co., the world's largest farm machinery builder, has imposed extended work furloughs this summer, and expects farm equipment sales to drop at least 18-20% from last

FIGURE 8
U.S. machine tool consumption collapses 51%, February 1998 vs. February 1999

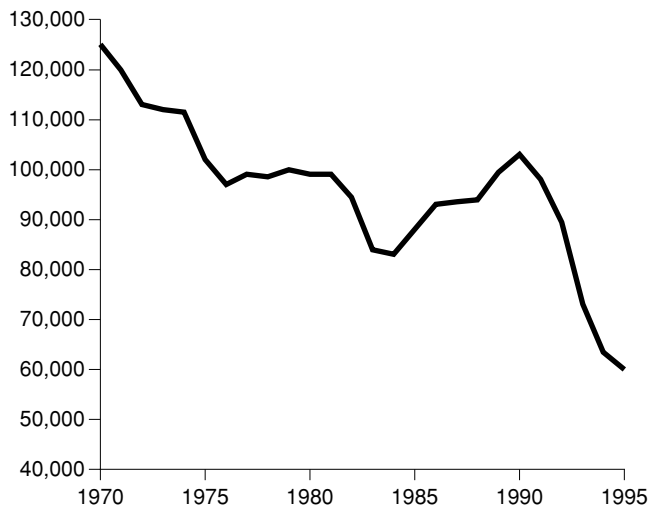
(millions \$)



Source: Association for Manufacturing Technology; American Machine Tool Distributors Association; *EIR*.

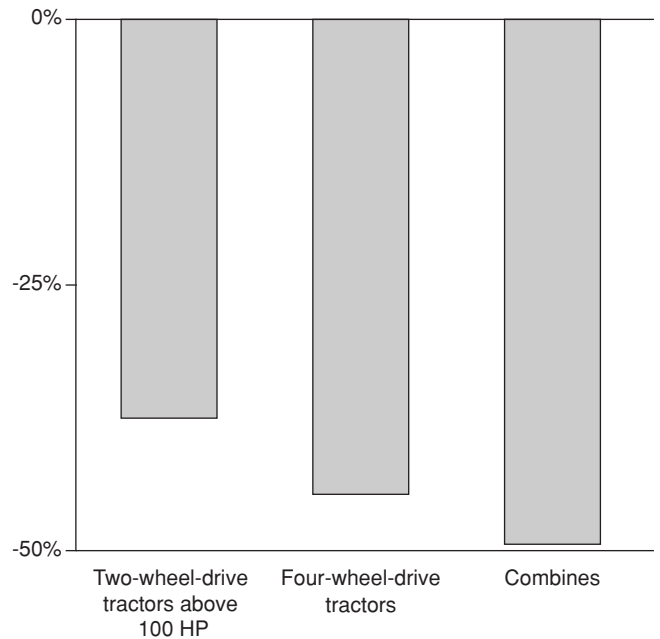
FIGURE 10
Employment in western Germany's machine tool sector

(number of employees)



Sources: VDW, *EIR*.

FIGURE 9
Fall in U.S. farm equipment shipments, March 1998 vs. March 1999



year. The New Holland farm machinery factory in Grand Island, Nebraska began laying off nearly all of its 630 employees in the first week in July, because sales are so low.

Japan

Orders for Japanese machine tools are crashing. According to preliminary figures published by the Japan Machine-Tool Builders' Association (JMTBA) on June 21, new orders received by Japan's machine-tool industry in June 1999 were down 34.5%, compared to the year before. Domestic orders had fallen by 32.3%, foreign orders by 36.3%. The June data marked the 16th consecutive month of year-on-year declines in new orders for the world's leading exporter of machine tools.

The fiscal year ending March 1999 had been a disaster for the Japanese machine-tool producers. The 35% fall in domestic orders resulted from 38% lower orders from the Japanese machine-building sector, 31% lower orders from Japan's automobile producers, and a 44% collapse of orders from Japan's electrical engineering companies.

Since October 1998, the collapse of domestic demand has been accompanied by falling orders from abroad. In particular, machine-tool orders from the United States had been down by about 40% in recent months, while orders from western Europe were also sharply falling. For the Japanese machine-tool producers, the United States is by far the most

TABLE 1

Japan's domestic orders for machine tools plunge

(billion yen)

Fiscal year	Total orders	Domestic orders	Foreign orders
1997-98	1137.5	629.9	507.6
1998-99	907.4	411.2	496.2
1999-2000*	745.5	327.9	417.6

* Projected

Source: Industrial Bank of Japan, May 1999 report on the Japan machine tool industry.

important export market, covering about 50% of all foreign orders in the fiscal year 1999-2000, followed by Europe with one-third, and Asia with one-tenth of overall Japanese machine-tool exports.

Until the Asian financial storms of 1997-98, South Korea had been the second-biggest export market for the Japanese machine-tool industry. However, in 1998, machine-tool exports to South Korea crashed by 75%.

In May 1999, the Industrial Bank of Japan presented a report on the Japan machine-tool industry, predicting that the rapid decline of domestic machine-tool orders would accelerate during the fiscal year 1999-2000. **Table 1** gives the figures, showing that domestic machine orders are expected to drop by half this fiscal year from two years ago, down from 629.9 billion yen, to 327.9 billion. As a consequence, Japan's machine-tool companies are downsizing their production facilities. According to the Industrial Bank of Japan, output in the present fiscal year will plunge to 60% of the 1990 level.

Eastern Europe

Besides core production contraction in Japan, Germany, and the United States, the rate of collapse throughout the Americas, eastern Europe, and other production centers is deadly.

Table 2 shows the drastic fall in steel output in nine countries of eastern Europe, during just the first half of 1999, compared with the same period in 1998.

Ibero-America

Defaults and crises are hitting all basic industrial and construction sectors.

Mexico: Figures 11 through 13 give a summary picture of the "Triple Curve" collapse for Mexico—indicative of the process taking down national economies generally.

In Figure 11, beginning in the 1980s, you see how debt climbed to unpayable levels, buttressed by the process of looting the real economy, as shown by the decline in manufacturing jobs, to one-half their 1980 level, and the decline in consumer goods produced by one-third.

TABLE 2

Steel production decline in eastern Europe, January-June 1999

(thousand tons)

	1998 (first half)	1999 (first half)	% decline
Bulgaria	1,239	866	-30.1%
Croatia	52	36	-30.8%
Czech Republic	3,499	2,829	-19.1%
Hungary	950	893	-6.0%
Poland	5,614	3,885	-30.8%
Romania	3,438	2,142	-37.7%
Slovakia	2,017	1,737	-13.9%
Slovenia	225	207	-8.0%
Yugoslavia	592	79	-86.6%

Source: IISI.

Figure 12 shows more about the decline in manufacturing employment from over 2.5 million in 1981, down to fewer than 1.5 million in 1998. The darkened area shows increasing employment in *maquiladoras*, the cheap-labor assembly plants on the border with the United States, but this is not rightly to be counted as part of the national workforce employment, because the *maquiladoras* are in fact "industrial plantations" for foreign outsourcing.

Figure 13 shows how, for dietary staples—beans, for example—production has declined from 20 kilograms per capita down to 7 kg, and is falling.

The physical-economic functioning of the nation is breaking down. Consumption of food staples (tortillas, oils, beans, dairy) fell by 20% from the first quarter of 1998 to 1999.

Mexico's flagship companies are in crisis, from the untenable financial looting of the "Triple Curve" type:

- *Grupo Dina*, Mexico's largest bus and truck maker, missed a \$6.6 million bond payment on July 15. To deal with the burden of debt, and lack of credit for production, in June the company sold a 61% stake in MCII Holdings, a motor coach company based in Des Plaines, Illinois, raising a reported \$125 million.

- *Bufete Industrial S.A.*, one of the country's largest construction firms, announced on July 15 that it could not meet a \$100 million Eurobond payment due then. In June, the company had announced that it was trying to re-work its short-term debt. *Bufete Industrial* specializes in such basics as oil rigs and electric power stations.

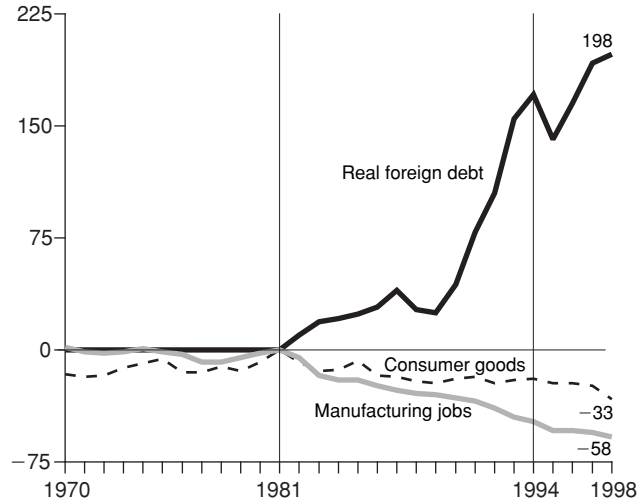
- *Grupo Tribasa S.A.*, Mexico's second-largest construction firm, could not make a \$26 million payment on a \$150 million bond in March. Over the months since, the company has tried to sell stock in order to reorganize its debt.

- *Altos Hornos de Mexico S.A.*, the country's largest steelmaker, announced in April that it could not make a \$39 million loan payment due then. Reportedly, it has a debt bur-

FIGURE 11

Mexico: a typical collapse function

(index 1981=0)

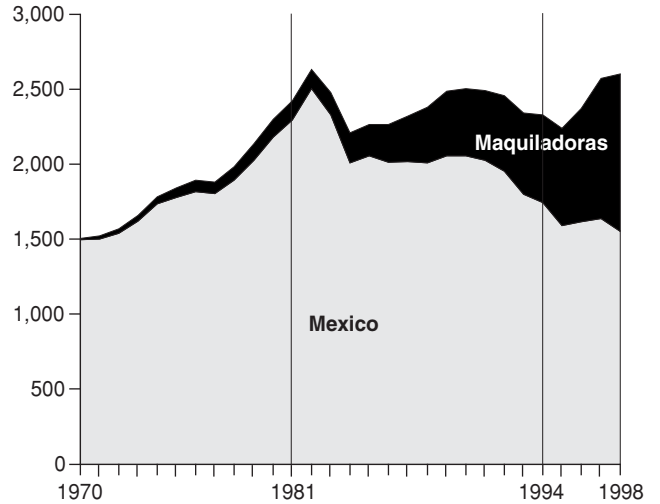


Sources: UN; FAO; ECLAC; World Bank; INEGI, Banxico, CONAPO, SEMIP, SARH, SHCP, SECOFI (Mexico); *EIR*.

FIGURE 12

Mexico: real employment in manufacturing

(thousands)



Sources: INEGI (Mexico); *EIR*.

den of \$1.8 billion.

Argentina: As of the first quarter of 1999 compared to same time in 1998, automotive manufacturing jobs were down by 50%, and overall industrial employment down by 9.5%. Official unemployment in May was 15%. As of May, food consumption had dropped 15% from a year earlier.

Brazil: For the same period, in São Paulo—the industrial heartland—electronic sector employment fell by 38%, and overall industrial employment was down 10.9%. The most recent figures put São Paulo’s official unemployment rate at 20.3%.

Venezuela: The sharpest drop of all was in Venezuela, where from December 1998 through the first quarter of 1999, industrial activity fell by 20%. As of April, the official unemployment rate was 20%. From April 1998 to April 1999, food consumption has dropped by 12%.

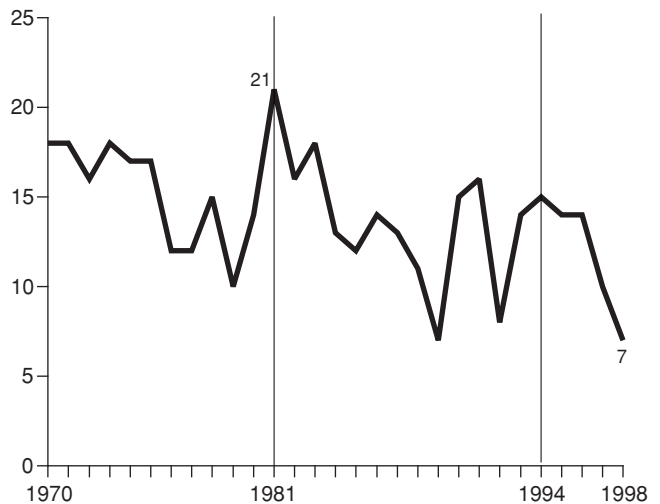
Colombia: Industrial activity was down 20% for the same time period. As of March, the official unemployment rate was 19.5%.

Peru: From February 1998 to February 1999, manufacturing activity fell by 11.4%. Construction activity fell 14.8% just from January to May 1999. The largest fishing concern in Peru, Pesquera Austral, saw the value of its stock plummet by 40.6% in mid-July, in response to rumors that it would not be able to meet debt payments on bonds it had issued. Pesquera Hayduk and Sipesa, the next-largest fishing companies after Austral, are in the same boat. Austral, the largest exporter of fishmeal—whose international price has plummeted—had multi-millions in losses the first half of this year. Fishing

FIGURE 13

Mexico: bean production

(kilograms per capita)



Sources: FAO; SARH, INEGI, Banxico (Mexico); *EIR*.

Industry leader Manuel Sotomayor says the industry debt is just “unpayable.”

The consequence of this, is sudden impoverishment, and unbearable hardship for millions of people. An upcoming *EIR Feature* will cover in detail, the scope of this Ibero-American collapse.

Eddie George's strategy to steal the gold

by Richard Freeman and John Hoefle

Acting on behalf of the financier oligarchy, Bank of England Governor Eddie George has been caught in a theft of at least \$600 million, and perhaps much more, from his own bank, in a “skim and park” operation.

On May 7, George announced that the Bank of England would sell more than half of its gold reserves—415 metric tons of its total reserves of 715 metric tons. Sale of the first 25 metric tons took place July 6. On the morning of George's May 7 announcement, gold was trading at \$289.25 per troy ounce. The announcement sent the gold price plummeting. On July 6, the Bank of England sold its first 25 tons at \$261.20 per ounce—\$27.05 per ounce below where the price of gold had been on May 7. Because of the Bank's actions, the price of gold continued to fall in subsequent weeks almost another \$10 per ounce (**Figure 1**).

An officer of the Washington, D.C.-based Gold and Silver Institute reported, “When we heard May 7 that the Bank of England was going to sell its gold, we were astonished. This was, after all, the Bank of England. The Bank of England had

always been supportive of the price of gold, and England is, after all, the place where the gold price is fixed. This is astonishing.”

A select group

The Bank of England did not sell its gold to the general public. Rather, it sold it to a very select group, consisting of the London Bullion Market Association (LBMA) and official institutions. The official institutions are the central banks, the International Monetary Fund (IMF), and the Bank for International Settlements (BIS). Because many central banks have been selling gold, and the IMF is considering selling some of its gold, this left the members of the LBMA as the exclusive buyers.

Who are these members of the LBMA that were deemed the only “eligible bidders”? There are 12 Market Making and 50 Ordinary members, which are primarily banks, but also include commission houses, refiners, brokers, and security transporters (see box). They are comprised of the leading financial institutions, representing the most powerful and wealthiest families of the financier oligarchy. For example, the chairman of the LBMA is Peter Fava of HSBC Midland, the parent company of the Hongkong and Shanghai Bank, which reportedly has been a central institution in laundering money for the world's drug trade since it began facilitating Britain's opium running in China in the nineteenth century. HSBC is one of the ten largest banks in the world, and owns Samuel Montagu, one of the five banks that sets the daily gold price fix in London.

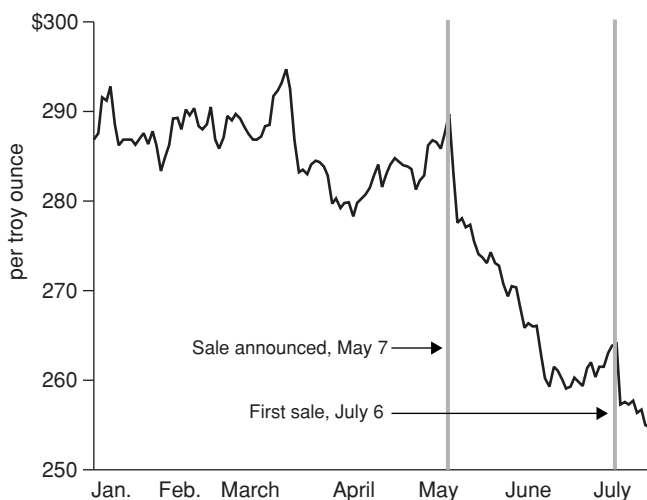
Institutions ranging from N.M. Rothschild, Bank of Nova Scotia-Mocatta, and Barclays Bank, to Morgan Guaranty Trust and UBS AG, are the core of the LBMA.

These institutions, and their wealthy controllers, on July 6, stole the first installment of 25 metric tons of gold at the artificially depressed price. The legendary bank robber Willie Sutton would have cried foul at the dimension of George's scam, protesting that at least in his day, bank robbers had to do some work to walk away with such a huge haul.

How much did this cost the Bank of England? The sale of 25 metric tons of gold left the Bank of England with 680 metric tons. The \$27.05 drop in price per ounce cost a devaluation of the Bank's remaining gold holdings of \$613 million. But, by July 20, the price of gold was down to \$252.80 per ounce—a devaluation of \$797 million. Through the sale of its 25 tons of gold, the Bank of England only received \$210 million. It devalued its remaining gold holdings by nearly four times the amount it received for its first installment sale. This loss comes, ultimately, at the expense of the country's people. The financiers who made off with the gold cheap, are accumulating the gold for a post-collapse world, in which financial paper will have the same value as wall-paper.

This cheapening of gold reserves value is having a world-wide impact. In March 1999, the world's central banks and

FIGURE 1
Bank of England manipulates gold price, 1999
(New York Comex daily gold closing price per troy ounce)



Source: New York Commodity Exchange.

official institutions (such as the IMF and BIS) held a combined 33,604 metric tons of gold reserves. Between May 7, when George announced the Bank of England's gold sale, and July 6, when the Bank sold the first installment, the central banks and official institutions lost \$30.3 billion in the value of their official gold reserves, due to the drop in the gold price. By July 20, this loss had reached \$39.3 billion.

Looting gold mining properties

The British oligarchy's strategy in forcing down the price of gold, is to also bankrupt financially weaker gold-mining companies, in order to acquire them at fire-sale prices. It would thus tighten its grip on future gold production.

Who is getting the Bank of England's gold

The London Bullion Market Association (LBMA) has a total of 62 members — 12 Market Making and 50 Ordinary — including banks, commission houses, refiners, brokers, and security transporters.

The Market Makers are: AIG International, Goldman Sachs' J. Aron & Co., Bank of Nova Scotia-Mocatta, Barclays, Chase Manhattan, Crédit Suisse First Boston, Deutsche Bank, HSBC's Midland Bank, Morgan Guaranty Trust (J.P. Morgan), N.M. Rothschild & Sons, Republic National Bank of New York, and UBS AG.

The Ordinary Members are: Amalgamated Metal Trading Ltd., BankBoston, Bankers Trust, Bank of America, Bank of China, Bayerische Vereinsbank, Billiton Metals Ltd., Brambles Security Services, Brink's, Canadian Imperial Bank of Commerce, Commerzbank, Cookson Precious Metals, Crédit Lyonnais Rouse, Degussa, Derel Pobjoy Int'l., Dresdner Bank, Englehard-Clal, Englehard Metals, Fleet Bank, Gerald Ltd., GFI Brokers, GNI Ltd., Guardforce Int'l., Itochu Europe, Johnson Matthey, Jordan International, ED&F Man Int'l., Marubeni Europe, Metallgesellschaft, Mitsubishi Corp., Mitsui & Co., Morgan Stanley, Moscow Narodny Bank, Nissho Iwai, Phibro Bullion, Prudential-Bache, Rabobank, Royal Bank of Canada, Royal Mint, Rudolf Wolff, Société Générale, Sogemin Metals, Standard Bank London, Sucden, Sumitomo, Tomen, Tradition Financial Services, Triland Metals, and Via Mat Int'l.

George's actions have driven the market price of gold to below the average cost of production in many of the major gold-producing nations.

According to a gold specialist at the U.S. Geological Survey, "The average cost of production of mining gold is about \$273 per ounce in South Africa, \$267 per ounce in Canada, \$261 per ounce in Australia, and \$257 per ounce in America." He stressed, "This is the average price, so while some mines are mining gold below this cost, some are mining gold above this cost, and the market gold price is now below this average cost."

This has put several mining operations in severe straits, making them more vulnerable for takeover.

The officer at the Gold and Silver Institute told *EIR* on July 20, "At this price, we're going to see a further consolidation of the industry. There are gold-mining companies that are sound companies, with good properties and relatively inexpensive gold [to mine], but over the last number of months their stock price may have fallen by 30 to 35%, or even 40%. They can't compete with the larger gold-mining companies, which have more financial strength. We're going to see some more firms taken over by companies like Barrick, Anglo American, Newmont, and Rio Tinto." The latter firms are the major gold producers, and all are in the British oligarchical orbit.

He also stated that the major gold producers will shift production to their cheaper mines for the current period.

The takeover strategy is exemplified by the action of Anglo American Corp., the largest precious minerals and raw materials producer in the world. Anglo American is the owner of Anglo Gold, the largest gold producer in the world. Through cross-ownership shares, Anglo American owns DeBeers Centenary and DeBeers Consolidated, which together control the Central Selling Organization that markets 80% of the world's diamonds. Anglo American is also the world's largest producer of platinum, and ranks as one of the top ten producers for many of the world's minerals.

Anglo American is used to pillage gold and other properties. In 1996, during Ugandan President Yoweri Museveni's invasion of the Democratic Republic of the Congo (then Zaire), Anglo American, operating through its subsidiary MDDZ, obtained a substantial chunk of the leading mining concern, the Société Minière et Industrielle de Kivu (Sominki), in mineral-rich Kivu Province. Anglo American obtained this at distress-sale prices. In December 1998, Anglo American effectively stole from the government of Zambia, one of the world's largest copper-mining producers, the Nchanga and Nkana mines of the Zambia Consolidated Copper Mines, for a pitiful \$72 million. The IMF, the World Bank, and the international donors had cut off most funds to this starving nation, until it sold its copper mines to foreign interests. On Nov. 19, 1998, Zambian President Frederick Chiluba denounced the pressure that was applied to make him sell.

“Our donors are making the point that copper is a new millstone around our necks, by insisting that aid is tied to the sale of the copper mines,” he said.

Anglo American is poised to pounce on new gold properties. It was formed in 1917, with financing from the Rothschild bank and J.P. Morgan. It is owned by the billionaire Oppenheimer family, which has membership in the Anglo-Dutch oligarchy’s elite 1001 Club of royalty, leading aristocrats, and raw materials executives. Since its founding, Anglo American had been based in Johannesburg, South Africa, but this year it registered as a London-based company, to solidify direct British control. As well, Anglo American, most of whose directors had been from South Africa, has now placed on its board some of the top names of the British financier oligarchy, including Peter Wilmot-Sitwell, formerly of Warburg investment bank (as part of United Bank of Switzerland, Warburg is one of the 12 Market Making companies of the LBMA); Christopher Fay, a senior executive of Shell Oil; and Robert Margetts, vice chairman of Imperial Chemical Industries.

Debilitating effects

George’s decision to sell 415 metric tons of gold was taken in tandem with the announcement by the British-run

IMF that it plans to sell 10 million ounces (311 metric tons) of its gold reserves. The IMF sale must be approved by countries representing 85% of the voting strength of the IMF board. The United States, which reportedly has 16.4% of the IMF voting strength, could veto the IMF gold sales. However, Eddie George’s action, combined with the threat of IMF sales, have been enough to exert tremendous downward price pressure on gold.

The gold sales are devastating South Africa and other nations of Africa.

Since the start of 1997, according to a report of the South African Ministry of Mines, 103,000 gold miners have lost their jobs in South Africa. South Africa had brought the price of mining an ounce of gold down from \$342 in 1997, to nearly \$273 presently. But, with the gold price at \$252.80 an ounce, eight of South Africa’s 16 gold mines are rated “marginal,” and two are running at a loss.

On July 6, East Rand Proprietary Mines Ltd., which is one of South Africa’s oldest and deepest mines, filed for bankruptcy.

On July 13, James Motlatsi, president of the South African Union of Mineworkers, and Bobby Godsell, the president of South Africa’s Chamber of Mines, issued a joint statement that warned that at today’s prices, about 40% of South Afri-

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

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* Mondays

FIGURE 2

The price of gold, 1995-99

(New York Comex daily gold closing price per troy ounce)



Source: New York Commodity Exchange.

ca's gold mining is uneconomical, and another 80,000 mineworkers could lose their jobs. The Motlatsi-Godsell statement said, "Our industry is under attack. This is a time for all South Africans, indeed all Africans, to stand together in defense of gold and the industry it supports." The loss of 183,000 mining jobs in South Africa's already fragile economy, whose official unemployment rate is 30% with the real rate much higher, is overwhelming.

Despite a trip to London by Motlatsi and Godsell to meet with members of the government of Prime Minister Tony Blair to ask them to halt England's gold sales, Blair has defiantly said that he will not alter policy. On July 14, Blair said, "We did this on technical advice from the Bank of England." He called the policy "entirely sensible."

Further, mineworkers from other countries work in South Africa: Mozambican miners working in South African mines send \$50 million home to their families in Mozambique; each miner has more than five dependents, and the salary sent home may feed as many as 20 people. Ghana's largest mining company, Ashanti Goldfields Corp., announced on July 20 that it plans to lay off 2,500 workers because of the gold price fall.

But George's thieving of Britain's official gold supplies, on behalf of his oligarchical friends, signals the contempt with which George and his banker friends hold the world's people. They are openly stealing the gold, and look upon any protest as in vain, because they don't expect their own global financial system will last much longer. They are positioning themselves for a post-collapse world.

Central banks rescued sinking Tiger Fund

As of June, the global financial system has been brought to the brink of a new meltdown, for the second time since the collapse of the Long Term Capital Management (LTCM) hedge fund on Sept. 23, 1998. At the center of attention is the huge \$13 billion Tiger Management LP, and the episode is not over.

On June 11, Tiger was the subject of emergency talks at the New York Federal Reserve, which feared that the fund was nearly insolvent. Tiger is the world's second-largest hedge fund, after George Soros's Quantum Group, and typically leverages its speculation through borrowed money, to *50 times its capital*. Thus \$650 billion could have been at stake.

Tiger denied the rumors of insolvency outright. The same day, the New York Treasury bond market underwent a mini-collapse, pushing interest rates on 30-year bonds to 6.14%, and threatening a crash the following Monday, June 14.

Careful scrutiny of the actions of the Bank of Japan, the U.S. Federal Reserve, the European Central Bank and relevant G-7 governments, shows that, during the weekend of June 12-13, the leading governments of the G-7, meeting in Frankfurt, Germany, agreed to another system bailout (this time covert), to prevent a repeat of the October 1998 LTCM meltdown, or worse. Curiously, press reports of troubles in major hedge funds disappeared that same June 12 weekend. Reports to *EIR* from senior City of London sources indicate that G-7 central bankers let it be known discreetly through their market and media contacts that reports of the Tiger fund crisis were not to be printed or broadcast.

The following is the chronology of events in this latest international bailout attempt, which continue up through July.

February 1999: Bank of Japan brings interest rates effectively to zero.

April-May: Hedge funds, led by the \$13 billion Tiger Fund Group of Julian Robertson, decide to risk new yen borrowings in order to speculate in U.S. and European markets using the ultra-cheap yen loans. By May 19, the Japanese estimate the "yen carry trade" is up to \$8 billion. These loans make sense only if the yen does not rise against the dollar. The bleak Japan economic outlook make a weak yen seem "certain."

June 10: The Japanese government's Economic Planning Agency releases astonishingly good GDP data for the

first quarter, showing that the economy grew at an 8% annual pace. Immediately, a rush of ordinary mutual fund and pension fund investment pushes the yen sharply higher on June 10-11.

June 11: A Reuters wire is put out that Tiger Fund, hit with \$3 billion in redemptions, is illiquid; the wire refers to an emergency meeting on the situation at the New York Federal Reserve. The same day, the U.S. Treasury bond market goes into a tailspin, pushing interest rates on 30-year bonds to 6.14%. Reportedly the Tiger Fund is forced to liquidate U.S. and European Union bonds to raise cash and try to close yen positions. Market traders say that, had the U.S. bond rate continued to rise on Monday June 14, above 6.2%, it could have triggered a new “Black Monday” stock crash globally.

June 12: Group of Seven finance ministers meet in Frankfurt, Germany. Press reports on the fate of the Tiger Fund are ordered blacked out.

June 15: The Bank of Japan makes an unprecedented currency intervention, selling \$10 billion of yen for dollars and \$3 billion for euros to “help Japan’s exports.” Since export surpluses in Japan are not at all weak, this is clearly a red-herring.

June 30: Recent data show for all June, the Bank of Japan has intervened to the tune of \$22 billion in foreign exchange. The assumption is that it is part of a coordinated G-7 attempt to bail out Tiger and other hedge funds exposed in the yen carry trade, in order to avoid a new eruption of the global crisis. Assuming Tiger’s \$13 billion in assets are leveraged

with borrowed money by a factor of 50, about \$650 billion in paper titles are at immediate risk.

June 29-30: The Federal Reserve’s Federal Open Market Committee meets and announces a “market calming.” There is a ¼% rate rise, but with it a return to a “neutral” position respecting further rate hikes. U.S. stock markets soar to record highs.

July 20: On this day—as at points since the beginning of the month—the Bank of Japan continues to intervene to depress the yen. On July 20, the Federal Reserve sells yen in New York, acting as agent for the Bank of Japan, which also sells yen in Tokyo. The dollar temporarily reaches a high of 119.66 yen, but then falls back.

July 16: Tiger Management spokesmen say, in a notice to the London Stock Exchange, that the firm has halved its 6% stake in the Royal Bank of Scotland, down to 2.99%. In October 1998, The imminence of such a reduction, at the height of the hedge fund crisis after LCTM’s insolvency, was denied by the Royal Bank of Scotland.

July 21: City of London sources report that a major hedge fund—said to be Tiger—is being forced to liquidate a large holding of U.K. bonds, or gilts. As a senior bond strategist puts it to *EIR*, “The name everyone mentions is the same Tiger Group which had big troubles in Japan last month. In their gilts positions, they bet wrong, and the banks which had lent to them, ordered the fund to come up with cash, forcing them to sell, in the process making their problem even worse. It is a huge move under way in gilts today, and some of it could be spilling into the euro.”

Bill Gates, the bubble baron of Microsoft

Microsoft Corp., far and away the world’s most valuable corporation as measured by market capitalization, became the first company ever to break the \$500 billion barrier on Friday, July 16, ending the day with a market cap of \$507 billion. That puts Microsoft well ahead of second-place General Electric’s \$389 billion. By way of comparison, Microsoft’s market capitalization is higher than the Gross Domestic Product of all but nine or ten countries in the world, and is higher than the total U.S. currency supply of \$485 billion; the company is also “worth”—we use the term in the virtual sense only—477 times more than Bethlehem Steel.

Microsoft’s capitalization is three times higher than

that of Citigroup (a mere \$166 billion) and more than the combined \$494 billion of five top commercial and investment banks (Citicorp, BankAmerica, Chase, Bank One and Morgan Stanley Dean Witter, ranked by market capitalization); and it is nearly twice the combined market capitalization of Ford, Du Pont, General Motors, Boeing, and Caterpillar. Microsoft is worth 47 times the combined market cap of steel companies USX-Steel, Nucor, Bethlehem, LTV, AK Steel and Armco (and, in an educated rough guess, something like five to ten times the entire world steel industry).

Bill Gates owns just under 20% of Microsoft, putting his net worth at about \$100 billion, just a bit less than Ford (\$61.6 billion) and General Motors (\$44.8 billion) combined. By way of further comparison, poor Warren Buffett is worth only about \$34 billion, and Fidelity, the giant mutual fund manager, in mid-July became the first fund to have \$100 billion under management.

And some people say the U.S. economy is in trouble.

—John Hoefle

Balkan nations battle monetarist bureaucrats

by Rainer Apel

For decades, and particularly for the last ten years since the fall of the Iron Curtain, citizens of eastern and southeastern Europe have talked about their “rich” neighbors in the West. This characterization no longer holds, as the Western elites have revealed themselves as actually rather poor: They have no money for the reconstruction of the Balkans, which they promised only a few weeks ago. Worse yet, with a few exceptions, they have exposed their moral and mental bankruptcy, as they have no ideas about how to reconstruct the economies of the Balkans. Developments in Western diplomacy between July 13 and 21 have illustrated that at quite some depth.

On July 13, the so-called “High-Level Steering Group on the Reconstruction of the Balkans” convened in Brussels, including top representatives of the supranational monetarist institutions such as the International Monetary Fund (IMF) and World Bank, as well as of the governments of the European Union and Group of Seven. The group, in the words of World Bank spokesman Philip Hay before the press, resolved not to discuss concrete aid projects, but rather to first “design a road map” and a “methodology,” in the coming months. As for their timetable, outgoing EU Commissioner Yves-Thibault de Silguy said only that “by mid-October, we will know more.” October being still three months away, the EU has, however, already decided to begin serious aid to Kosovo only in FY2000, and then, only in the range of maximally, 500 million euro (approximately \$500 million)—money which will be extracted from some other part of the EU budget. The same is basically true also for the close to \$200 million in humanitarian aid that has been granted to repatriate the 1 million Kosovar refugees, aid that is supposed to reach them before the winter sets in.

Contrast this “EU pledge” with the estimate that an initial

\$30 billion is required for an instant Balkans reconstruction program for the whole region, as is being called for by the Greek government, or the estimate for a national infrastructure development program of the Albanian government, which, besides immediate aid related to the return of Kosovo refugees, would alone require an initial \$6 billion.

Emerging from the Brussels gathering, World Bank President James Wolfensohn showed the ugly face of that rapacious institution, by insisting that his institution was in no position to grant loans to Kosovo, because Kosovo is not a country, not a member of the World Bank, and, since it is a province of Serbia, the Serbs would first have to pay \$1.6 billion in outstanding debt to the World Bank, before any loan could be issued. Therefore, it is up to the EU and the G-7, Wolfensohn said, to “step in” and do something for the Kosovars. Well, what they are willing to do, was revealed at that Brussels meeting. The policy of “budgetary restraint” was confirmed also by a meeting of EU finance ministers in Brussels on July 15.

Empty promises and hypocrisy

Therefore, when Romanian President Emil Constantinescu used harsh words in describing Western conduct, in an address on July 13 before the Romanian-American Chamber of Commerce in Bucharest, he was dead on the mark. Constantinescu said that although his country has done a lot to work with the West, and in particular with NATO during the recent air war against Serbia, still the Romanians have not received much more from Western politicians than “some friendly pats on the shoulder”—promises, but no concrete assistance. “Every day, a personality from NATO or the European Union is coming to Bucharest to congratulate us for the

FIGURE 1

The Balkan countries and neighbors



way we acted, as if we were a NATO country,” he said. “But we have neither the security guarantees nor the advantages of the NATO countries.”

Promises by Western politicians to ease Romanian economic losses from the Balkans conflict have not materialized, Constantinescu charged. “At the same time, we ask ourselves, who is being punished now? We continue to observe the embargo [against Yugoslavia] because we respect NATO, but has anyone taken into consideration the fact that the embargo is hitting Romania?”

Constantinescu said that Romanians were getting impatient with visitors from the West offering praise but no compensation, and added that, as a long-standing friend of the West, he felt very sorry about having to say that. *Monitorul*,

a leading Romanian business daily, described the results of the Brussels meetings, in a July 16 commentary: “The way it came up, the Stability Plan for the Balkans won’t even be the outline based on which deep changes, that should occur, could be talked about. Everything appears like a passing answer to a passing situation. . . . From the political point of view, cards are still not being played, and plans, if not backed by great actors, are not put on the table—a temporary solution is preferred now, in which, anyway, no one is willing to spend money.”

“What could be a plan for the Balkans area, is still being studied and belongs to academics and political researchers,” the daily commented. Moreover, the authors of the EU plans, like the experts at the Center of European Policy Research in

Slovak leader demands reopening of the Danube

In this open letter, Augustine Marko, president of the Slovak Society for the Protection of Democracy and Humanity, appealed to President Bill Clinton, British Prime Minister Tony Blair, French President Jacques Chirac, and German Prime Minister Gerhard Schröder to immediately provide aid to compensate for the damage done in the area, particularly on the Danube River, by the war against Yugoslavia.

During the negotiations with the government of Yugoslavia at Rambouillet and Paris, your deputies drafted an agreement for ratification. The government of Yugoslavia refused to ratify it. You then demanded ratification under the threat of force.

On March 24, 1999 you gave the command for the air force of the NATO states to attack Yugoslavia. Mrs. Madeleine Albright, in a radio speech to the people of Yugoslavia, explained that the attack was not directed against the citizens of Yugoslavia, but against the Yugoslav President, for what she called his criminal policy.

During the air raids, your air force also destroyed bridges which spanned the Danube. As a consequence, ship transport on a great leg of the Danube was broken up,

and the economic life of those states which use the Danube as a thoroughfare was also devastated.

These facts concern the citizens of the Slovak Republic, too. Besides the wrecking of trade on the Danube, it is impossible to deliver the ships purchased by Western Europeans, which have been produced by the Slovak shipyard at Komarno. At present in Komarno, there are two ships already produced which are prepared for delivery. They were produced in the shipyard and promised to the purchasers at the port of Izmail on the Black Sea. The ships are able to sail the ocean as well.

In the shipyard, there are six other ships as well. Our economy is very dependent on foreign trade, and due to the impossibility of delivering the ships to the purchasers, it has been very badly injured by the losses. If this situation continues a long time, the shipyard will have to stop producing ships. This would injure the citizens of our country very much.

Our citizens had no part in this situation and therefore we demand:

1. Compensate our economy for the damages which resulted from the conflict in Yugoslavia, and
2. We ask for financial and technical aid for the removal of the destroyed bridges blocking the Danube.

This problem concerns all the states using the Danube as a thoroughfare.

Augustine Marko, president
Pavol Martinicky, vice-president

Brussels, have drawn up designs for a Balkans free-trade zone tied to the euro, which would be entirely administered from Brussels. "Initiators of the project don't seem to have much confidence in the capacity of the area's representatives to handle the change."

And, as far as "great decisions" are concerned, the EU wants to manage economic policies from outside the Balkans. Therefore, if what is being discussed at the EU level does not bring at least some definite investments into Bulgaria and the Balkans, "it should all be in vain," the daily warned.

'Bobo' Hombach, saboteur

The meeting of the EU foreign ministers in Brussels on July 19, illustrated the virtual reality thinking of the Eurocrats, once again, when they decided, after hours of heated debate, to decentralize what was to have become a centralized agency for the future Balkans aid programs. The main office of the agency, with its head Bodo "Bobo" Hombach, will be established in Brussels. The administrative branch will be based in Thessaloniki, Greece, and yet a third office, for the operational branch, will be set up in the Kosovar provincial capital of Pristina. All of that will come into being only in September.

As far as "Bobo" Hombach—the former head of the German Chancellor's office, who has a murky financial record—is concerned, he received his first dose of what the Balkan nations actually expect from his agency, when touring the region during the week before the July 19 meeting. Hombach told the Bulgarians that he considered their country "an agent and not a subject of the Stability Pact," but he would not be more concrete. Bulgarian Prime Minister Ivan Kostov presented Hombach with a list of urgent projects, like the clearing of the Danube River, and other infrastructure projects such as construction of a rail line from Sofia to Skopje, the Macedonian capital, as well as an overhaul of the electricity grid of Macedonia, which has run down considerably, after a decade of independence from Yugoslavia.

Bulgarian Foreign Minister Nadezhda Mikhailova presented Hombach with three priority projects: Corridor 4 (from Berlin to Constanta on the Black Sea), Corridor 8 (from the Adriatic Sea to the Black Sea), and the construction of a second major bridge across the Danube, between Bulgaria and Romania.

The one existing bridge between Ruse and Giurgiui is totally overloaded, particularly now that water transport has

been shifted onto roadways, since the Danube has been blocked by the debris of the bridges that NATO bombs destroyed. "The question of the second bridge does not only concern Bulgaria and Romania; it is a pan-European one," Mikhailova said. And Economics Minister Vasil Vasilev presented Hombach with a list of up to 200 Bulgarian industrial and construction companies that are interested in, and have the expertise for, the planned reconstruction of Kosovo.

A similar scene was reported from Bucharest, where Hombach's visit corroborated Romanian President Constantinescu's criticism a few days earlier: The Western guest told Prime Minister Radu Vasile that, basically, his nation should stick to the principle "help yourself." After Hombach had left, the Prime Minister and the media were wondering whether Hombach's recommendation implied that no money from abroad was to be expected for the development of the national economy in the context of the EU's supposedly planned "reconstruction" of the Balkans.

Balkan nations intensify their efforts

Disillusioned by their "rich" Western cousins, Bulgaria, Romania, and the other Balkan nations have decided to pursue a double-track policy: 1) trying to remind the West, again and again, through all available diplomatic channels, of its moral and financial obligations to assist the poorer cousins of south-east Europe; 2) at the same time, intensifying their own bilateral and regional contacts among themselves, to get as much development of infrastructure and industry going as possible, under the immense financial constraints, given that their economies do not have the banking resources at hand that are required for a comprehensive reconstruction program.

It is interesting to see, however, that the idea of creating an institution that can fund the development of the real economy seems to be growing in the minds of leading Balkans politicians: At the tripartite meeting on July 15, of the foreign ministers of Greece, Albania, and Macedonia, the diplomats not only discussed a number of specific joint infrastructure projects, but also the creation of a "special fund" to finance them.

The meeting, held at Lake Prespa right at the common Greek border with the two neighboring countries, has been assessed as an historic event in the media of the three nations—not only because it was the first meeting of the regular, tripartite dialogue, that has been agreed upon recently among the three governments; it has also been an historic event because it focussed on the mutual commitment to modernize and develop vital transport links among the three nations, including roads, railroads, pipelines, and interstate power lines. No fewer than seven bigger projects are envisaged, on a list that will be expanded in the coming weeks and months:

1. An Ionian-Mediterranean interstate highway, i.e., the sections Drach-Skopje, linking with the trans-Bulgarian highway toward Varna (Black Sea), and between Igoumenitsa, a

large ferry port on the Greek coast, and Triest, Italy;

2. A hydro-electric plant in northern Albania;

3. Construction of power lines linking Albania and Macedonia with Greece, from Elbasan and Progradec (Albania) through Ohrid and Bitola (Macedonia);

4. A gas pipeline from the Bulgarian port of Burgas, on the Black Sea, to Skopje and Vlora, an Albanian port on the Adriatic Sea;

5. A gas pipeline linking the above with northern Greece;

6. The Macedonian government wants to build a new national rail line from Kichevo to Struga, toward Albania;

7. A highway from Pristina to Skopje.

In addition, the government of Greece has offered a \$100 million loan to Bulgaria, to restore a mountain road across the Makaza Pass and thereby establish a crucial transit route between Kurdjali (southern Bulgaria) and Komotene (northern Greece). The Greeks also offered to undertake the construction work as such, and complete the project within no more than three or four months.

The road has not been in use since the end of World War II, and its re-opening will serve the establishment of a new border crossing. The project is meant as an immediate improvement on a bilateral basis, which should not rule out either countries' engagement in the construction, later on, of the planned new trans-European corridor linking the Aegean Sea with the Baltic coast of Finland, a spokesman for the Greek government said in Athens on July 19. The Prime Minister of Bulgaria, Ivan Kostov, was expected for talks on other joint infrastructure projects with the Greek government, in Athens on July 21.

Not just reconstruction, but modernization

While the West is failing miserably in doing what it should do, the governments of southeast Europe are showing a commitment to do something that at least points to the broader perspective. "Reconstruction certainly does not mean rebuilding the same roads, power plants, and bridges," Hungarian Economics Minister Attila Chikan wrote in a guest commentary in the *International Herald Tribune* on July 21. "This is a chance to modernize and bring the Balkans to a level closer to that of other parts of Europe. If the resources brought to bear are too modest, then only the most urgent tasks will be addressed, and the most productive investment opportunities will be missed," Chikan warned.

Showing what could be done, with the right commitment and the right investment approach, the Frankfurt-based German Reconstruction Bank (Kreditanstalt für Wiederaufbau, or KfW) signed an agreement with the Croatian Reconstruction Bank in mid-July, while the monetarist bureaucrats in Brussels were still discussing "road maps" and the "methodology of aid." The KfW bank granted a loan of 100 million deutschmarks for the modernization of five Croatian ports on the Adriatic coast—Rijeka, Split, Pula, Trogir, and Kraljevic. The loan is over seven years, with a two-year grace period, at

5% interest.

“Without this loan and technological reconstruction, the shipyards, in which no investment has been made for 20 years now [including the seven past years of a pro-IMF regime in newly independent Croatia—ed.], could never recover or increase their competitiveness,” said Anton Kobajev, the president of the Croatian Reconstruction Bank. Among the German firms that will sell modern shipyard equipment to Croatia under this loan, is the Thyssen corporation, a leading producer of shipyard equipment.

The KfW is a bank that emerged from the Marshall Plan program of 1948-52 (see Lothar Komp, “How Germany Financed Its Postwar Reconstruction,” *EIR*, June 25, 1999). While the remarks coming from the monetarist bureaucrats seem to indicate that a new Marshall Plan is still 50 years away, the KfW, an institution of the old Marshall Plan, proves that the concept of postwar reconstruction is still alive among some people.

LaRouche policy presented in Zagreb

Also very much alive is the interest among some people in a new Marshall Plan: A one-day seminar, held by the Schiller Institute in the Croatian capital of Zagreb on July 13, on Lyndon LaRouche’s proposal for a Balkans reconstruction program as the take-off for a recovery of the world economy, under a new, non-monetarist banking system, drew government and opposition representatives, economists, as well as representatives of the embassies of Bulgaria, Slovenia, Albania, Poland, Ukraine, and Russia.

The seminar, “A Marshall Plan for Southeastern Europe,” featured presentations by Faris Nanic, secretary general of the Democratic Action Party of Croatia, who served as Chief of Staff under Bosnian President Alija Izetbegovic and co-signed a joint appeal, with Schiller Institute President Helga Zepp-LaRouche, for a new Balkans Marshall Plan (see *EIR*, June 11, 1999, p. 28); by Michael Liebig, director of *EIR*’s European headquarters; and by Elke Fimmen, chairwoman of the Munich branch of the Schiller Institute. Nanic spoke on “Peace through Development for the Balkans,” Liebig on “A Marshall Plan for Southeastern Europe as the Beginning of World Recovery,” and Fimmen on “A New Marshall Plan Through Reconstruction of Devastated Economies Would Not Cost a Dollar.”

The event was covered in quite some detail the next day, by the Croatian daily *Vecernij List*: “There was a significant paradox in June, when numerous conferences of the most developed G-7 countries were held and diplomatic actions taken, while the world financial system stood on the brink of general collapse, and it looked as if nobody was noticing. Leading countries’ central banks at that time printed \$25 billion, which they wasted on bankrupt banks and hedge funds that were on the verge of disintegration. At the same time, the world is talking about how southeastern Europe should be rebuilt, but no money is available. That is the reason, stressed

Michael Liebig, that there will be no reconstruction, but only some sort of humanitarian help, unless the superpowers realize that it is in their own, selfish interest to help the national economies of southeastern Europe.”

On Nanic’s presentation, the daily reported that he stressed the following requirements for a successful Balkans development program: “Achieving a swift diplomatic solution for Kosovo according to UN Secretary General Kofi Annan’s plan; working out details of the Marshall Plan for that region, launching a reform of the world monetary and financial system through a New Bretton Woods, immediately breaking with IMF and World Bank practices, which impose austerity measures on populations; debt moratoria for economies ruined by war, using the example of the Kreditanstalt für Wiederaufbau in the post World War II period for the reconstruction of Germany, as well as joining the common initiative for the realization of the Eurasian Land-Bridge.” Elke Fimmen, the daily reported, spoke of the “fight for the new Marshall Plan through a revitalization of economies destroyed in the war, which ought to be supported by government credits. Such a reconstruction would not cost a dollar, as it refinances itself.”

The discrediting of the monetarist institutions among the southeast Europeans, and their increasing interest in the concepts presented by LaRouche and his associates, are the new trends to be observed, these days, in the Balkans.

How to rebuild Romania’s economy

by Francesco Giotta

The author of this essay is a Romanian-American expert in capital markets development. He was one of the first to advocate economic and financial reforms in Romania, in a book published in 1993. He worked for several years as a consultant in U.S. Agency for International Development-sponsored projects in the Newly Independent States. His essay is based on findings during his stay in Romania earlier this year, discussions with government officials and industry leaders, as well as daily monitoring of the country’s economic situation. He is currently involved in investment analysis and project funding in the Balkans area.

Overshadowed by the eve of the Kosovo crisis, Romania’s economic and financial meltdown brought mobs of violent miners on the world’s TV screens, though it received comparatively little attention. Regarded with suspicion, Romania is the richest country in the Balkans in terms of natural and human resources. But relative to its size and importance, it has

been disfavored when it came to receiving foreign financial assistance to effect a successful transition from communism to a market economy. As a result, Romania has benefitted little from the free-market reform, remaining one of the most impoverished Eastern European nations. The aid extended so far by the International Monetary Fund (IMF) and the World Bank was linked to a host of financial and fiscal conditions which, instead of healing, may prove more crippling to its shattered economy. This raises the compelling question: Are these international organizations, given their present policies and past record, best equipped to deal with the developing nations of the Balkans; or, perhaps, would some newly created regional credit bank with wider European Union control be better suited to lead reconstruction in the right direction?

During the Kosovo war, Romania's political support to the U.S. and NATO allies placed her in a better position to receive more substantial help in the framework of a regional recovery plan. This may mean new hopes for economic growth—a prospect that had to be postponed way into the next millennium, primarily because of the austerity measures which the IMF, European Bank for Reconstruction and Development (EBRD), International Development Bank (IDB), and the World Bank insisted that Romania take earlier this year.

During a recent visit of a high-ranking American and British delegation, Romanian President Emil Constantinescu voiced his frustration with these institutions' wrong policies, that have led to the suspension of investors' incentives at a time his country desperately needs a massive foreign capital infusion in the economy. While lofty praises from U.S. Secretary of State Madeleine Albright do have a definite public-relations appeal, he said, the heavy trade loss which the country has been accumulating during the present embargo on the Danube, and compensation for it by the winning powers, remains an issue that can no longer be evaded.

There is much talk lately about a new "Marshall Plan" for reconstruction of the Balkan nations. From a historical and geopolitical standpoint, the radical change that has occurred in less than a generation on the opposite side of Europe, is impressive, and could be used both as a benchmark and a model of economic reconstruction. The Iberian Peninsula, torn by civil wars and a cradle of dictatorial regimes until the mid-1970s, took little more than a decade to achieve both unprecedented economic prosperity and a relative political stability amid its vast, often self-assertive, multi-ethnic fabric. The key to the Iberian region's astounding achievements was rapid industrialization, technology upheaval, and massive foreign investment.

From an economic standpoint, whatever the international financial organizations may say, there is no substitute for the industrialized model of physical production, in order to quickly achieve comparative prosperity levels with EU countries and the formation of strong middle class values that make for lasting democracies. To put it simply, and to paraphrase

Franklin Delano Roosevelt's idea that got America out of the Great Depression: Foreign aid must *put the Balkans to work*. It was the increased national output stimulated by foreign investment that placed Spain (and, to a lesser degree, Portugal) back on the map of industrialized nations. This could be done through low- or zero-interest, long-term credits, focusing on infrastructure improvements, energy-efficient industries, and high-yield farming technology.

The Balkans is a volatile region whose political stabilization is crucial to the security and ultimately the overall prosperity of Europe as a whole. Moreover, as the Kosovo crisis demonstrates, this "wild-card" region has the potential either to fuel old superpower rivalries (U.S., Russia, NATO, and China), or to become a stimulating pivot of economic cooperation among the largest nations in the Northern Hemisphere.

The challenge of the regional economic overhaul is not primarily one of increasing the volume and complexity of rebuilding aid. It requires new thinking, new attitudes, as well as a new brand of leadership. The reconstruction must reconstitute the region as the vital link connecting the industrialized West with developing Eurasian economies, functioning as a major highway for global economic growth planned for the next millennium.

Revive the Eurasian Silk Road

By reviving the ancient Eurasian Silk Road conduit with modern infrastructure, the Balkan nations and the lower Danube can effectively bridge industrialized Europe to the Caspian oil fields, Kazakstan, western China, Russian Siberia, and further eastward to the Pacific Rim. It can usher in the prospect of an unprecedented economic mega-powerhouse on the Eurasian land-mass that could end the superpower antagonisms which have marked this century. On the other hand, simply maintaining the Balkans as an European geostrategic bulwark would mean, at best, perpetuating a significant Western presence in the area—whose costs could prove exorbitant as time goes by—and continuing underlying tensions between Russia, China, and the other industrialized democracies. Hence, building a zone of lasting prosperity in the Balkans would benefit both the economic and security interests of the United States in the long term.

Unfortunately, for most Balkan states, the way in which Western aid has been designed and implemented, has so far failed to trigger structural changes in their economies, and ultimately has precluded the emergence of a prosperous middle class. Some recipient nations, notably Bosnia, have lagged behind in industry reforms and capital-intensive farming, and thus have reverted to archaic patterns of privileged clans cashing in on a smuggling economy. This dangerously parallels the effects of unneeded, ill-conceived aid to Russia that drew criticism (even within Russia itself) that the food aid was more help for the American farmer than it was help for Russia. If free-market reforms do not bring about relative prosperity of Russia, Ukraine, and the Balkans, we face a definite danger

of seeing the fragile democracies initiated there, succumb to attacks from strong, nationalist or neo-communist oppositions that could mark the comeback of state-controlled economies, political authoritarianism, and general revulsion against the Western world and its values. Of course, there are a host of reasons, notably local corruption, mismanagement, and irresponsible governments, that could be blamed for these failures—factors beyond the control of the donor nations. But the community of developed countries must not allow capitalism to be compromised, or allow democracy to be discredited, just because myopic policies and self-serving interests in the recipient countries have brought about a state of economic welfare no better than (or even inferior to) what had been achieved by the communist-era model of development.

Underdeveloped infrastructure, economic under-performance, and an anemic middle class are the factors responsible for the social and economic retardation of the Balkans that has continued beyond to the demise of communism. It has helped to stir feuds and convulsions along ethnic lines, and has legitimized the use of violent means to achieve political ends. This vicious cycle must now be broken. It must never be allowed to happen again.

The industrialized nations sponsoring Balkan reconstruction are facing not only financial and technical challenges, but ideological ones as well. Aid to the region must reach far beyond strict environmental and humanitarian concerns that currently dominate foreign aid thinking. For reconstruction to be successful, stabilizing the Balkans is only the precursor to forging of a new economic deal for the region.

In this process, industrial democracies need, once again, to carefully balance the need for a powerful private sector, with the human cost of scrapping entire industries because of failure to privatize swiftly or find outside investors. Most of these industries are economic losers because of energy over-consumption—a form of technological retardation—and because of wrong product mix as well as little value added—a situation inherited from a previous state-planned era with little concern for competitiveness. As in the case of France or Spain, economic non-performance has more to do with productivity and adequate capitalization, and less with whether ownership of firms is public or private.

In the face of a crunch on foreign credit that has made it impossible to bolster productive output, the international donors' insistence on environmental and short-term financial solvency concerns seem extravagant, if not counter-productive in the long run. Satisfying these priorities carries with it the effect of a rampant de-industrialization of Southeast Europe. Economic miracles cannot happen based on clean air, smooth roads, and swarms of tourists alone. It needs advances in manufacturing and technologies that make it possible for those nations to equally share in the giant prospects offered by eastward economic expansion on the Eurasian continent.

The case of Romania

I will illustrate the fallacy of shortsighted, speculative financial targets with the case of Romania, the largest and most populous country in the Balkans after the breakup of former Yugoslavia. Romania is also the richest in terms of natural resources: from timber to uranium, from gold to fertile soil, not to mention the natural gas deposits of Transylvania and the longest stretch of Danube's waterway in Europe. Equally landscaped with plains, mountains and plateaus, vineyards and riverways, a seacoast and river delta, Romania's physical diversity resembles that of France. It is a country not only of fabled peasants and skilled craftsmen, but also of inventors, electronic wizards, and princes of mathematics.

In recent years, in spite of its significant economic potential and well-educated workforce, Romania slid into a rapid pace of deindustrialization. Compared to previous years, Romania's decline in industrial production varied from 17% (1998) to 5.9% (1997). Many state-operated factories have been closed. Excessive budgetary constraints have shrunk profit margins of the privately operated ones. An even bigger slump in industrial output is expected to occur this year, as the country plunges into an unprecedented depression. Some reshuffling of the economy was expected to happen as energy-consuming industries are phased down. Also, belated privatization induced structural changes in the prime industries (steel, shipbuilding, mining, etc.) and put manufacturing sectors under new management. Some of the workforce has been displaced into the growing service sector, so that overall wages has grown in pace with industrial decline.

Statistics show that public consumption has plummeted by 30% compared to last year. Recession has inhibited growth in all other, non-industrial sectors as well. Are Romanians better savers now, than they were prior to the December 1989 revolution that abolished communism? Are income earners so wrapped up in "money madness," that they are being attracted by 55-65% annual interest rates on deposits, when, from January to June alone, local currency devalued by 41% against the dollar?

The answer is that stock investments, as a result of bleak economic prospects and liquidity problems, are bearish, and that there is now a "last resort" run into bank deposits and real estate values. Banks have already turned away from public lending, preferring to engage in speculative gain on short-term interbank loans and repossession agreements with the central bank, making interest rates much higher on short-term than on long-term deposits.

The banking system in Romania, which is state-owned, and is saddled with bad loans to state enterprises, is on the verge of collapse. This spring, three major banks closed down, and a "domino effect" is under way. A massive bank failure may vaporize public savings. The centerpiece of this house of cards is the central bank, which determined to stand by its current monetary policies and to defend the currency against devaluation. With credit ratings falling, Romania has little

hope of accessing international capital markets any time soon.

The service of Romania's foreign debt this year is significant enough to eat into the country's hard currency reserves. Also, Romania has pledged to the IMF and the World Bank that it will keep inflation low as part of a stand-by agreement. The only option left to the central bank is to prop up its currency artificially, through high interest rates. This, in turn, has prompted skyrocketing rates on loans — currently running between 78-85% — which has brought private sector expansion practically to a standstill at a critical time for the economy. A combination of tightening credits and fiscal constraints has contributed to the fact that more than 3,000 private firms closed down in 1998, and more of the same is expected to occur this year. Meanwhile, people are making their money any way they can, on the fringe of the real economic game. Real estate speculation and gambling are flourishing. How long can this situation last?

Turning to the budget deficit issue, Romania's foreign debt was \$8.4 billion in March 1999. About 40% of this, or about \$3.3 billion, is due by the end of the year. Most of the current debt represents foreign debt obligations (Nomura Securities of Japan, \$688 million; Merrill Lynch of Great Britain, \$468 million) and loans from international financial institutions, such as the International Bank for Reconstruction and Development [World Bank] (\$1.4 billion), EBRD [European Bank for Reconstruction and Development] (\$674 million), and the IMF (\$496 million). As it stands, Romania's debt did little to promote market reform: Only 22% of the national debt comes from the private commercial sector. It is also expensive: In March, it took Romania almost \$700 million to service that debt.

Government under intense IMF pressure

In an attempt to avoid a financial collapse or an equally catastrophic moratorium on the external debt, the government is more dependent than ever on international lenders to help the country out of its current solvency problems. Negotiations have been carried out for the past six months in a tense, unyielding atmosphere. The IMF and the World Bank are adamant in requesting a maximum of 2% balance of payments deficit for the fiscal year, in exchange for the \$475 million aid pledge (which in fact is just a revolving loan). At the same time, the government is urged to reduce and keep inflation to a minimum.

An excessively low deficit violates an old economic truism that developing countries must run large budget deficits if they are to continue importing the technology necessary to improve productivity or to fund large-scale, long-term projects to improve their infrastructure. It is also known that some level of manageable inflation (if that becomes a source of funding of budget deficit) is preferable to a severe economic depression.

In order to achieve a tightly balanced budget under the

austerity program required by the World Bank officials, a tax increase on gasoline prices has been enacted, along with a moratorium regarding investor initiatives — moves which are particularly detrimental to the present living conditions and the economic future of Romania. Both moves were inspired and requested by the same bank officials.

The new tax on gasoline not only ranks Romania's retail prices at the top of Western European ones, which are much higher than U.S. prices, but high gasoline prices will also indirectly boost food prices by an estimated 25%, in a country in which the average income is only \$100 per month. For a population already living at subsistence level, this difference in basic food prices may mean not only malnutrition, but also a definite risk of political unrest that may culminate in the overthrow of the present democratic, pro-reform government.

To maintain the budget deficit at 2%, the Ministry of Finance had to make the tough decision to reject all investment and export incentives, valued at \$400 million. The revocation of Government Ordinance 92/1997 which granted the incentives, sent shockwaves through the community of domestic and foreign investors. Part of what caused Romania's poor privatization record after the collapse of communism in 1990, is that it has lagged behind all other Eastern European countries in extending incentives to investors.

The decision to suspend incentives blatantly contradicts a specific clause in Romanian law (Article 16), which guarantees that such measures can not be rescinded before five years have lapsed. The negative message to the investment community is that the legislative chaos that has eroded investors' confidence in the past, continues. Beginning this spring, many foreign investors shelved their plans, while others have down-scaled their commitments. Many have left Romania for good. The resulting capital flight has worsened the financial crisis more than if the incentives had not been halted.

The lack of incentives strikes particularly hard at profit reinvestment in technology updates, stifling the infant high-technology industries that typically require large capital outlay in equipment. These industries were considered the economic locomotive that could pull the country out of recession. Indeed, without increased productivity and foreign capital investment in new technologies and managerial know-how, recovery is inconceivable for Romania. Narrowing the focus to short-term liquidity, the IMF's and World Bank's policies have given a triple death-blow to long-term technology improvement, domestic research and development, and foreign investment.

Squeezed by the "shock therapy" doctrine embraced by international financial institutions, Romania has pledged to accelerate wholesale privatization of large state enterprises at a surreal pace. More than 3,500 enterprises will be auctioned off this year, averaging 12-15 firms a day. This will happen against the background of a world and domestic financial crisis, economic depression, and shortages of domestic capital. Many economic experts and politicians wonder if the

government will get even a fraction of the fair market value of the physical assets. Those enterprises which can't find buyers, will be closed, increasing the unemployment by an estimated 1 million Romanians.

Romania is a self-critical nation, and its citizens are historically prone to blame themselves for all the ills that are now befalling the economy. It is true that, between 1990-97, Romania, under President Ion Iliescu's quasi-communist government, did not embrace capitalism whole-heartedly, and failed to implement key free-market reforms. But, it is also true that Romania did not receive even a fraction of the help which industrialized nations lavished on Poland, Hungary, and the Czech Republic, and, lately, also on Slovakia and Slovenia, to support the transition. During those years, there was excessive state intervention into the economy, a high level of corruption and macroeconomic instability. Under the new pro-democratic reform-oriented government of Emil Constantinescu, Romania has undertaken decisive steps in curbing high-level government corruption, improving fiscal collection, and fostering privatization.

In spite of tangible progress in democratic and free-market reforms, there is widespread consensus that without massive foreign capital infusion into the industrial sector, agriculture, and infrastructure, Romania, as much as other Balkan nations, will continue to have the kind of under-performing economy that breeds poverty and political instability. Maybe the new perception among industrialized nations triggered by the Kosovo crisis, that massive foreign aid to support economic reforms should have started in the southeastern corner of Europe, will bring not only the needed capital, but also new thinking about the best ways to achieve real economic recovery in the region.

IMF, World Bank don't care about reconstruction

Real recovery stems from a better consideration of needs and priorities of developing nations, typically long-term projects that have little to do with the short-term financial speculation which capital markets have been wrapped up in over the last decade or two. The difficulty is that international financial institutions like the IMF and the World Bank have long abandoned any concern for economic growth of recipient nations. Pretending to force financial discipline, these institutions actually pursue strictly their own short-term financial targets. Their so-called financial aid is nothing more than recycling loans, so that these poor nations can become even more perpetually indebted to rich nations. And if chronic underdevelopment and falling living standards occur, so much the better.

While paying lip-service to grass-roots democracy and stimulating entrepreneurship in small and medium-sized private enterprise, more than two-thirds of foreign aid is pumped into environmental and political awareness programs. In the wake of the Balkan war, 66 cents out of every dollar of aid administered by the USAID in the Balkans was

spent on environmental projects and public administration reforms. These concerns have emerged in rich nations of the post-industrial phase, and now are being raised as global issues by the same nations. These priorities are questionable when it comes to developing the chronically mismanaged, technologically inferior economies left behind by the collapse of communism.

Returning to Romania's case: The liberal party initially issued a 10-point economic recovery plan that differed radically from the IMF and World Bank policies, and supported stimulation of production and consumption, fiscal relaxation, and the end of austerity programs. The ensuing declaration emphasized the need for low-interest credits to small and medium-sized private enterprises and farmers, advocated the reinstatement of investor incentives, and called for fiscal lenience on the fledgling private sector. All proposals had one aim: to jump-start the gross national production and consumption at the expense of a higher—but manageable—budget deficit allowance.

Its main advocate, Senator Viorel Catarama, proposed a course of action opposite to that demanded by World Bank officials as a prerequisite for granting a new loan. The current deadlock, created by a combination of high interest rates on loans (currently between 78% and 85%) and tax overburden, is inhibiting growth and consumption. He argued that renouncing growth in the next two years, after several years of economic contraction of the productive sector, might produce irreparable damage.

Growth in economic output cannot be achieved only by liquidating state enterprises that are operating in the red. It needs massive capital infusion into the private sector to replace them, and availability of long-term, low-interest credit necessary for industry retooling and infrastructure projects. It needs some reduction of the overburdensome taxation on profit, in order to make this sector sustainable. In Romania, the private sector already employs 24% of the workforce, and, if the last's year shrinking trend continues, it would compound, instead of absorb, the unemployment generated by the closing down of state factories and the scaling down in public administration, both of which are scheduled for this year. Low-interest-rate credits may cause some inflation, devaluing the local currency; but shortly thereafter, the economic growth in production and consumption would stabilize the currency again.

Senator Catarama's views went unheeded by his own party leaders, who, under direct pressure from the government coalition to forge a speedy agreement with the IMF and the World Bank, reneged on their own economic doctrine, and even forced the Senator to quit party ranks. Openly challenging the World Bank's policies may have cost this Romanian politician his career. Talks are under way on possibly stripping Catarama of his current position as chairman of the Senate Economic Commission.

Advocates of physical economic growth may come and go. But Romania's economic crisis deepens. While all invest-

ors agree that the country clearly has great economic potential, there is little in the current legislation and tax structure to attract them there. All sorts of credits, for housing, farm equipment, small and medium-sized entrepreneurships, are either absent, or else they come at exorbitant prices. Without some form of government intervention to bolster private enterprise, through government contracts (infrastructure projects) and affordable credits, it would be hard for Romania to recover even the pre-1989 revolution levels.

There is no substitute for the Southeast European economic necessity to reindustrialize and develop modern, capital-intensive farming. These nations must undergo the same kind of economic reconstruction plans that Germany and Japan embarked on in 1945, and later France and Italy, and, after 1975, Spain. Only gross industrial output, not tourism and a smooth public administration, will sustain these economies through the global financial shock waves that are ever more frequently and profoundly rocking the world's capital markets.

In this context, financial aid should do everything to avoid proliferation of banana economies in the Balkans — i.e., countries which are financially solvent, but which are structurally ill-equipped to adjust to the new competitive standards prevalent in the Western Europe and in the global economy. Without a drastic increase in physical and value-added output, and infusion of managerial know-how, these nations will be doomed to be no more than cheap raw materials and labor force reservoirs for industrialized democracies of the West. If the established pattern of the IMF and the World Bank financial assistance continues in the way it has been done so far, not only will it do little to cure the structural illnesses encountered so far, but it will saddle these economies with two more reasons to collapse: long-term insolvency and chronic underdevelopment.

Debt-recycling, or real aid?

Such a possibility prompts many advocates of strong physical-economic recovery of Romania and other Balkan nations, to follow with anxiety, and even to publicly challenge the role which the IMF and the World Bank have played so far in the area, as being dangerous reenactments of an underlying 19th-century British mercantilist philosophy. Lately, the financial goals of these institutions do not seem to go beyond securing interest loan repayment to the same organizations and rich nations which initiated the funding in the first place.

It is also apparent that most of the foreign aid was, in fact, re-channeled to the rich countries, by awarding exorbitant amounts for consultant work, in place of direct credits to private companies for technological improvements and training of local management. The practice of crediting foreign firms from rich countries that sell expensive equipment to poor countries that don't quite need them, must cease. Also, the practice of making business loans to local private enterprises conditional upon mandatory imports of expensive ma-

chinery from Western countries, regardless of the need for it — a current EBRD practice — should be discontinued. Together with lavish funding of marketing gimmicks, ranging from cigarette promotions in Russia, to sending out-of-date, unneeded drugs into Kosovo — may compromise the whole philosophy behind foreign aid, sending the message among recipients that helping is big business for donor nations only.

There is absolutely no room for such practices in the rebuilding of the Balkans. The latest United Nations assessment concluded that the infrastructure damage caused by the war in Kosovo have been overstated. The report concluded that international help should re-focus from the humanitarian emergency issues, to the next phase, dominated by political stabilization and economic recovery. Soon, victory will be measured, more than anything else, in fighting poverty and endemic underdevelopment in Albania, Bosnia, Bulgaria, Romania, Macedonia, Montenegro, and, pending Milosevic's ouster, Serbia proper — a grandiose economic redevelopment plan that deserves a better brand of architects than the IMF's policy czars and World Bank officials have furnished to the community of developing nations. Failure to channel cheap credits to manufacturing and agricultural sectors can have, in the long run, the alarming consequence of making the Balkans less self-sustainable, more dependent on foreign aid — aid that may not be forthcoming in the not-so-unlikely event of worldwide financial crisis.

So, You Wish To Learn All About Economics?

by Lyndon H. LaRouche, Jr.

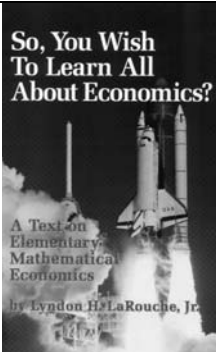
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Mexico's industries falling like dominoes

by Carlos Cota Meza

Like an obituary column, Mexico's news media report day in and day out on the bankruptcy of one company after another, the so-called "corporations" whose stock is traded on the New York stock markets and which have access to the international capital markets.

On July 13, it was Bufete Industrial's turn. Bufete is one of the three largest construction and engineering firms in Mexico, along with ICA and Tribasa, which are also about to go under, as are the companies which supply them. On July 15, Bufete defaulted on the payment of a \$100 million eurobond, joining Altos Hornos de México (AHMSA), the country's leading steel company, which defaulted on a \$39 million payment last April, and whose debt burden is \$1.8 billion.

On July 16, the Mexican Stock Exchange announced that for four hours it had suspended all trading on the stock of Dina, the country's leading producer of buses, after the rumor spread that it had defaulted on a \$6.5 million payment in interest charges on a \$165 million debt. Dina denied this, insisting that the payment doesn't come due until Aug. 14.

On that same day, trading of the stock of the country's largest construction firm, ICA, was also temporarily suspended, when the price of its stock plummeted after it was revealed that the company would announce considerable losses for the second quarter of 1999. Days earlier, ICA had announced the restructuring of its peso debt, equivalent to \$110 million, as well as the sale of non-construction-related assets, to pay off the Eurobond whose amount and terms have not been made public.

Foreign credit is cut off

For 1998, the official figure given for Mexico's private foreign debt was \$56.79 billion (\$38.806 billion corresponding to non-financial firms, and \$17.984 billion in foreign bank debt). Non-banking firms have already had to refinance \$15.925 billion in 1999, and this is where they are really running into a roadblock. As everyone knows, the debt defaults of Bufete Industrial and of AHMSA have shut the door to any more foreign credit for Mexican companies, which has now triggered expectations of a domino effect of defaults throughout the economy.

Reports received by *EIR* indicate that the federal government is withdrawing concessions that had been granted by Pemex, Mexico's state oil company, and by the Federal Electricity Commission, to Bufete Industrial, and, bypassing the

bidding process, handing them to ICA. This would give ICA the appearance of having a backlog of projects, which would presumably facilitate foreign refinancing.

At the same time, the main national creditor of Bufete Industrial is Banca Serfin, which has already declared bankruptcy and is now under government control. Further, the default by Bufete Industrial is having a ripple effect, both in terms of the amount and the impact on other companies. According to complaints from one of Bufete's main suppliers, the default could grow by another \$140 million, stemming from a shutdown of the firm's operations in Chile. The supplier is now desperately seeking capitalization of \$500 million. AHMSA, meanwhile, has announced the suspension of a mining project in Mexico, which represented an investment of \$2 billion, and the direct creation of 15,000 jobs.

The Grupo Editorial Expansión, which specializes in business matters, recently released a study on the status of Mexico's 500 largest firms. The study concludes that these companies "will enter the 21st century in a fragile financial situation," but, the reality is, that the firms are sitting on a powderkeg whose fuse is far too short to reach the year 2000.

The 500 firms employ 1,316,024 people, and their assets are equivalent to 47% of Mexico's GNP. The debt portfolio of these firms in 1998 totalled \$99.9 billion, exceeding the entirety of the public foreign debt for the same year, of \$82.222 billion. (The companies' debt is made up of circulating debt, or bills to be paid, as well as both peso and dollar debt.) The analysis of the Grupo Editorial Expansión correctly points out that the difficulties of these companies in 1998 were caused by a combination of larger financial costs, collapse of internal market demand, reduction of exports and resulting decline in production, and increase in unemployment. The total net profit of these companies collapsed in 1998 by 58.4%, which put the finances of at least 25% of these firms into the red.

So, now, as Mexico moves into the third quarter of 1999, the economy is showing dramatic signs of economic depression, with private sector bankruptcies, layoffs by the thousands, depressed internal demand, collapse in exports, etc., while parts of the speculative debt burst like soap bubbles every day.

On top of the bankruptcies of non-banking firms, there is the growing scandal of the world-famous "Mexican bank rescue," which is now officially calculated at a cost of \$80 billion. A similar figure is being attributed to Mexico's public foreign debt. Worst of all, Mexico's banks continue to go bankrupt, but these are being absorbed by the federal government, courtesy of the public coffers.

The irrationality of the Ernesto Zedillo government is so exuberant vis-à-vis banking (and other) matters, that some analysts are making comparisons: While there is talk that war damage to Yugoslavia following NATO's bombing war is \$26 million, Mexico has already had to spend 3.3 times more than that on bank bailouts, without firing a single shot!

The Martin Frankel swindle: How high up does it go?

by Dean Andromidas and
Jeffrey Steinberg

On May 5, the Greenwich, Connecticut fire department was called to a mansion at 889 Lake Avenue, after a private security company reported that the smoke alarms were ringing out of control in several parts of the building. When the emergency crews arrived, and broke into the house, they found large piles of documents burning in two fireplaces, and in a metal file cabinet. The documents that were salvaged from the fires referenced an elaborate money-laundering scheme. There was nobody in the building. Greenwich police later determined that, 24 hours before the fire was reported, the principal occupant of the mansion, Martin Frankel, had disappeared, along with several women who also lived on the grounds. A white van had removed enormous amounts of files, furniture, and so on, and the network of telephones inside the mansion had been programmed to forwarding numbers.

A May 25 “Verified Complaint of Forfeiture,” signed by Deputy U.S. Attorney John H. Durham, and authenticated by FBI Special Agent Joseph P. Dooley, noted that Greenwich police found 80 computers, connected to fiber-optic lines and several satellite receivers at the mansion. “Paperwork recovered during the search,” the complaint stated, “revealed that the house at 889 Lake Ave. had been operating as a brokerage office with an active trading floor, and that the computer and telecommunications equipment was used to provide a continual flow of financial and trading market information and to assist in the execution of securities and commodity trades.”

In the two and a half months since Frankel’s disappearance, the 44-year-old Toledo-born stock swindler, who had had his license permanently lifted by the Securities and Exchange Commission (SEC) in 1992, has been the subject of thousands of lines of news copy, particularly in the Wall Street and London financial press. Interpol has issued a “code red” all-points bulletin for his arrest. But, Frankel has so far managed to stay one step ahead of the international police dragnet, spending his way across continental Europe, purportedly using \$10 million in diamonds to fund his flight. Frankel has been characterized as a world-class con-man who stole as much as \$3 billion from a string of small U.S. burial insurance companies, and was able to fast-talk unsuspecting insurance executives, a Catholic priest, a Vatican bishop, a top Wall

Street lawyer, a former high-powered U.S. ambassador, and Kroll Associates, the world’s greatest private investigative firm, into his schemes. He also is alleged to have talked a bevy of women into sado-masochistic sex.

An extensive *EIR* investigation on two continents, however, has revealed a very different picture. While the financial press has characterized the Woody Allen look-alike Frankel as Hugh Hefner, Bernie Cornfeld, Robert Vesco, and Michael Milken all rolled into one, *EIR*’s investigation shows him to be a neurotic front-man for a fascinating collection of well-known New York-area political and financier figures, with high-level ties to Wall Street, to the far right wing of the Republican Party, and to organized crime. Several American sources interviewed for this story speculate that, if and when the full Frankel saga is unravelled, New York City Mayor and wanna-be U.S. Senator Rudolph Giuliani’s political career will not be worth a plug nickel.

The boys from Greenwich

Greenwich and Stamford, Connecticut are upscale New York City suburbs, widely referred to as Wall Street’s “off-shore,” as the result of the proliferation of hedge funds, commodity-trading companies, and other speculators who set up shop there over the past decades.

The region’s first notorious fast-money operator, Marc Rich, is still a fugitive from American justice, after then-U.S. Attorney Giuliani let the metals trader escape prosecution for a variety of crimes, including “trading with the enemy” (he violated the U.S. trade embargo on Iran during the heyday of Khomeini). Rich now operates out of a luxury office building in Zug, Switzerland, and, despite his fugitive status, is the largest supplier of nickel to the U.S. Mint.

Long Term Capital Management (LTCM)—whose September 1998 losses on the Russian currency and bond markets nearly blew out the global financial system, until the Fed stepped in to organize a \$4 billion bailout—operates to this day out of modest offices in Greenwich. Frankel hobnobbed with some other hedge-fund superstars who camped out in southern Connecticut, including Charles Davidson, former partner with Michael Steinhardt, in Steinhardt Partners, once the second-largest hedge fund in the world, behind George Soros’s Quantum Fund.

A New York City law enforcement source explained to *EIR* the reasoning behind the swindlers’ migration to southern Connecticut—and it wasn’t to escape the crime on the streets of Manhattan.

The U.S. Attorney’s Office for the Southern District of New York, one of the largest offices in the country, is stacked five levels deep with specialists in financial fraud and organized crime. Manhattan District Attorney Robert Morgenthau has earned the nickname, “The Sheriff of Wall Street,” for his long-standing appetite for high-profile financial conspiracy prosecutions, typified by his 1980s tackling of the Bank of Credit and Commerce International (BCCI).



The FBI is circulating this photo of fugitive Martin Frankel, the con-man with connections in very high places.

In contrast, Connecticut has one U.S. District Court and one U.S. Attorney's office, in New Haven, with a vastly smaller staff, possessing far less expertise in the intricacies of financial fraud.

Frankel's presence in the midst of this den of world-class financial manipulators, and the tantalizing descriptions of his state-of-the-art, illegal trading floor at 889 Lake Avenue, raises the obvious question: How big was Frankel's operation? Was he funneling the money he looted from a string of Southern insurance companies and other patsies into the big league banks and hedge funds that routinely place bets on a 100:1 leverage? While no one has so far stepped forward to firmly establish any links between Frankel's boiler-room and his more prestigious neighbors at LTCM, the Steinhardt Fund, etc., Frankel's established links to some New York and Washington political and financial heavy-weights certainly raise the question. And some of the biggest banks and insurance companies in the world show up repeatedly in the financial records of his far more modest string of front companies.

Meet the real Marty Frankel

A high-school dropout from Toledo, Ohio, Frankel was thrown out of his first job as a securities trader because he was too timid and incompetent to make the simplest of trades. He soon branched off on his own, and set up the "Frankel Fund" out of a bedroom in his parents' house. His clients soon realized that he was stealing their money. The SEC ultimately stepped in, closed down his fund, fined him \$1 million, and banned him forever from legally trading in securities.

Frankel founded another unregistered securities operation, called the Creative Partners Fund, and after operating for several years in Ohio, Florida, and California, he turned up in Greenwich in the early 1990s. Frankel's several rented mansions (one of his front companies, Sundew International, Ltd., bought the Lake Avenue property in 1998) were noted

for the comings and goings of scantily-clad ladies, and for a heavy presence of private security guards and elaborate detection systems. They had more the appearance of high-class brothels, than the headquarters of a financial wizard and master fraudster.

The insurance companies: victims or accomplices?

In keeping with his off-the-wall beliefs in astrology and magic, Frankel named one of his first illegal funds after the Nordic god of thunder, Thunor. Through his Thunor Trust, based in Franklin, Tennessee, Frankel apparently gained control of the Franklin American Corp., which functioned as the holding company for various insurance companies, including the Franklin American Life Insurance Co. and the International Financial Services Life Insurance Co. Scattered throughout the country in Colorado, Mississippi, Virginia, and Alabama, these firms were officially involved in selling funeral insurance—hardly a credible source for the \$3 billion which Frankel is accused of stealing.

The beginning of the end for Frankel appears to have been triggered by an inquiry from the Mississippi state insurance commission, which ordered Frankel to place several million dollars on deposit in a reputable Mississippi bank, in order to comply with state insurance regulations. That occurred in April 1999, just prior to Frankel's disappearance.

Frankel allegedly conned Franklin American Corp. Chairman John Alvis Hackney, who claims to be a victim, into turning over the assets of these companies in order for Frankel to invest them. But filings at the SEC, and other documents, reveal that the control of the Thunor Trust went beyond Frankel. According to the SEC filings, Thunor Trust holds 83% of the shares of Franklin American Corp. The Trust's sole beneficiary is John Alvis Hackney, the above-mentioned "victim." Its official address is in Nashville suburb of Brentwood, Tennessee, in the offices of the law firm Davis and Jordan. According to their listing in *Martindale Hubble*, the firm's major clients are Franklin American Corp. and its related insurance companies, as well as First Tennessee Bank, where Frankel American did business. The firm's partners failed to return *EIR*'s calls.

According to government documents, unsealed in Federal court in Connecticut, Federal authorities probing the Frankel schemes froze a bank account of the Chicago law firm Gomburg, Kane & Fischer which contained \$600,000, deposited by Frankel for legal fees. The firm's major clients include Morgan Stanley Dean Witter, and Prudential Securities. Frankel had extensive dealings with the latter.

A cut-out for the big reinsurance firms?

What is not being widely reported, is that much larger insurance companies—the giants of the industry—extended hundreds of millions of dollars to Frankel's companies, in the form of reinsurance and other financial instruments.

One of these companies was the London Life Reinsurance

Co. Its office in Pennsylvania extended \$100 million to the Frankel-linked International Financial Services Life Insurance Co., in a reinsurance agreement. When called by *EIR*, a nervous company spokesman refused to give any details of this transaction. Perhaps with good reason. The London Reinsurance Co. is a subsidiary of the Power Corporation of Canada, one of the largest corporate empires in Canada controlled by the Desmarais family, who are at the center of the British-American-Commonwealth financier oligarchy.

Paul Desmarais, the company's chairman, is a member of David Rockefeller's Trilateral Commission, and wields enormous political clout over the Canadian government, regardless of which party is in power. More interesting is the fact that Canada's Maurice Strong, a top international environmentalist and crony of Prince Philip and Vice President Al Gore, was at one time the president and chief executive officer of Power Corp. World Bank President James Wolfensohn got his first job through Strong and Power Corp. (he appointed Strong as his adviser as soon as he took over the World Bank).

Another company involved with Frankel was Capital Re, which admitted to a loss of \$67 million in the Frankel blowout. Based in New York City, the company is in fact a joint venture of five of the largest insurance companies in the United States, including Aetna Life and Casualty Co. Shortly after the announcement of the loss, Capital Re entered the final phases of negotiations with the Bermuda-based ACE Ltd., which was to buy them out, fueling speculation in the insurance industry that their losses had been much greater than the admitted \$67 million.

Another company, the Virginia-based Settlers Life Insurance Co., was forced into receivership, because it entered into a \$44 million reinsurance contract with Franklin American Corp. The \$44 million disappeared when the latter collapsed.

Kroll Associates: Wall Street's private detectives

Frankel was vetted into the U.S. political and financial establishment by Kroll Associates, the Wall Street detective agency, founded by the Anti-Defamation League (ADL)-sponsored Jules Kroll. Kroll Associates maintains a star-studded roster of former CIA, FBI, IRS, Scotland Yard, and Israeli Mossad officials; it maintains a worldwide network of offices and affiliates, and, for the past several years, has been largely a subsidiary of one of the world's leading insurance companies, American International Group, run by Maurice "Hank" Greenberg. Several years ago, Greenberg and AIG bailed out Lloyds of London, when the City of London insurance giant faced severe losses and a looming British government audit.

One of Kroll's leading "associates," Thomas Corbally, who managed Kroll's London office for years, became one of Frankel's biggest boosters, introducing him to such figures as former Bush administration Ambassador to Moscow Rob-

ert Strauss, when Frankel sought to set up an offshore charitable foundation—to launder even larger volumes of cash.

Now 78 years old, Corbally has been operating between London and New York for the last 40 years. According to FBI documents and sources on both sides of the Atlantic, he played a key role in the famous "Profumo Affair" of 1963, which brought down the government of British Prime Minister Harold Macmillan, who at the time was collaborating with President Kennedy. One of his associates in that affair was William Mellon Hitchcock, a scion of the famous Mellon banking family, who personally financed Timothy Leary's LSD drug revolution.

When questioned by the FBI in 1963 about his role in the Profumo Affair, which involved a call-girl ring, a Soviet military spy, and a slew of top British government ministers, Corbally was represented by New York mob lawyer Roy Cohn. When Corbally picked up Frankel, he steered the nerdy con man to Tom Bolan, the law partner of the late Cohn, and a powerhouse in the right wing of the New York Republican Party as head of the East Side Conservative Club. It was Bolan, personally, who flew down to Mississippi, in an unsuccessful effort to get the state insurance commissioner to back down from his demand that Frankel cough up millions of dollars for deposit in Mississippi banks.

According to the story being put forward in the press, Corbally helped to create the St. Francis of Assisi Foundation, to enable Frankel to contribute millions of dollars to Catholic charities. In fact, the objective of the foundation was, at minimum, to serve as a new vehicle for Frankel's takeover of a string of larger insurance companies, with greater cash flows and assets. The foundation was registered in the British Virgin Islands, which is known more as a safe haven for money launderers than as a base of operations for Catholic religious charities. Some news reports claimed that \$1.9 billion was on deposit in the foundation's offshore accounts, and that as much as a billion dollars of the funds came from Vatican-linked charities. None of these claims have been substantiated by *EIR*.

Nonetheless, the cast of characters associated with the foundation, courtesy of Corbally, is indeed impressive. According to information so far released, it included:

Thomas Bolan, Republican Party right-wing kingmaker of New York, former law partner of mob mouthpiece Roy Cohn. Among the more recent crop of politicians who owe their careers to Bolan and his East Side Conservative Club crowd, are former Sen. Alfonse D'Amato (R-N.Y.) and New York Mayor Giuliani.

Robert Strauss, senior partner in the Washington law firm Akin, Gump, Strauss, Hauer & Feld. A Texan and former Democratic National Committee chairman, Strauss was President George Bush's Ambassador to Moscow. Strauss's law firm was at the center Frankel's operations, handling attempts by the St. Francis of Assisi Foundation to purchase insurance companies.

Father Peter Jacobs. A Catholic priest who has been

suspended from giving the sacraments by the Church hierarchy, Jacob's circle of close friends and acquaintances included the late Roy Cohn. Father Jacobs helped arrange the marriage of Edgar Bronfman, the chairman of Seagram's Liquor and an ADL official, to his Catholic wife. Jacobs provided Frankel with the original introductions into the Vatican, which were vital to the launching of the St. Francis of Assisi scheme.

Victor Moses. According to court papers filed in Connecticut, as part of the Frankel case, Federal authorities froze a \$750,000 bank account in Seafirst Bank, in Seattle, held in the name Victor Moses. Moses is a senior vice president of GE Financial Assurance Co., an arm of GE Capital, the investment arm of General Electric Corp. GE Capital is one of the largest players in global financial speculation and accounts for 40% of GE profits. When questioned by *EIR*, a spokesman for GE Financial Assurance emphatically denied that GE has "anything to do with Martin Frankel and any of his companies." But, the same official confirmed that Moses had been asked to become a director of the St. Francis of Assisi Foundation. Like all the others, Moses is said to have declined. The GE spokesman had no comment on the source of the \$750,000 frozen in the bank account, and Moses was not available for comment.

Thomas F. Quinn, convicted stock fraudster. According to reports in the *Wall Street Journal*, Quinn attended meetings along with Corbally and Frankel that launched the St. Francis of Assisi Foundation. At the end of the 1980s, Quinn was convicted in a Geneva court and sentenced to 12 years in prison, for a \$500 million stock fraud. After serving a fraction of his sentence, Quinn returned to the United States to take up residence in Greenwich, not far from the Frankel mansion. By 1995, he was in contact with one Philip Abramo, a stock promoter linked to one of the leading New Jersey crime families. Quinn was purportedly bringing "European investors" into various Frankel schemes.

It was this crew which tried to get the Vatican bank, and top officials of the Holy See, to back the foundation.

Don't forget the banks

According to court documents, Frankel transferred large sums of money to and from two Swiss banks. One was United Bank of Switzerland (UBS). UBS is one of the biggest players in the derivatives market, and was one of the banks called in by the New York Fed to bail out LTCM last October.

The other bank was Banque SCS Alliance, a small Geneva bank where Frankel is said to have had accounts under his name and in the name "Bloomfield Trust." Banque SCS Alliance's chairman, Jean-Franklin Woodli, a Geneva lawyer, was a business partner of Pierre Hafner, a Geneva financier who spent nine months in a Swiss jail, accused of financial fraud. Hafner's other business partner was the Geneva banker Edgar de Picciotto, owner of Union Bancaire Privée (UBP). UBP has been closely linked to George Soros, and was used

by German real estate tycoon/swindler Jürgen Schneider in his attempt to steel 200 million deutschemarks just before his real estate empire collapsed. The "Bloomfield Trust" account at UBP appears to have been a central repository of funds that Frankel siphoned from the burial insurance companies and his other cons.

The Frankel saga is far from over. In June, a Connecticut attorney briefly went public, admitting that he has been retained by Frankel to negotiate with the Federal government. The U.S. Attorney for Connecticut has recused himself from the Frankel probe, because, as a former employee of Kroll Associates, he has a conflict of interest. Another giant private security firm, Defense Strategies, Inc./Fairfax Group, run by former top Justice Department and FBI officials, including a former aide to Giuliani, has also been named as being linked to the "Frankel Affair."

And, the unravelling of the Frankel operation did occur at the same time that the giant Tiger Fund hedge fund was also going through a near-death experience, as the result of being caught in the "yen carry trade." So far, there are no indications of any links between the Tiger Fund fiasco, multibillion-dollar losses by Soros and other hedge funds, and Frankel's sudden flight. But, with the cast of thousands who have already emerged as sponsors, cohorts, and "dupes" of Marty Frankel, nothing can be ruled out.

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- that the Founding Fathers promoted partnership between private industry and central government?

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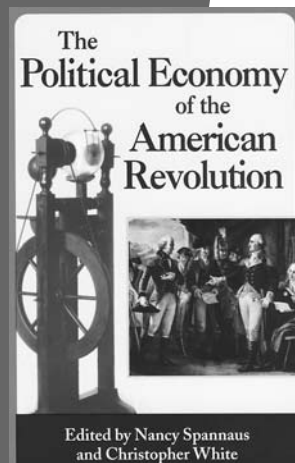
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Malaysia's economic success defies the spin doctors

Malaysian First Finance Minister Tun Daim Zainuddin also serves as Special Functions Minister, and chairman of the National Economic Action Council, which was created on Jan. 7, 1998, to deal with the economic crisis sweeping South-east Asia. On Sept. 1, 1998, Malaysia changed course, abandoning the tight-money parameters recommended by the International Monetary Fund (IMF), and adopting selective capital controls. On Jan. 23, 1999, EIR interviewed him at his office in Kuala Lumpur (see EIR, Feb. 26, 1999). In June, we submitted the following written questions to him, for an update on Malaysia's progress. In the intervening months, economic commentators and leading financial institutions, in large degree, have swung around nearly 180%, abandoning doomsday forecasts of the consequences of those controls, and giving Malaysia the "thumbs up" on stabilizing and rehabilitating its economy. Academics in Singapore and Indonesia are debating (and defending) the road taken by Malaysia in their daily newspapers. From Poland to South Africa, the "Malaysian way" is under review. On June 24, Nelson Graves, Kuala Lumpur bureau chief of Britain's Reuters news wire service, abandoned his long-held skepticism, and declared, "Malaysia has all but closed the door on its deepest recession in decades and embarked on the path to economic recovery just as the government contemplates general elections."

Malaysian officials have made clear that they see no reason to abandon those selective controls unless and until a promised new, global financial architecture to protect nations against future speculative attacks, is implemented. Malaysia's Central Bank, Bank Negara, has set a goal of increasing foreign exchange reserves to an unprecedented 12 months of retained imports, as a buffer against new financial storms.

Perhaps the most astute comment on what Malaysia has accomplished comes from Tun Daim Zainuddin himself, at the recent General Assembly of the ruling United Malays National Organization. Nowadays, when asked to describe the nature of "IMF," Tun Daim said that Malaysia, unlike its neighbors Thailand and Indonesia, can say, "I am fine."

—Gail G. Billington

EIR: In the five months since we last spoke, there has been an almost universal about-face in public perceptions of Ma-

laysia's response to the global financial crisis, from rating agencies like Standard & Poor's to IMF Managing Director Michel Camdessus. In a speech he delivered in Hong Kong on May 17, Camdessus said, "I praise the way in which Malaysia has been able to adopt a soft system of controls." Why the change?

Tun Daim: You should ask them why they have changed their perception. As far as I am concerned, the Malaysian government has consistently done what it thought was the best for the country given the circumstances, despite whatever other people said was the right prescription.

EIR: Malaysia has been looked to as a model for similarly situated nations. Dr. Jerzy Kropiwnicki, member of the Polish Council of Ministers, was very upbeat on Malaysia's measures during a May trip to Kuala Lumpur. And Japan's Vice Finance Minister for International Affairs, Eisuke Sakakibara, told a June 2 press conference in Tokyo that he, personally, and the Japanese government were glad to have defended Malaysia's selective capital controls. Have you had similar feedback from other countries?

Tun Daim: Yes, we have had positive support from many quarters.

EIR: In the United States, President Clinton wrote to Malaysia's Ambassador, Dato' Ghazzali Sheik Abdul Khalid: "The United States is proud of the positive role that our trade and investment have played in Malaysia's remarkable economic development." Mr. Ernest Bower, chairman of the U.S.-Association of Southeast Asian Nations (ASEAN) Business Council, took issue with an April 19 editorial in the *Washington Post* (see box). Both suggest that the President and American business community do not share the view expressed by Vice President Al Gore at the November 1998 APEC summit in Kuala Lumpur, but instead see Malaysia as a key ally and partner in the region.

Tun Daim: Our trade and investment links with the United States have always been good, and were not severed, irrespective of whatever was said by the U.S. Vice President. We want to be a friend to all and an ally to no one.

I have also seen various reports from American businessmen and associations that have been very positive on Malay-

sia. These reports were written after first-hand observation of what is happening in the country and measures being taken to strengthen our economic management.

EIR: Can you give us a status report on the progress of what Malaysia has accomplished over this period, in recapitalizing the financial and banking system, and dealing with non-performing debt? And, further evidence of progress toward recovery?

Tun Daim: In recapitalizing the financial and banking system, Danamodal [the Special Purpose Vehicle set up to recapitalize and consolidate the banking sector] has injected 6.3 billion ringgit [\$1.66 billion] into 10 financial institutions in order to restore stability in these affected institutions. Meanwhile, Danaharta [the Asset Management Co., established to deal with non-performing loans and their recovery] has acquired and is currently managing RM 34.2 billion [\$9 billion] worth of non-performing loans.

The good progress made by these agencies is part of the Malaysian government's efforts in strengthening the banking and financial sectors, which is an important component in our economic recovery efforts.

In terms of other indicators of progress, let me briefly say that most are pointing toward a return to confidence. Our trade balance has been in surplus for a straight 18 months; international reserves are up and can finance close to seven months of retained imports; the contraction in the real economy has bottomed out and we are expecting growth in the second quarter of 1999 to be positive; inflation has been contained, with the CPI [Consumer Price Index] falling from 6.2% in June 1998 to 2.9% in April 1999; the Industrial Production Index rose by 3.1% in February 1999 and retrenchment has fallen. The KL [Kuala Lumpur] Composite Index has also shot above the 800 mark, compared with 262 points on Sept. 1, 1998, when selective capital controls were imposed.

EIR: You recently headed up a three-pronged "road-show" to Japan, Europe, and the United States to test the waters for a sovereign bond offering, the first in a long time. What is the purpose of the bond offering, how successful was it, and what would this allow Malaysia to do? Were there any complications?

Tun Daim: The "road-show" to Asia, Europe, and the United States was primarily an opportunity for Malaysia to meet investors directly and tell the Malaysian recovery story, in particular, the measures being taken to strengthen economic management. There was positive response from a broad distribution of investors in all three regions. In my opinion, we achieved the main objective of the "road-show."

With respect to the second part of your question, the purpose of the bond offering was to make a sovereign presence in the market and establish a benchmark in the U.S. dollar market. You will know that Malaysia has been absent from

the international markets for almost ten years. Here again, in my view, the bond offering was a success, given the positive response from investors. The bond issue was three times oversubscribed.

Just prior to the launch, difficult market conditions emerged. The prospect of high U.S. interest rates and developments in Latin America resulted in uncertain market conditions. Spreads widened across the board for emerging market papers and generally unstable market conditions prevailed. Amid this turbulence, however, Malaysia was able to access the market and successfully launch and price the issue. The enthusiastic market response to the bond offering reflects investors' confidence in Malaysia's economic fundamentals.

Whose 'disgrace'?

In its April 19, 1999 edition, the *Washington Post* ran a scurrilous editorial, entitled "Dr. Mahathir's Disgrace," attacking Malaysia's Prime Minister Datuk Seri Dr. Mahathir bin Mohamad for the dismissal of former Deputy Prime Minister and Finance Minister Anwar Ibrahim, condemning the subsequent trial of Anwar Ibrahim, and panning Malaysia's break with International Monetary Fund orthodoxy. The *Post's* editorial elicited two significant letters to the editor, one from Malaysia's newly arrived Ambassador to the United States, Dato' Ghazzali Sheik Abdul Khalid, and the other from Mr. Ernest Z. Bower, president of the U.S.-ASEAN Business Council.

Ambassador Ghazzali's response was published in the *Post* on May 4, in which he cited many examples of positive feedback on Malaysia's economic progress. He also challenged the *Post* on its reading of the corruption trial of Anwar Ibrahim:

"The facts speak for themselves: the case is the longest trial in Malaysia's legal history, held over 78 days with 44 witnesses called to testify for the prosecution and defense; Mr. Anwar was represented by nine lawyers of his own choosing; the hearing was open to the public, as well as to foreign observers and media; the trial was reported verbatim by the international and local media; and the judgment ran to 394 pages. . . .

"The fact that Mr. Anwar's wife, Wan Azizah, has been able to form a political party to promote her political agenda is a testimony to the vibrancy and vitality of Malaysia's democratic system."

Bower's April 26 letter was *not* published by the *Post*, but was posted to the website of Malaysia's National Economic Action Council. Bower subsequently edited and

EIR: During this period the Malaysian stock market has rebounded substantially, as have other regional markets. Is there any concern that the “irrational exuberance,” to put it mildly, in the U.S. stock markets, could be spilling over into Asia, with the threat of a new bubble?

Tun Daim: I do not think so. You must appreciate the fact that stock prices in Malaysia, for instance, dropped to levels far below their net tangible value. Share prices have lately risen, due largely to the improving economy, the return of confidence, and also to some extent low interest rates. What you are seeing is not so much the irrational exuberance spilling into Asia, but rather Asian stock markets recovering the value that was lost during the time of crisis.

EIR: As part of the measures taken in September 1998, Malaysia took action to counter offshore trading in ringgit on the Singapore-based Central Limit Order Book (CLOB) market. I understand that there have been some attempts to resolve outstanding issues related to that trading. How was Malaysia affected by this, and what is likely to happen?

Tun Daim: I would like to reiterate that CLOB was created by the Singapore authorities to facilitate the continued trading in Malaysian shares in Singapore after the Malaysian government’s announcement regarding the delisting of Malaysian shares from the Singapore Stock Exchange with effect from Jan. 1, 1990. It was also a unilateral decision by the SES to cease the trading of Malaysian shares on CLOB on Sept. 4,

expanded the text and submitted it as written testimony to a House International Relations Subcommittee on Asia and the Pacific hearing on June 16 on “Malaysia: Assessing the Mahathir Agenda.” No Malaysian representative was invited to address the hearing; rather, only four subcommittee members heard from Deputy Assistant Secretary of State for East Asia and Pacific Affairs Ralph Boyce; Singaporean Dr. Linda Lim from the University of Michigan Business School, who said that Malaysia’s controls were unnecessary and slowed down its recovery; and former Bush administration official Douglas Paal, a self-described close friend of Anwar Ibrahim, whose seminars in Kuala Lumpur were funded with Anwar’s help.

The following is from Bower’s April 26 letter:

“I am writing to express my concern that recent articles, particularly your April 19, 1999 editorial on Malaysia, may lead readers to believe that Malaysia is a dangerous, unstable country with leaders hostile to American interests. This is not my experience, nor the experience of many Americans who know Malaysia well. . . .

“I am the president of the U.S.-ASEAN Business Council. The council is the largest national organization representing American businesses interested in Malaysia and the other member countries of the Association of Southeast Asian Nations (ASEAN). Our members comprise over 400 U.S. companies and states doing business in Southeast Asia. . . .

“I have been travelling to Malaysia for 12 years, and just returned from spending a week with 45 American executives in Malaysia’s capital, Kuala Lumpur. Our perspective coming home is that Malaysia is making good progress in its efforts to respond to the financial turmoil in Asia. . . .

“Malaysia is a stable democracy, and has long and strong relations with the United States. The United States is the leading investor in Malaysia, and Malaysia is the second-largest importer per capita of U.S. goods and

services in the world. . . .

“Your recent coverage of Malaysia seems to focus on crises and negatives, whereas there is a much more complex landscape to understand. Such reporting could be particularly harmful because many Americans have not visited Malaysia. . . .

“A close look at what is happening in Malaysia today would reveal a story of a well-managed country working out of its deepest financial crisis since its independence from the United Kingdom in 1957. To its credit, it is doing so without a fraying of its multi-ethnic, multi-religious fabric, which many had predicted a recession would cause.

“I feel confident that research would show that Malaysia and the United States have more in common than most imagine. We are both ethnic and racial melting pots, who have worked hard to define ourselves after being colonized by the British. The United States has had more than 200 years to accomplish what Malaysia has aspired to achieve in less than 40 years. We work together closely in areas such as commerce, trade, and regional and international security where we share many common interests and strategic goals. How many of our neighbors know that Malaysian peacekeepers helped rescue U.S. Rangers when they were trapped in Mogadishu, Somalia, saving many lives, or that it was Malaysian authorities that captured and returned Wali Khan to the U.S. to stand trial for the New York [World] Trade Center bombing.

“All democratically elected leaders, including Malaysian and American, have to face difficult domestic political issues. Malaysians are gracious and welcoming people, and I believe your reporting is doing them an injustice. The same harm is also done to Americans who might not have experience with Malaysia yet. I hope you will consider looking deeper into the situation in Malaysia. It may add texture and context, making your reporting and editorials more accurate and insightful.”

1998. Therefore, it would be the responsibility of SES to resolve the CLOB issue.

There have been some private-sector proposals to resolve the CLOB issue. But, in the view of the Malaysian authorities, these proposals should be offered for the consideration of the Singapore authorities. However, any proposal will be subject to approval by all relevant Malaysian/Singaporean authorities where such approval is required.

EIR: What are Malaysia's economic priorities now? I believe I read recently that RM 2 billion [\$52.6 million] has been earmarked for infrastructure projects.

Tun Daim: Malaysia's main priorities are for sustained economic recovery and preparing the economy for the next millennium. In this context, projects involving social and physical infrastructure are top on the list of our spending priorities, both of which will help us to revive the economy, while at the same time strengthening the basis for future growth and development. We are also putting a lot of effort into strengthening our banking and financial system.

EIR: Up to the point that NATO launched its bombing campaign against Yugoslavia, momentum had been building to focus on and give greater substance to the discussion of so-called "new global financial architecture." To what extent has that discussion been derailed by the military action, including difficulties introduced by the bombing of the Chinese Embassy in Belgrade and the cautiousness in NATO's acceptance of Russia's role?

Tun Daim: The work on reforms of the international financial architecture is being led by officials mainly from finance ministries and central banks of the developed countries, the Bank for International Settlements, the IMF, and the World Bank. It is most likely that the people dealing with financial architecture issues at this stage would be a different group from those seeking a political and military solution to the Kosovo crisis. As can be seen from the report of the G-7 Finance Ministers to their leaders at the Cologne summit two weeks ago, it seems to me that work on architecture is proceeding smoothly rather than being derailed.

EIR: The APEC Finance Ministers meeting, while not coming up with an itemized program of action on the "new architecture," certainly seemed to get much more specific in identifying the areas where action is needed. Malaysia's representatives played a key role in that, calling for direct regulation of hedge funds, for example. Can you give us a better idea of the discussion there?

Tun Daim: A key concern of many APEC economies during the recent Finance Ministers meeting was that the ongoing work to reform the international financial infrastructure would lose momentum, given improving prospects for many economies in the region. During the meeting at Langkawi, ministers recognized that the extraordinary strains on finan-

cial markets around the globe over the past two years had raised legitimate concerns not only among policymakers, but also market participants, regarding the potential exposure to turbulence. Ministers were in agreement that the international community needed to come up with a better way to avoid the severity of future crises as witnessed in Asia. Malaysia, as chair of the APEC Finance Ministers process for the 1998-99 cycle, tried to steer discussion toward three aspects of the international financial architecture issue, these being, enhancing transparency and disclosure standards, strengthening financial systems, and improving corporate governance.

EIR: Press reports also suggested that the ASEAN members had reached a consensus on the need for global financial reforms. That goes further than what has been said before. What does it mean?

Tun Daim: At their meeting in Hanoi in March 1999, ASEAN Finance Ministers agreed on a common position with respect to reform of the international financial architecture. Among others, the common ASEAN stance called for a review of the roles of the international financial institutions, appropriate mechanisms to enhance private-sector participation in crisis management and resolution, and the need for standards for transparency and disclosure to be applied equally to the private and public sectors. In addition, ASEAN has stressed, for greater transparency and accountability of the international credit-rating agencies, the need for closer and more coordinated monitoring of short-term capital flows, and the need for an orderly and well-sequenced approach to capital account liberalization.

EIR: In his book, *A New Deal for Asia*, Prime Minister Dr. Mahathir suggests that the financial contagion that swept Asia was aimed at China, whose economy was more protected by its exchange controls. The open fight over the new director of the World Trade Organization (WTO) comes at a time that the question of China's entry into the WTO, and the conditions of that entry, are on the table. What is Malaysia's view on these issues, and are they related?

Tun Daim: I feel that these two issues must be kept separate. The first is an argument that if East Asian currencies depreciated while China's exchange rate retained its value, then one would see a situation where China loses its competitiveness, particularly in the production of low-cost goods, and this could be a way to contain China's ambitions of becoming a developed country.

The second issue, who heads WTO, is to me a question of power. The West wants to ensure that they have control over the levers of power of all international economic, trade, and financial institutions, so as to control the agenda of these organizations.

EIR: Malaysia and China recently celebrated the 25th anni-

versary of establishment of diplomatic ties. Foreign Minister Syed Hamid Albar spent five days in Beijing, during which time a joint statement was issued, outlining renewed commitment to regional great infrastructure projects, such as the Trans-Asia Railway and the Mekong River Development Program.

Does this suggest that countries in the region are looking increasingly to the bigger picture of the combined capabilities of an economically integrated Asia as the pathway to recovery, rather than “surviving” the contagion?

Tun Daim: I would see these two developments as separate from one another. Our immediate concern is to get our economy out of what has been the deepest economic contraction ever faced. It is a priority. The regional infrastructure projects are part of a more medium- and long-term perspective.

EIR: Economic reconstruction is taking center stage in the Balkans. Malaysia strongly defended the people of Bosnia in the earlier Balkan war, and has continued that commitment with Kosovo. Reconstruction of Bosnia fell far short of what was required, contributing to continuing destitution and the potential for future conflicts in the region. *EIR* has called for a crash economic development program of southeastern Europe, as an extension of the Eurasian Land-Bridge transport and infrastructure grid. How would Malaysia view that?

Tun Daim: We will have to study this proposal thoroughly first.

EIR: Reconstruction is also immediately relevant, given the recent induction of Cambodia into ASEAN, thus completing the goal of the ASEAN founding fathers to bring all ten Southeast Asian countries into the organization. Reconstruction in Cambodia, as in the case of Bosnia, goes way beyond the levels of assistance provided by the group of donor countries. The Balkans, Cambodia, Central Africa, raise the question of what kind of new financial architecture is required, especially if you compare those requirements to the Bank for International Settlements’ latest report on the levels of outstanding derivatives — in the range of \$93 trillion. Can the current system handle genuine “reconstruction”?

Tun Daim: I am not sure whether the international financial architecture in its present form can handle genuine reconstruction, particularly when the sums involved are that massive.

EIR: In *A New Deal for Asia*, Prime Minister Dr. Mahathir writes, “A world century is now possible for the first time. No single nation, no single people, and no single region should inherit the future; all nations, all people, all regions should have the same opportunities.” Is that not the shared view of the government?

Tun Daim: Yes, it is the shared view of the government that we should collectively work for a world century where all people, all nations, and all regions should have the same opportunities.

**Former Mexican President
José López Portillo:**

‘And it is now necessary
for the world to listen to
the wise words of
Lyndon LaRouche.’



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Business Briefs

Industry

Increasing defects plague automakers

Ever more defects in automobile assembly are hitting the world's biggest automobile producers, the London *Financial Times* reported on July 17.

Among recent incidents, on July 16, Ford confirmed plans to recall up to 200,000 of its new "Focus" cars, after discovering component faults. The recall involves all production from the start of the new line in September 1998, to March 1999. All the cars were made at Saarlouis in Germany and Valencia in Spain. The defective part, which allows water to leak into the electrical system, was produced by an outside supplier.

In June, BMW recalled 250,000 of its three-series models, because of faulty air-bag sensors.

Earlier in July, a California jury awarded \$4.9 billion in damages against General Motors, following a fuel tank explosion in one of its Chevrolet models.

Italy

IMF a 'useless agency,' trade unionists say

The International Monetary Fund (IMF) has once again interfered in Italy's affairs, calling for an urgent pension reform (i.e., privatization). The IMF intervention followed a clumsy attempt by the government to raise the issue in early July, but it withdrew its proposal after 24 hours, because the trade unions had threatened a general strike.

After IMF fiscal department head Vito Tanzi released a statement accusing the trade unions of "creating problems for Italy," all major trade union leaders openly attacked the IMF. The boldest statement came from Adriano Musi, number two of UIL (one of the three major trade union federations). Musi called the IMF a "useless agency," a word-play on a term used in Italian politics. For several decades, "useless agencies" has been the term used by the IMF and other mar-

ket privateers to characterize enterprises, mainly state-owned, to be sold or dissolved because of their alleged unprofitability. "The IMF," said Musi, "ceased its function in 1971, with the [failure of the] Bretton Woods agreement. There is nothing worse than useless agencies. Furthermore, in this case, it is an agency that has always made wrong predictions. If any country wants to save itself, it should not follow IMF prescriptions."

Musi told *EIR* on July 17 that his judgment is broadly shared by the unions, even if not everyone has the courage to speak out openly. He stressed the duplicity of IMF officials, who "love to travel and, when they visit us, they agree that the budget is under control. But then, they talk behind our backs. It is regrettable: We had even translated our papers into English, so that they could not hide behind translation mistakes. This is intellectual dishonesty."

Africa

Mbeki urges economic community be formed

South African President Thabo Mbeki called for an African Economic Community, in a speech to the Organization of African Unity summit in Algiers on July 13. Mbeki proposed that African leaders implement the Abuja Treaty of 1991, which called for six implementation stages: "higher rates of economic growth and development; sustained increases in the standards of living of our people; higher and sustained rates of investment; the modernization of our economies; a cumulative process of integration of the African economy; and a beneficial integration of the African economy into the global economy."

Mbeki went through statistics and subjective factors, including George Soros's lack of discussion of Africa in his book *Crisis of Capitalism*, to show the way in which Africa has been impoverished and marginalized in the world economy. African nations must "activate" their intelligentsia, Mbeki said. (Of course, in many African nations, the intelligentsia have been driven out of their countries.)

Mbeki appears to oppose the notion in the OAU summit accord that indicated that globalization poses "serious threats to our sovereignty, cultural and historical identities as well as gravely undermining our development threats." He said, "Mere moral appeals from the have-nots to the haves are not likely to take us very far. Such is the degree of comfort among the haves, even in our own societies, that their ears are closed to the correct warnings we give repeatedly, that the worsening relative and absolute poverty of the many can never serve as assurance that the prosperity of the few is guaranteed for all time. We must again become our liberators."

The speech is equivocal, but maybe that is the best that someone whose country is owned by Anglo American Corp. and whose military is not under his control can do at the moment.

Banking

IMF demands Indonesian government bailout

Indonesia's House of Representatives is putting up stiff opposition to a proposed bank recapitalization plan, on the basis that bankers' past sins should not be bailed out. However, International Monetary Fund Asia Pacific director Hubert Neiss has warned: no bailout, no banks, no economy.

Indonesia's Finance Minister Bambang Subianto estimates that recapitalization will cost \$83 billion (550 trillion rupiahs), or roughly half of the current GDP.

Neiss's recommendation is to maximize loan recovery and asset sales to offset the cost, and, once the social safety net is sufficiently developed, to lift subsidies. In line with that, the chairman of the Indonesian Bank Restructuring Agency (IBRA), Glenn S. Yusuf, said on July 15 that the agency plans to launch a public offering in December or early next year in the country's largest private bank, Bank Central Asia, the jewel of the Salim Group's holdings, in an effort to recoup \$2.71 billion. However, before roughly 30% of shares go on the block, BCA's capital adequacy ratio will be doubled to 8%, at a cost of \$4.29 billion.

On July 14, Finance Minister Bambang Subianto said the government would float \$52.97 billion in bonds, with estimated interest of \$5.13 billion, to be split between IBRA and the state budget.

Euroland

Single-currency project threatened, says bank

A confidential report by the European Central Bank acknowledges that there is an immediate threat to the European Monetary Union (EMU) single-currency project, according to the July 15 London *Times*.

Under the front-page headline "Bankers Predict Gloom in Euroland," the paper states, "European governments are in danger of fatally undermining the single currency by failing to take action to curb their huge budget deficits, a confidential report from the European Central Bank has warned. The leaked report, which was presented to European finance ministers on [July 12], argues that unless Euroland governments make radical reforms to reduce social security spending, a number of countries risk breaking the rules governing EMU 'at the start of the next century.' The Central Bank claims this would spark panic in the financial markets, testing political commitment to the single currency project to the limit."

The *Times* notes that the report contrasts sharply with the optimistic public statements of the ECB. On July 14, economics professor Horst Siebert, one of the "Five Wise Men" advising the German government, said he would not be surprised to see the euro worth \$0.90 in the coming months.

"Don't burn the deutschemark, we might need it," said German economics professor Wilhelm Hankel, former chief economist of the Kreditanstalt für Wiederaufbau, the German Reconstruction Bank, in an interview with the July 14 London *Daily Telegraph*. "We predicted the euro's weakness, and it's going to go on getting weaker," he said.

Hankel called on the German government to cancel the existing conversion timetable, by which all the national currencies left in circulation in the EMU member coun-

tries would turn into useless paper at the start of the year 2002. If governments stick to this timetable, Hankel warned, "capital flight from the euro will grow. The mark should be kept indefinitely as a parallel currency. We must keep the door open for a return to the mark." The *Daily Telegraph* commented, "There is little doubt that the majority of the German public agree with Professor Hankel."

Trade

Iran expands economic cooperation with Europe

The Iran-Italy Chamber of Commerce, Industries, and Mines was inaugurated in Rome on July 6, in the presence of Italian industrialists and the Iranian Ambassador to Italy, Ali Ahani. The Italian head of the organization is Deputy Prime Minister Gian Claudio Bressa. Both he and Ahani stressed the importance of the initiative, which bears witness to the excellent relations and growing trade between the two. Italy has become Iran's leading European trade partner, at \$2.3 billion. Ahani also emphasized that cooperation should not be limited to trade, but that the "chamber of commerce should explore the capacity of Iranian and Italian economies to carry out joint investment projects in Iran, Central Asia, and the Persian Gulf," reported the Iranian daily *Ettela'at*.

At the same time, a high-level Iranian delegation, headed by Industries Minister Gholamreza Shafei, visited Greece. In meetings with government representatives, including Greek President Constantine Stephanopoulos, the two sides stressed their interest in expanding economic cooperation and trade, as well as in exploring the "dialogue of civilizations" launched by Iranian President Seyyed Mohammad Khatami.

Meanwhile, the ambassadors to Iran from Georgia, Azerbaijan, Belarus, and Ukraine called for expanding relations with Iran, especially in industry, during a visit to the Technical and Occupational Educational Organization center in Karaj, west of Tehran, on July 6. The Ukrainian ambassador focussed on the airplane-manufacturing industry.

JAPAN'S Financial Supervisory Agency has recommended that the banking license of Crédit Suisse Financial Products be revoked, and that Crédit Suisse operations in Japan be stopped. The firm considers itself a scapegoat, the *Daily Telegraph* said, because it "had been actively encouraged by the Ministry of Finance to engage in 'financial engineering,'" by helping Japanese companies "defer losses."

THE PHILIPPINES and China agreed on July 12 to activate a joint commission to study development of fisheries and marine resources in the disputed Spratly Islands. China also offered to help the Philippines develop hybrid rice, to increase yield from 2.9 tons per hectare to 7-15 tons.

NIGERIA and South Africa plan to set up a joint commission for economic cooperation. The commission will be chaired by the two Deputy Presidents, and will focus especially on energy and industrial needs. South African Trade and Industry Minister Alec Erwin visited Nigeria in July with a trade delegation.

IRELAND has the second-highest poverty level among Western nations, after the United States (16.5%), at 15.3%, a UN Human Development Report says. Ireland has been touted as the model economy, since it met Maastricht criteria. The United Kingdom (15.1%) is the most unequal of societies, where wealth of the richest 20% is almost 10 times that of the poorest 20%.

KAZAKHSTAN approved the launch of a Progress supply ship to the MIR space station on July 14. Russian Space Agency launches had been suspended from the Baikonur launch facility after a Proton rocket exploded.

HARNISCHFEGER Industries, which makes huge paper-mill, mining, and earth-moving machines, filed for Chapter 11 bankruptcy on July 7. The firm, based in a Milwaukee suburb, said it was hit hard by the Asian crisis.

Provocateurs aim at carving up China

by Mary Burdman

On July 9, Taiwan's President Lee Teng-hui gave an exclusive interview to the German radio service Deutsche Welle, at his office in Taipei, in which he made the absurd, but dangerously provocative claim that there exist "state-to-state" relations between China and Taiwan.

Lee Teng-hui's assertion is all the more absurd, because he said that the model for his "special state-to-state ties" was the former relations between the defunct German Democratic Republic (East Germany) and the German Federal Republic. (Germany, of course, was peacefully reunited in 1993!) With delusions of grandeur, Lee apparently wants to imagine Taiwan as the "West Germany" of the relationship; but, given his efforts to try to keep China divided, he should take warning from the demise of the G.D.R.'s Egon Krenz.

Despite the fact that the world's nations, with only a tiny handful of exceptions, recognize only one nation of China, and recognize the People's Republic of China as its legitimate government, Lee told Deutsche Welle that, "since [Taiwan's] constitutional reform in 1991, we have designated cross-strait ties as nation-to-nation, or at least as special state-to-state ties, rather than internal ties within 'one China' between a legitimate government and a rebellion group, or between central and local governments."

It is no accident that Lee is making these statements now, a full eight years after these changes allegedly were made.

British geopolitics

The present moment is a critical one. The world financial system is lurching toward the abyss; one central goal of the "British-American-Commonwealth" (BAC) forces, which remain the most powerful in this collapsing system, is to attempt to "surround" and isolate China, and to sabotage any

potential strategic relationship between the United States and China. To this end, NATO deliberately bombed the Chinese Embassy in Belgrade on May 8, and the U.S. Congressional "Cox Committee" released its loony, but vicious, report claiming that China had stolen what the committee alleged were U.S. military technologies (see "Backlash Grows Against Gore's Cox Report Hoax," *EIR*, June 11, 1999).

The BAC strategy against China was explicitly laid out by Gerald Segal, of London's International Institute of Strategic Studies, in a March 1994 paper entitled "China Changes Shape: Regionalism and Foreign Policy," blatantly promoting "opening and dividing China."

"The outside world has no interest in the formal breakup of China," Segal wrote. "But . . . it may be that the only way to ensure that China does not become more dangerous as it grows richer and stronger, is to ensure that in practice, if not in law, there is more than one China to deal with." Echoing the British imperialistic "divide and conquer" policies from the past 250 years, Segal's report laid out a perspective to involve not only the then-Crown Colony of Hong Kong, but also Taiwan and Japan in the process.

Segal called on governments and international business to open their own direct ties with China's provinces and cities, in an effort to undermine the central government, using economic means. The next step, Segal went so far as to propose, would be to try to put international security issues on the agenda with China's regions. His proposals have not met with success.

A key channel in carrying out these operations against China, is the "Taiwan Lobby" in Washington, which was characterized by a Reagan-era Washington insider, as comparable only to the Zionist Lobby for its nastiness, clout, and

the money it throws around. Offices such as that of Sen. Jesse Helms (R-N.C.) are bastions of this “spook” operation. The “Taiwan Lobby,” and its hosts, are trying not only to undermine President Clinton’s determined effort to establish a strategic relationship with China, but also to destroy the legacy of both Presidents Richard Nixon and Ronald Reagan, in establishing, and expanding, a cooperative U.S.-Chinese relationship.

The situation in Taiwan

Lee’s words should not be seen as representing any consensus within Taiwan. He is, first, a lame-duck President whose term will end after the March 2000 elections. There is a hot political situation inside Taiwan. Former provincial Governor James Soong (Taiwan had always had a provincial government, until it was abolished by the Lee Teng-hui forces in 1997) has split from the ruling Kuomintang (KMT) party to stand as an independent candidate for President, and is opposing the KMT candidate, Lee’s Vice President Lien Chan. Soong is committed to establishing closer relations with the People’s Republic.

The economic situation is also contentious. A few years ago, Lee’s government had declared that Taiwan businessmen, who are the fourth-largest investors in the mainland, would not be allowed to invest in infrastructure projects there—a declaration which provoked big protest demonstrations. There is no question that China-Taiwan trade (conducted via Hong Kong), which is vital for the island’s economy, has been hit as hard as all other trade within Asia; Lee’s provocations could only hurt Taiwan’s economy even more.

In the July 9 interview, Lee asserted that during 1991-92, Taiwan had amended its Constitution, so as to state that the “jurisdiction of the Constitution has been restricted to Taiwan, and recognized the P.R.C.’s legality in administering mainland China.” Reforms established the direct popular election of the President and Vice President. This, he claimed, means that “the legitimacy of the administration of state power can only be authorized by the Taiwan people and has absolutely nothing to do with the people on mainland China.” From this, Lee did a double flip, to claim that China-Taiwan relations are now “nation-to-nation” or “special state-to-state ties.”

Asked whether “declaring Taiwan independence seemingly is not actually feasible,” Lee leapt from the assertion that the Republic of China—which, before 1991, had claimed sovereignty not only over all of mainland China, but also over Mongolia—is still “an independent sovereign state,” to the claim that, “since our constitutional reform in 1991, we have designated cross-strait ties as special state-to-state ties. *Therefore, there is no need for us to declare Taiwan independence again.*”

Lee made clear what geopolitical cards he would want his “independent Taiwan” to play: “Taiwan’s importance lies in

two aspects: first, to safeguard democracy and human rights; and second, its important strategic position in the western Pacific Ocean.” In addition to pushing the “human rights” line—the Anglo-American establishment’s favorite excuse for starting wars these days—against China, Lee also asserted that “Taiwan’s geographical position allows it to control the sea routes in the western Pacific Ocean, which are very important to the United States, Japan, and Southeast Asian countries. Therefore, whether in cross-strait relations or regional stability, Taiwan is playing an important role.”

Asked what he would do in case of any “military actions” by China, Lee asserted that the United States would have to step in. “In the foreseeable future, the security cooperation between Taiwan and the U.S. will remain an important factor in maintaining stability in the Taiwan Strait,” he said.

Lee repeated the same formulations, including to Honduran Foreign Minister Roberto Flores Bermudez on July 13.

Lee is trying to stir up a lot more trouble than just ensuring U.S. interference in any tensions in the Taiwan Strait. On May 19, he published a book, *Taiwan’s Standpoint*, in which he calls for the destruction of the nation of China. Lee wrote in

Lyndon H. LaRouche, Jr., in an article titled “Ring Around China: Britain Seeks War” (*EIR*, Nov. 21, 1996), warned of exactly the kind of scenario that Taiwan’s Lee Teng-hui is now serving. LaRouche wrote:

“The U.S.’s vital strategic interests are threatened by a coordinated series of destabilizations, ringing China, all coordinated by the British foreign service and its intelligence arms. These British-fired hot-spots include Britain’s ‘Pushtunistan’-oriented, Taliban operations into Afghanistan, Kashmir, and Pakistan itself. They include the British campaign to coordinate the overthrow of the present government of Myanmar (formerly Burma) on the usual, flimsy ‘human rights’ pretexts. It includes the attempt to induce Japan to perceive itself as taking political hegemony over the northern tier of China (and Mongolia), from the central government in Beijing. It includes the repeated efforts by London and their U.S. Republican Party assets, to destabilize the uneasy peace between the northern and southern portions of Korea. It includes the recent cranking up of ‘Radio Free Asia,’ by the same U.S. Republican assets. . . .

“Unless the U.S. government acts to warn the British, openly, that the U.S.A. will not tolerate the presently ongoing, geopolitical ringing of China, the U.S.A. will be at risk of losing all significant ability to deploy an effective foreign policy in defense of vital U.S. global interests.”

his book, that China should end what he called its “great-China chauvinism,” and that it should devolve into seven competing breakaway regions, among which he names Taiwan, Xinjiang, Tibet, Mongolia, and Manchuria.

Lee’s book was first written as a series of interviews with Katsuhiko Eguchi, vice president of the Japanese Peace and Happiness through Prosperity research institute, conducted in Taipei in September 1998. So far, the book has been published only in Chinese and Japanese—a spokesman of the Taipei representative office in Germany said that the book “is very popular in Japan”—but an English version, entitled *With the People Always in My Heart*, is planned.

Beijing Central People’s Radio reported on July 10 that Su Chi, chairman of Taiwan’s Mainland Affairs Council, defended Lee’s position, claiming that Lee had proposed this division on the basis of the “market mechanism.” Su Chi also claimed that China is “too big,” and that the concept of the “supremacy” of the nation has to be forfeited.

At least since the collapse of the Soviet Union, certain circles in Japan have been promoting the breakup of China. In 1991, some Japanese analysts put out the view that, after the disintegration of the Soviet Union, China would be next. A year later, a Tokyo “scholar” even called for dividing China into ten states.

Lee himself grew up in Taiwan under the Japanese occupation, and was educated in pre-war Japan. He maintains very close relations to right-wing circles in Japan.

During the first half of this century, maintaining such an aggressive policy toward China led Japan to disaster in 1945. From the time when Japan abandoned the “American System” principles of the Meiji Restoration, to strive for “Great Power” status, it launched one aggressive war after another against China: the 1895 Sino-Japanese war, after which Japan first took over Taiwan; the use of the brutal Treaty of Versailles at the end of World War I, to first seize German concessions in China, and then put forward the notorious “21 demands” that the Republic of China surrender its economic and political sovereignty; followed by Japan’s bloody 15-year invasion of China, in which some 30 million Chinese people died.

Since 1972, Tokyo has recognized the People’s Republic, and has become the largest foreign investor, and one of the China’s biggest trading partners. Mainstream policy in Japan is in full support of a “one China” policy, as Prime Minister Keizo Obuchi assured the Chinese government during his visit to Beijing on July 8-11. He emphasized that Japan is committed to peaceful construction and its defense-only policy, and called for peaceful resolution of the Taiwan issue by the Chinese, through dialogue.

Obuchi did *not* unequivocally assure Beijing that the new “defense guidelines” for the U.S.-Japanese alliance, which allow joint U.S.-Japanese military deployments in ambiguously defined “emergency . . . situations in areas surrounding Japan,” do not include Taiwan. However, Japan has no laws

specifying relations with Taiwan, which the United States does.

Clinton calls Jiang Zemin

On July 18, U.S. President Clinton called Chinese President Jiang Zemin on the telephone, to “reiterate our strong commitment to the ‘one China’ policy.” Clinton told Jiang, “I want to assure you that the policy will not change; you should have full confidence in the statements I have made to you in our previous meetings.”

Jiang stressed that China remains committed to the peaceful reunification of China, and the policy of “one country, two systems.” In February 1995, Jiang made a speech offering Taiwan the option of maintaining not only its own government and economy, but also its own military, as a future part of the Chinese nation.

In his hour-long discussion with Clinton, Jiang reiterated the long-standing policy of China, that it reserves the right to use force—if necessary. “We will never sit idle if some people engage in ‘Taiwan’s independence,’ and foreign forces interfere in China’s reunification,” he said.

Jiang quoted to Clinton, what Dr. Sun Yat-sen, the founder of republican China, had said on the question of a unified China: “China is a unified country, which has been imprinted on the consciousness of Chinese history. And it is exactly this, which has kept Chinese civilization intact despite the many forces of destruction facing it.”

The great Dr. Sun was the founder of the KMT, of which Lee Teng-hui is the current leader. Sun Yat-sen remained committed, his entire political life, to full cooperation between the KMT and the Communist Party of China.

Jiang also warned Clinton that the anti-China forces remain rampant in the United States. Since then, Clinton has cancelled a planned trip by Pentagon representatives to Taiwan to discuss air defense, and has announced that he is considering a cut-off of arms sales, in order to pressure Lee Teng-hui to back off.

Helms and other dinosaurs

The anti-China mob set off the current tensions between China and the United States by publicly flaunting Lee Teng-hui during his supposedly “personal” visit to the United States in 1995; their every action since then, has been aimed at destroying the Chinese-American relations which President Clinton has been trying to foster.

The latest provocation is the so-called “Taiwan Security Enhancement Act,” which was introduced into the Senate in March—just as NATO was launching its assault on Yugoslavia. This bill, which calls for extending direct U.S. military intervention in the Taiwan Strait by including Taiwan in the proposed (but yet to be successfully developed) “Theater Missile Defense” system, was introduced in the Senate by Helms and Robert Torricelli (D-N.J.), and is co-sponsored by Frank Murkowski (R-Ak.), the key sponsor of Lee in 1995; Trent

Lott (R-Miss.); and others. A House version was introduced by Majority Whip Tom DeLay (R-Tex.) in May; the 32 co-sponsors include House International Relations Committee Chairman Benjamin Gilman (R-N.Y.) and Dana Rohrabacher (R-Calif.).

This bill is an attempt to expand the scope of the existing "Taiwan Relations Act," which already legislates a U.S. "connection with" Taiwan. This includes the United States "maintaining the capacity to resist any form of coercion" against Taiwan—already most unusual, considering that Taiwan is *not* recognized by the United States as a sovereign nation. Not finding this language sufficient, the new proposed bill repeatedly asserts how "separate" Taiwan is from China, and emphasizes the "free market" principles of Taiwan's economy and its "multiparty democracy." The "Security Enhancement Act" states that the limited military links between the United States and Taiwan "could prove detrimental in the event of future aggression against Taiwan."

It calls for selling Taiwan tactical missile defense (TMD) equipment, ground- and naval-based missile defense systems, and other advanced equipment, and establishing "secure direct communications between the U.S. Pacific military command and the Taiwan military command."

Such provisions are, for obvious reasons, clearly perceived in China and elsewhere in the Asia-Pacific, as the eastern counterpart to the "NATO expansion" operation in the West.

Helms turned up at Senate Foreign Relations Committee hearings on China-Taiwan relations on July 21, to bluster that "Taiwan deserves to be free," and attempted to compare this subversion of China with the American Revolution against the British Empire.

Another witness at the hearings, Steve Yates of the Heritage Foundation, confirmed that global "NATO expansion," in one form or another, is very much on the agenda. Yates stated that Lee had raised the issue of "state-to-state" relations now, to take advantage of the Kosovo intervention, in which the United States intervened, to create an autonomous situation.

Senator Torricelli at least appeared to recognize the grave dangers in this situation, and stated that, although he had co-sponsored the Taiwan Security Enhancement Act, he was very dismayed by Lee's statements.

Despite these efforts, the provocateurs have not succeeded in creating a crisis on the scale of March 1996, when the United States sent an aircraft carrier into the Taiwan Strait after a world media hype about Chinese military maneuvers. (China was, actually, totally calm internally during this period.)

And, despite media hype this time, spokesmen in Taipei have repeatedly asserted that nothing has been going on. "There is no sign that Chinese communist troops are preparing for large-scale war games," Defense Ministry spokesman Maj. Gen. Kung Fan-ding said on July 13. The next day,

Taipei Air Force headquarters denied media rumors about mainland Chinese fighter jets flying over the middle of the Taiwan Strait. In order to quash further rumors, the office reminded the press, that the upcoming months have always been the peak period for the People's Liberation Army to hold its war games, and that upcoming military activities would likely be in preparation for celebrations of the 50th anniversary of the founding of the P.R.C. on Oct. 1.

Peace efforts

Lee's interview was also clearly timed as an effort to counter the very successful Symposium on the Peaceful Reunification of China, which was sponsored by the Taiwan-based Strait Peaceful Reunification Association in Hong Kong on July 10-11.

Wang Daohan, chairman of mainland China's Association for Relations Across the Taiwan Strait (ARATS), has been invited to visit Taiwan during October. On July 9, Taiwan's Strait Exchange Foundation (SEF) had sent a letter inviting ARATS Vice Chairman and Secretary General Zhang Jincheng to Taiwan in late August or early September to finalize the itinerary of Wang Daohan's planned visit.

Almost 200 analysts, scholars, and public figures, from China, Taiwan, Hong Kong, Macau, and foreign countries, participated in the Hong Kong symposium for an in-depth discussion of the peaceful reunification of China.

The conference issued a joint communiqué calling on both sides of the Taiwan Strait, to hold political negotiations as soon as possible to end the state of hostility, under the principle of "one China." The communiqué acknowledged that, due to special historical circumstances, the Taiwan people's rights and desire to be masters of their own destiny should be respected, and said that a special arrangement acceptable to both sides must be found for Taiwan's political status under the "one China" principle, according to the official Chinese news agency Xinhua.

The communiqué urges Taiwan to open direct postal, commercial, and transport links at an early date, and to abandon the policy of restraining Taiwanese investment on the mainland. It also calls on the mainland to better protect the rights and interests of Taiwan investors.

Perhaps most important, it calls on both sides to jointly promote Chinese culture, as both sides share the same national ideology and the same language.

From Hong Kong, Tang Shubei, executive vice chairman of ARATS, warned on July 12 that Lee Teng-hui is "playing with fire." At the same time, Tang said, on the issue of peaceful reunification, "This symposium was the largest non-governmental symposium of the highest level ever held, and discussion was most profound. The event shows that defending the 'one-China' principle and standing for peaceful reunification and the opening of three direct links have become the common aspirations of compatriots on both sides of the Taiwan Strait."

African unity: community of principle, or new colonialism?

by Linda de Hoyos

Against the backdrop of the multi-state negotiations seeking to end the war in the Democratic Republic of Congo, two widely different approaches were put forward for how to achieve unity and cooperation on the African continent, one during the 35th annual heads-of-state summit of the Organization of African Unity (OAU) in Algiers July 12-14, and one coming from Kampala, Uganda.

The first came from South African President Thabo Mbeki, whose speech to the OAU summit July 13 called upon African leaders to fight the marginalization of the African continent in the global economy by committing themselves to carrying out the 1991 Abuja Treaty. That treaty set goals for the modernization of Africa's national economies, the raising of living standards; higher rates of economic growth and development, a "cumulative process of integration of the African economy, and a beneficial integration of the African economy into the global economy."

President Mbeki had motivated this proposal by citing the increasing impoverishment of the continent under globalization, resulting in a vastly widening disparity between those living in the highest income bracket and those living in the lowest. Mbeki noted that the one-fifth of the world's people living in the highest-income countries had 86% of the world aggregate Gross Domestic Product, whereas the bottom one-fifth had only 1%. Most of those in the bottom one-fifth live in Africa.

Into the future . . .

To carry out this task of the growth of African national economies and their regional integration, Mbeki proposed a "mobilization" of the continent's intelligentsia, and the use of the African Economic Community and the African Development Bank to launch projects, especially for infrastructure construction. He also called upon African countries to address issues such as Africa's foreign debt, negotiations with the World Trade Organization, "technology transfers, restructuring and reorientation of the World Bank and the International Monetary Fund, and the volumes and use of overseas development assistance."

Mbeki's speech was a call for African leaders to take concerted and cooperative *action* for the growth and defense

of their economies. "Such is the degree of comfort among the haves," he concluded, "even in our own societies, that their ears are closed to the correct warnings we give repeatedly, that the worsening relative and absolute poverty of the many can never serve as assurance that the prosperity of the few is guaranteed for all time. We must again become our own liberators. Thus we will turn the century that will soon be upon us into an African century, and realize the objective of an African Renaissance."

The implications of President Mbeki's proposals are the forging of unity among African nations—a vision of the leaders of independence from colonialism—through a community of principle based on cooperation for development of national and regional economies. It also implies concerted efforts by African leaders to bring an end to the wars engulfing a huge tract of Africa's land, from the Horn of Africa through the Democratic Republic of Congo, to Angola. This is the way, Mbeki seems to propose, that African leaders can truly take matters into their own hands.

. . . or back to British rule?

On July 10, from Kampala, Uganda, a completely different set of proposals was put forward. The semi-government newspaper *New Vision* published a signed commentary by one Joshua Muyemba, which directly challenged the OAU's charter to uphold the territorial integrity of the African states. Against this principle of African unity, Muyemba proposed that the former colonial powers hold a conference modeled on the 1898 Berlin Conference, to redraw Africa's borders, and then to act to enforce those redivisions. Beginning with the proposition that "formal colonization was a blessing in disguise," the author declared that colonialism's "partition of Africa into some 40 territories has remained a permanent albatross around the continent's neck. It may be said that rather than being partitioned, Africa's 100 nationalities were summarily amalgamated into some 40 territories which have now become synthetic states." The author demanded action: "Unless something drastic is done, it is very difficult to see how these African states can settle down in peace and prosperity. All the contemporary conflicts, wars, economic backwardness, and even corruption in Africa," the author asserted,

“can be traced back to the continent’s faulty amalgamation and balkanization. Whether it is the anarchy in Somalia, the carnage in Angola, the chaos in the Congo, the conflict in Sudan, the quarrels between Nigeria and Cameroon, or the altercation between Ethiopia and Eritrea, *the bottom line is always the colonial boundary.*”

Since, as Muyemba accurately stated, the “African neo-colonies are not really independent, the world powers have the responsibility to save human lives and put an end to human misery.” He demanded that the “world powers . . . convene another world conference which would comprehensively review the boundaries of the African territories and alter them to produce more viable and national units that have a chance of evolving into independent nation-states. *“Some African countries such as the Congo, the Sudan, Angola, and Somalia definitely need to be reconstituted right away. Others which merit it, may be left intact.”*

On the first level, Muyemba’s demands appear to be propaganda boosting the military operations of Ugandan President Yoweri Museveni, who has deployed the Ugandan Popular Defense Forces (UPDF) into three of the four countries cited: Sudan, Congo, and Angola. The aim of these military cross-border operations—which began with the 1990 Ugandan invasion of Rwanda, according to Museveni—is the unification of Africa.

In stark contrast to Mbeki’s call for unity built on economic development and cooperation, Museveni’s method has been war. As *EIR* exposed in its June 1997 *Special Report*, “Never Again! London’s Genocide against Africans,” the 1994 Pan-African Congress held in Kampala, Uganda, heard the plan put forward by Arthur Gakwindi, then Ugandan ambassador to the OAU, for the redivision of Africa into six mega-countries: Sahara Republic, Senegambria (West Africa), Central Africa, Erithomia (sections of the Horn of Africa), Mozambica (southern Africa), and the Swahili Republic. The plan cuts across the borders of nearly every African country; although Uganda itself remains intact inside the Swahili Republic.

The UPDF, together with its spin-off, the Rwandan Patriotic Army, has made definite progress since 1994 on the formation of the “Swahili Republic.” The new entity is to contain Uganda, Rwanda, Burundi, Kenya, Tanzania, southern Sudan, most of Angola, and the Democratic Republic of Congo. While the East African Community of Tanzania, Uganda, and Kenya is being put together using diplomatic methods, wars have brought Rwanda and Burundi into the Ugandan orbit. In regards to Sudan, Uganda continues to support the military operations of John Garang and the British-backed Sudanese People’s Liberation Army against the government. Its troops have established a Ugandan military and civil base in the Congo city of Kisangani. Ugandan military equipment and advisers are also present in Angola in support of Jonas Savimbi’s UNITA, which is posing the “gravest threat since independence” to the MPLA government in Luanda.

The human toll for this effort in re-drawing borders is *millions* of lives lost: 2 million in Sudan, 2 million in Rwanda, 500,000 in Burundi, 500,000 Congolese at least, hundreds of thousands of Ugandans, and hundreds of thousands in Angola. The death counts include not only those who lost their lives in the mass carnage, but also lives lost because of conditions created by the wars: massive displacement, inability to cultivate crops resulting in starvation, and rampant disease, where wars have destroyed all health care delivery systems. As of this writing, for instance, in the city of Malange, Angola, now under siege by UNITA, UNICEF estimates that ten children in the city are dying daily of starvation.

The British ‘Grand Design’

As could be suspected given its destructiveness to Africans, the “Kampala plan” did not originate in any African capital, such as Kampala, in the 1990s, but in the blueprints of the colonial powers themselves—specifically in the 1940s, with British “Field Marshal the Viscount Montgomery of Alamein” in his “Memorandum—Tour of Africa Nov/Dec 1947.” As *EIR* reported in September 1998, the memorandum’s basic point is that the Western industrialized countries, definitely including Great Britain, require the full use of Africa’s vast mineral and agricultural resources and potentials. British policy toward Africa has “two primary essentials”:

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“to develop the resources” and “to effect such a grouping of British (or Commonwealth) Africa as will break down the many existing barriers.”

This “breaking down” is what Montgomery calls his “Grand Design.” “The present system of more or less watertight compartments [the African nation-states of today] is highly wasteful, is illogical, and can do no good to mankind in general or to Britain in particular.” Out of the “hodgepodge” of entities created by the Berlin Conference, Montgomery proposed the carving out of the “Central African Federation,” “West African Federation,” and “East African Federation.”

A staunch colonialist, Montgomery wrote that such tightly administered federations are required to control the African people. “There will be many people in the U.K who will oppose such a plan on the grounds that the African will suffer in the process; there is no reason whatever why he should suffer; and in any case he is a complete savage and is quite incapable of developing the country himself. In the development of Africa we must adventure courageously, as did Cecil Rhodes.”

The Kampala Plan is nothing but the Montgomery Plan, brought to Africa by way of Julius Nyerere’s Dar-es-Salaam University and the Frantz Fanon cult of violence that was taught there in the 1960s and 1970s to “freedom fighters” such as Yoweri Museveni. The aim of the Kampala-Montgomery Plan is to break down the “existing barriers”—the nation-states—whose governments might stand in the way of the robbery of Africa’s vast resources in gold, diamonds, and strategic minerals, under conditions of global financial collapse. This is the policy being carried out by the British and allied financial oligarchy, first through the governments of Britain, France, and complicit channels in the United States, and then through Kampala and allied marcherlord forces, by means of propaganda, logistical, and financial support.

Washington is next

There are indications that at the negotiations for a peace settlement to end the war in the Congo, Uganda and Rwanda put forward the notion of partitioning the Congo, with Rwanda and Uganda. Uganda and Rwanda have both established full administrations over the one-third of the Congolese territory they occupy, and are already siphoning out gold, diamonds, timber, and anything not nailed down toward points east. At the same time, British Commonwealth companies such as Barrick Gold, Banro Resources, and others are lining up behind the marcher-lords, ready to replace such low-life smuggling with up-scale “resource development,” where the profits are 100% repatriated—just as in the colonial days.

Up to now, the United States has officially rejected any idea of partitioning, stating that Congo’s territorial integrity must be respected. However, hearings on “Central Africans’

Wars,” held June 8 by the Africa Subcommittee of the Senate Foreign Relations Committee, shows that pressure is mounting for the Clinton administration to come officially on board the Montgomery-Kampala plan. Africa Subcommittee chairman Sen. Bill Frist (R-Tenn.) opened the hearing with a call for his colleagues in the Senate to examine “the erosion of African states and the role of the colonial borders which define them. These borders may not support a viable political entity, and may be of limited value in defining our own policy toward Africa.”

The hearings further heard testimony from Marina Ottaway, senior associate and co-director of the Carnegie Endowment for Peace “Democracy and Rule of Law Project.” In describing the “tangle of conflicts” involving the Congo, Ottaway made no reference to Uganda and Rwanda’s looting of the Congo, but instead came to their defense to state: “The increasingly frequent violations of the OAU principles by African countries is not simply the result of aggressive policies by rogue regimes flouting international law and the charter of the Organization of African Unity.”

The problem is the “vacuum of power,” she asserted, which is caused by the “poor performance of most African states since independence, which has reduced many to the condition of failed states.” The role of the International Monetary Fund’s conditionalities policies in producing such failed states is not criticized, but upheld as an inviolate and permanent requirement African nations must meet at any cost.

Ottaway concluded by implicitly calling for the United States to accept and support the wars that are being launched to re-draw the continent’s borders. For U.S. policy, “it is not simply a question of helping existing states to strengthen their institutions or revive their economies, or to convince governments to respect the rules of the Organization of African Unity. Many of the states that emerged from the colonial period have ceased to exist in practice, and the rules of the OAU cannot apply to states that are no longer there. The problem is to create functioning states, either by re-dividing territory or by creating new institutional arrangements such as decentralized federations or even confederations.”

This will only be achieved by more wars, she admitted—“a continuation of domestic and interstate fighting, and probably the breakup of some countries, before stability is reached. There is no realistic alternative.”

If the Clinton administration accepts Ottaway’s advice, it can be expected to increase its multifaceted support for the new colonialism’s warlords. A “realistic alternative” to such a war-policy would be to support the efforts of President Mbeki and others for reviving the African economies and institutions—a policy however that will take the Clinton administration straight to the urgent necessity to take action for a new monetary system that will permit, rather than prohibit, development.

British-led undeclared war continues against Iraq

by Muriel Mirak-Weissbach

“U.S.-British Planes Involved in More Violations of Iraqi Airspace”

Baghdad, July 22, INA (14:00)

Ten formations of U.S. and British warplanes on Wednesday carried out 22 sorties from Saudi Arabia, backed by an AWACS, and 4 sorties from Kuwait, backed by an A-2C.

An Iraqi Air Defense Command spokesman told INA that Iraqi anti-aircraft defenses had opened fire on the planes, which flew over areas in the provinces of Basra, Thi-Qar, Meisnam and Muthanna, forcing them to flee back to their bases.

Since Dec. 17, 1999 and up to July 21, the U.S. and British military aircraft conducted a total of 10,309 sorties from Saudi Arabia, Kuwait, and Turkey, of which 8,430 from Saudi Arabia and Kuwait.

This is the dispatch communicated on the Iraqi News Agency's Web page, on July 22, 1999. It is a bulletin of war, updating the events on a daily basis, in the continuing, undeclared war of the United States and Great Britain against Iraq.

“But,” the reader might object, “why isn't my newspaper reporting on this war? And, how could there be a war, if I recently read—in my newspaper—that some new arrangement had been made at the United Nations, to lift the sanctions? Didn't I read that the Clinton administration supported the initiative, and that for the first time, Washington was talking about lifting these sanctions?”

Yes, reader, that may be what your newspaper told you. However, your newspaper was lying to you, and it was not the first time. The real story is completely different, a story of a war which defies all norms of justice or logic. It is a war, whose purpose it is, to replace the process of politics, or of diplomacy, with the brute force of military power. Thus, it is a conflict provoked and conducted in order to establish the implementation of what was presented last April in Washington, D.C., as the “new NATO doctrine.” It is a war conducted to assert the hegemony of an Anglo-American oligarchy, as its only response to the imminent demise of its financial empire.

The new UN doctrine

What appeared in the international press in June, was the news that the United Nations Security Council was preparing debate on a resolution regarding the sanctions regime against Iraq. The resolution was drafted by the British and the Dutch, and presented as an initiative to “loosen” the restrictive sanctions regime. The substance of the proposal, was to re-create a UN inspections team, like the old discredited UN Special Commission (UNSCOM), this time under a new, high-falutin' name. The purpose of the new organism would be to conduct intrusive inspections of Iraq's supposed weapons production sites, and report back to the UN.

Following the routine established by UNSCOM under British intelligence agent Richard Butler, the new agency would identify sites to search which it knew would be considered off-limits by the Iraqi government, force itself into such sites, and loudly protest that Baghdad was “not cooperating” with the UN. This, once documented in a few cases, with dates and names, would be compiled in the form of a report to the UN Security Council, which, in turn, would issue a condemnation of Saddam Hussein's behavior. Such steps would pave the way for escalating the military conflict, in the direction of the attacks scheduled for February and November 1998, and January 1999.

The British-Dutch resolution was prepared months in advance, with the creation of three “panels” inside the UN, which were to review the Iraqi situation in the wake of UNSCOM's unceremonious departure from the country. The new “panel of experts” produced a report at the end of March, recommending a refurbished monitoring operation, with more nationalities represented, outside experts, and independent funding. The report said, “The substantive relationship with intelligence providers should be one-way only,” i.e., that intelligence on presumed weapons capabilities should be reported to the UN only. The specification was necessary, considering the notorious spying done by UNSCOM for Israel, the U.K., and the United States, under the former arrangement. The other two panels were to deal with the humanitarian situation and the issue of Kuwaiti reparations.

Even before all the panels had presented their reports, the British launched a proposal, ostensibly to upgrade the

Now we have a very, very sad story. According to the statistics of the UN, Iraq is the poorest country in the world now—even poorer than a lot of countries in Africa or in Asia. Besides this, of course, you have the ugly, tragic stories of deprivation and sickness.—relief organizer Muthanna Hanooti

humanitarian program in Iraq. What British Ambassador Sir Jeremy Greenstock presented to the UN, was a scheme for blocking any Iraqi oil exports eluding direct UN control, under the “oil-for-food” program. The Iraqis were quick to recognize that the new proposal meant even greater controls over the country’s economy. “It is clear that the unofficial British paper,” said an Iraqi Information Ministry spokesman, “aims at imposing a complete tutelage on Iraq . . . and holding its people hostage to the unjust embargo forever.” He added, “All that is missing from this paper, is to nominate Britain as the guardian of the Iraqi people.” He went on, “The British movement is suspicious and malicious because the Security Council is still waiting for the presentations of the three panels it formed on Iraq.”

Then, in May, the British sat down with their Dutch partners, and pulled together their draft resolution which was presented in June. This was handed over to the Clinton administration, whose representative to the UN okayed it. Then it was foisted on the American public, through the all-too-willing media, as a wonderful humanitarian gesture, aimed at relieving the plight of the Iraqi population under sanctions. The basis for this fraud, was the idea that the amount of oil Iraq was allowed to sell, in the oil-for-food program, would be increased. However, at the same time, Iraq’s ability to import was to be further restricted.

The other important feature of the British-Dutch initiative, which has been utterly ignored in media accounts, is that it is intended to replace or preempt any other, more serious initiatives, presented by the remaining three permanent members of the Security Council—Russia, China, and France. Moscow, in fact, has been demanding an end to the sanctions, in an orderly fashion, and has received support from Beijing and also Paris, which has drafted its own proposal. In fact, the Russian representative to the UN, Sergei Lavrov, rejected the British ploy, saying, “The British-Dutch proposal is a great step backward, and is far from [UN] Resolution 687, which states that the embargo is unconditionally lifted when weapons of mass destruction are demolished.”

The British reckon that they can organize a horse-trading process within the UN leadership, and debate the issue into the ground. Whether an agreement emerges from the process, is essentially irrelevant; because, as the events of December 1998 showed, the U.K. and its colleagues in the United States will continue their military aggression against Iraq, in any

TABLE 1
Total number of deaths due to Iraq embargo, selected causes

Year	Age groups		Total
	Under 5	Over 5	
1989	7,110	20,224	27,334
1990	8,903	23,561	32,464
1991	27,473	58,469	85,942
1992	46,933	76,530	123,463
1993	49,762	78,261	128,023
1994	52,905	80,776	133,681
1995	55,823	82,961	138,784
1996	56,997	83,284	140,281
1997	58,845	85,942	144,787
1998	71,279	88,760	160,039
1999 January-May	29,282	42,561	72,343
Grand total	438,702	701,105	1,159,807

Selected causes

Under 5 mortality

1. Respiratory infection
2. Diarrhea and gastroenteritis
3. Malnutrition

Over 5 mortality

1. Cardiac diseases
2. Hypertension
3. Diabetes mellitus
4. Renal diseases
5. Liver diseases
6. Malignant neoplasms

Infant mortality rate = 92.7 per 1,000 live births

Maternal mortality rate = 117 per 100,000 births

case. The only purpose of the entire United Nations charade is to prevent any effective Russian or Chinese move from changing the game. Given that the same Anglo-American force directly and indirectly targetted Russia and China during the recent Balkans war, they appear to be convinced that they can prevail in the Security Council farce sessions, without facing an outright veto from Moscow or Beijing. Essentially, as an unstated corollary to the new NATO doctrine, which decreed that NATO could attack anywhere and any time it liked, there was a “new UN doctrine” slipped in as a footnote, whereby that body acquiesces to being

rendered impotent, irrelevant, nonexistent.

Thus, the bombing is to continue, more or less every day, in southern and northern Iraq. The so-called “no-fly zones” imposed by the French, British, and Americans after the war, and kept in force by the U.K.-U.S. warplanes in the region, will continue to be used as the pretext for aerial bombardments.

The real costs of the war

With world public opinion lulled by the press into believing that some “progress” is being made toward lifting the sanctions imposed on Iraq, actually the opposite is true. And, the continuation of the embargo over the past nine years, has not produced linear effects on the population. It is not the case, in other words, that the country, cordoned off from trade with the rest of the world, has somehow become accustomed to it, and achieved autarky to satisfy the needs of the population. On the contrary, with each passing day and week, the situation worsens in the country, as a vicious, entropic spiral has taken hold. The initial aggression in 1990-91 destroyed infrastructure, paralyzing the economic and social life. The continued sanctions prevented Iraq from restoring its infrastructure, especially crucial areas like sanitation, fresh water and food supplies, and health. In addition, the deployment of deadly weapons, including depleted uranium shells that were dropped on Iraq, introduced a new factor into the destructive process, whereby the soil and water of the country were essentially poisoned, with effects on health that became manifest only over time.

As Muthanna Hanooti describes in painstaking detail (see interview), the population of Iraq has become prisoner in what *EIR* has compared to a vast concentration camp: Deprived of adequate food, water, and hygienic conditions, people’s health has deteriorated and their resistance to disease has waned. Struck by illness—any illness, even the most common—people suffer, wither, and die, simply because they are deprived access to the most basic medical treatment. For serious illnesses, such as cardiac disease, kidney disease, or cancer, for example, there is by definition no hope: Without treatment, people will die.

Iraq’s population is being subjected to genocide. That is the effect, and that is the intention of the combined sanctions policy and military aggression. Iraq is being subjected to genocide, because it has refused to buckle under and accept the dictates of the “new NATO doctrine,” and its corollaries. Yet, as in the past, those in a position to halt the mass murder, “do not know” what is going on, or do not wish to know. This is the case emphatically of the members of the United States Congress, who have not bothered to find out, to visit Iraq on a fact-finding mission, and report back on what the reality is.

Why should they bother? they ask themselves. Aren’t “our boys” in Saudi Arabia, Kuwait, and Turkey making sure that Saddam doesn’t start any trouble? Thus, war has replaced politics.

Interview: Muthanna Hanooti

Iraq has become a death camp because of the UN embargo

Mr. Hanooti is the head of the Michigan-based Arab-American organization called Life for Relief and Development. He was interviewed in June by Muriel Mirak-Weissbach.

EIR: Can you tell me what Life for Relief and Development is, when it was founded, and what it does?

Hanooti: The organization is basically a charitable humanitarian organization. It has the category of 501(c)(3) [a registered tax-exempt charity]. It was established in 1993 to meet the needs of the victims of the embargo, or the blockade in Iraq. So, it started just for that—I mean, as a focus.

Then, with time, we realized, especially in the United States, we cannot help just one country. We have to work with different countries, especially when it comes to emergencies. So, now, we’ve expanded to accommodate more than five countries.

But, still, the focus is on Iraq. We just added a country in West Africa, Sierra Leone, and other emergencies; like, for instance, the Kosovar refugees—we have a refugee camp in a city in Albania called Peqin.

So, whenever there’s an emergency, we try to do something, as we did earlier with Bosnia, Kashmir, Lebanon, and Palestine.

But still, I would say about 80% of the focus is on Iraq. Basically, the work is to try to alleviate the suffering of the Iraqi people and save some lives, though we know that our work with all the NGOs [non-governmental organizations] working in Iraq, meets about 5% of the needs of the people. But still, we believe that we have a key role when it comes to helping the people.

As you know, according to the United Nations statistics, the situation in Iraq is beyond description now.

EIR: When were you most recently in Iraq?

Hanooti: Most recently, I was there in October. And I’ll be there by the end of this month.

EIR: Can you tell me how the situation is, as you saw it?

Hanooti: Actually, this last visit was the seventh visit after the embargo. The way I see it, everything is getting worse and worse each time. Basically, we thought that this oil-for-food program, or UN Resolution 986, would make it better, but for

some reason, it's getting worse and worse.

The problem is not the starvation itself, but it's the diseases, actually. A lot of diseases are caused by malnutrition; but still, the major problem we have in Iraq is the contamination, whether it's from the water itself, or from the soil. You know, the whole sewer system was collapsed or destroyed in the Gulf War. A lot of this water just goes into the rivers, and you have terrible contamination and pollution.

Also, according to what we hear in the media, about 1,000 depleted uranium shells were dropped in Iraq. It's like nuclear waste. This looks like [it's causing cancer], from our meetings with a lot of doctors there, because we've seen a lot of cancer cases all over the country. It's a very, very scary kind of situation, wherever you go. Some doctors even told me that they estimate that about 10% of the Iraqi population has some kind of cancer. I think this is an exaggeration; but still, I've been all over the country. Honestly, without any exaggeration, you feel as if the country has become a death camp, because wherever you go, you see funerals, people mourning for someone who has died in their family.

It's everywhere—not only among children. For the first time in my life, I've heard that young people in their 20s are having kidney failure, for instance. And when we checked with doctors, they told us it is because of the poisoning caused by—whatever—inside the country.

At every house I visited, whether it's in the south, north, or central, it's difficult, without any exaggeration, to find people in good health.

With children, basically there's definitely malnutrition. This is the case with women, also; most of them are anemic. And the children have all of those kinds of diseases, like dysentery, with leukemia on the rise.

Wherever you go, death and disease. And for me, it's unique, because I had been in the country before the embargo, and it used to be one of the best. I've been to a lot of Arab countries, and Iraq boasted at that time of having one of the best health systems, one of the best educational systems. As a culture, Iraqis love education. They had a lot of PhDs—people who just love, worship school, going for graduate studies. Now, all of that has collapsed.

The school system, the health and the education system, have basically collapsed because of lack of cash. When I went last time, even pencils, notebooks, paper, were very scarce. So, you have a different story now.

And as you know, Iraq has the second-largest reserves of oil in the world. Some even say it's number one, because this oil hasn't been used for the last nine years. So, even if we say, okay, the second-largest reserve of oil, you can tell how the country is rich—rich in oil, rich in natural resources. We have very fertile soil, we have two rivers, we have—used to have—a very educated population.

Now we have a very, very sad story. According to the statistics of the UN, Iraq is the poorest country in the world now—even poorer than a lot of countries in Africa or in Asia. Besides this, of course, you have the ugly, tragic stories of

deprivation and sickness.

Of course, when people or journalists ask us, we just tell them to go to either UNICEF, the World Health Organization, or the World Food Program. They have a lot of statistics about this. I'm not going to go through them. But you're talking about 5-10% of the people just perished—*died*—because of the embargo.

EIR: I've travelled to Iraq many times. Our Schiller Institute founded an organization, the Committee to Save the Children in Iraq, beginning in 1991, and we were also taking relief supplies and so on, and visiting the hospitals. So I know the country a little bit. But I haven't been there in the recent period.

Hanooti: In 1991, it was much, much, much better, and in 1992-93. The quick collapse started, I would say, in 1995 or '96, because it looks like the people used up everything they had.

EIR: What kind of relief do you take there? Do you take food, medical supplies, medical equipment? And do you work through the government there? You have good relations with the government, I assume?

Hanooti: We decided from the beginning to go legal, so we have a special license with the Treasury Department. Actually, it's a triple license—the Treasury Department, the State Department, and the United Nations. We renew this almost every year, because the way we do it, is that we take a license for 12 shipments, twelve 40-foot container shipments—because as a policy, we send a shipment each month. So, for instance, the last license we got, I think in November or December 1998—will expire this year. As of June, we have sent six containers.

We send, as a policy, an average of one 40-foot container a month by sea to Jordan, and from Jordan to Iraq. Most of the time, those shipments contain medical supplies and medical equipment, medicines, medical journals, or school textbooks.

The last shipment we sent, just to give you an idea, had 4 million pencils. We've started to focus on school supplies, because we know there's a lack of them.

Also, twice, or three times a year—it depends on the funds—we have big campaigns all over the country for food. So, we distribute whatever food is lacking in their diet, because we know the oil-for-food deal gives them very basic things, like wheat, flour, rice, sugar—basic staples. So, we try to give more protein, because they don't have meat or eggs or something like that. As I told you, we make two or three major shipments, taking in a total of about 100,000 families.

EIR: And how is it distributed inside the country?

Hanooti: We have an agreement with the Iraqi Red Crescent, because, as a U.S. organization, this is the only agency, as an NGO, we are allowed to work with. So, the medicine or school supplies we deliver, to, say, hospitals, universities—we

choose wherever we like, but a representative from the Red Crescent goes with us to supervise.

We have full control of the food. We choose one of those so-called benevolent or charity organizations inside Iraq, and we have our own people or volunteers there. At the key points, we give out tickets. We have a network of people, like teachers or government employees. We give them those coupons, and we assign a date for delivery, or for them to come and pick it up, and they come and pick it up.

The other work we do is, for instance, renovation. In December or January, we finished the renovation of two orphanages. They hadn't been maintained since 1989 or 1990, so we furnished them and gave them back to the Ministry of Social Affairs, which is in charge of orphanages.

Now, we are working with some schools, because we have a program from the U.S. government for school supplies. We chose at this point ten schools in Iraq, basically elementary schools. Next year, we'll do preservation and renovation, and furnish them, provide them with basic school supplies.

Also, we just started medical treatment for children last year—and this is one of the major things we want to do. We just started with six children, but we are trying to work with some medical associations and even with the Congress, to help us, hopefully, bring children to be treated in this country.

EIR: This is something we did some years ago, I'm sure you are familiar with it.

Hanooti: Yes. But see, for us, it doesn't make sense—since we started this program last year, we just have six, seven children, we have three or four coming in July. But we will try to bring 50, 60 children a year.

The problem is, it's very, very expensive. Each case will cost an average of \$50,000. So, the way we are doing it, is we are contacting hospitals and doctors, and church organizations, so that we would, all of us, as a group, share the expenses. Each would provide some funds also for the treatment.

This is one of the things we want to focus on, because we are under tremendous pressure to bring children here. I have more than 40 files of children between the ages of something like 5-6, and 16-17. The agreement we have with the U.S. consulate in Amman, is that they will give visas to people, provided that they are children. Because if we were to bring older people, then they might stay, and we have trouble with Immigration, or whatever.

Children are kind of non-controversial, everybody sympathizes with them, and it's easy to get a visa to bring them here. So, we also started the children's program.

Also, we have educational work, to educate the public—American Muslim, Arab-American, the media, the Congress, basically the American population—about what's going on in Iraq. From our experience, even members of Congress are very ignorant about what's going on.

EIR: Can you describe your work in Congress?

Hanooti: By law, I don't think we can do lobbying, because

we are non-political. But we are involved in education: We contact them, we visit them, we coordinate. We have great groups in the United States, like EPIC (Education for Peace in Iraq Center), we have Peace Action in Washington, we have the American Friends Service Committee, we have Voice in the Wilderness, Kathy Kelly's organization.

So, we visit. Of course we focus on Michigan, which is our state. And we have a great delegation here, like Reps. David Bonior, John Conyers, Carolyn Kilpatrick, and Sens. Spencer Abraham, Carl Levin. We meet, talk to them, update them about the situation. And at this point, we've even invited them to visit Iraq for a fact-finding mission. This has proved to be very, very effective.

Just to give you an example: Rep. John Conyers, a high-ranking Democrat, a couple of years ago, wrote a letter to the President, kind of demanding lifting of the sanctions. At this point, we have 45 Congressmen who have signed it. Now we are working with Conyers for another letter with stronger language, in the form of a resolution, and we are drafting that letter now, with other organizations.

Also, we have something called the "One Million Signatures"—hopefully, by the end of this year, we'll have 1 million signatures collected from people all over the United States. At this point, we have about 50,000. This is basically with EPIC, in Washington, D.C.

A few months ago, we sent a small booklet to all members of Congress, all 535, a booklet explaining to them, with pictures, the whole story in Iraq, what's happening to the people of Iraq, especially the children, just to tell them the story from a humanitarian point of view.

Always our argument is that this has nothing to do with the regime. We cannot destroy a nation and a country of 22 million people just for one person's actions. We care about the people. We have nothing to do with the political aspect of it.

We also try to lecture in Islamic centers and churches also about what's going on there.

EIR: Have you had any success in getting Congressmen to go over for a fact-finding mission?

Hanooti: No. At this point, all we have is promises. We have three or four who are very interested, and I know they're sincere, like Rep. Cynthia McKinney from Georgia, Rep. Tom Campbell from California, Reps. Bonior and Conyers from Michigan. But, the problem, as far as I know, is that they need the approval of the Speaker of the House—it's not easy for them just to go. This is a risky job, and we want them to do it through the legal system, because we love them, we want them to keep running and stay in Congress.

So at this point, I know they're trying. But I don't have any confirmation that anyone is going. The only thing is, they have this desire and intention to go.

EIR: Are you familiar with this new draft resolution which the British and Dutch governments have presented to the UN,

and which the U.S. is supporting officially?

Hanooti: Yes, but it's kind of a tricky resolution, because—

EIR: That's a nice way of putting it.

Hanooti: Yes. To make it simple, we are advocating kind of a permanent resolution to get rid of the sanctions, but not *this* one. We told them already, "Okay, you keep the military sanctions and free the whole Middle East from all that trash—the nuclear"—I mean, we want the whole Arab world and the whole Middle East to be free of all weapons of mass destruction, whether it's Iraq, Israel, Turkey, or Iran.

But not just Iraq! It doesn't make sense. We would love to get rid of all those weapons. So I would love to see, as a policy, whether it's the U.S. or the United Nations, just focus on that. Okay, let's lift the sanctions against Iraq, and get rid of all those so-called weapons of mass destruction or nuclear weapons—let's make it a zone free from all those weapons.

As an organization, I would love to focus on the United States, because I want to help a lot, especially because we are an Arab-American organization. We want to help our

community all over the country, until this Iraq thing is over. And I think the point that everybody should focus on—because it's unprecedented in the history of humankind, that genocide like that is taking place under the umbrella of the international community or the United Nations. It's like legalized genocide. That's what makes it unique.

So that's why we are 100% against it, because you cannot justify any bloodshed, whether it's Muslim, Christian, Jewish, Arab, non-Arab—we cannot accept that.

Also, I want to explain that we are not working for Iraq because it's Iraq; we advocate this as a policy: We don't like this sanctions regime or system to be applied to *any* country. Because as you know, most of the countries of the world are now under U.S. sanctions. And, we are against that.

EIR: Are you working also in Sudan, for example?

Hanooti: No, but as a principle, while we are advocating lifting the sanctions against Iraq, we don't want this to happen to any other nation, whether it's Cuba or another country. And especially when it comes to human life, as in this case: We are losing human lives because of it.

'LaRouche Doctrine' published in Moscow

The issue of the Russian newspaper *Ekonomicheskaya Gazeta* which came out on July 15, carries a translation of Lyndon LaRouche's April 7 article, "The LaRouche Doctrine on the Balkans Crisis." The article appeared in *EIR* on April 16. It is a concise, 10-point analysis of the British geopolitical motivation of the bombing of Yugoslavia, the danger of world war, and the "remedies"—above all, the immediate formation of a New Bretton Woods monetary system among sovereign nation-states, with a leading role to be played by the United States, China, Russia, India, and at least one major continental European power.

Ekonomicheskaya Gazeta introduced LaRouche's policy statement, with an article titled "The Americans Are Under the Heel of the British—And So Is the Rest of the World." Here, the editors mention that LaRouche has also published a longer policy document, "Balkan Peace and World Economy."

The introduction emphasizes that LaRouche links "the not only insane and senseless, but essentially criminal" bombing, with "the ongoing world financial crisis." It is an attempt by "the world financial oligarchy" to use "the traditional colonialist methods of instigating military conflicts, through governments and international organizations under its control." The commentary notes that, during the bombing, mouthpieces of the oligarchy were telling everybody that the world financial crisis had ended, "although, in reality, nothing of the

sort had happened." Now, after the end of the bombing, there is new stock market and currency turmoil, and new military conflicts such as Israel's bombing of Lebanon and "the known provocations of Britain in Pakistan, against India."

"Lyndon LaRouche, who sees the British monarchy and its American henchmen (A. Gore, M. Albright, W. Cohen, Z. Brzezinski, et al.) as the initiators of the Balkan War, . . . views that war as a sort of gambit in a chess game, intended to wipe a weakened Russia from the world map once and for all." LaRouche likewise warns of attempts to destroy China, says *Ekonomicheskaya Gazeta*, noting the explosion of London-financed operations in Central Asia, directed against Russia, China, Iran, India, and even Pakistan.

"The role of President Clinton, who in Russia is considered to be the main guilty party in this world destabilization and the aggressive actions of the U.S.A. and NATO, is assessed somewhat differently by LaRouche. He believes that Clinton has been under constant attack by the British monarchy," culminating in his impeachment, and, most recently, supplemented by overt attacks on the President by his own Vice President, Al Gore.

"In such circumstances, it is difficult for the President to make rational, constructive decisions. The President is only a high-ranking official, without the ability to conduct his own theoretical research; he believes the briefings he receives." Thus, the U.S. President is pressured by ill-wishers around him, and by artificially shaped "public opinion."

"Lyndon LaRouche puts forward a definite view: We should acknowledge that the main cause of all these woes is the current financial system. A fundamental change in that system should spark a change of economic policy in the entire world."

Killing people to save money

Health professionals are beginning to revolt against genocidal budget cuts.

Simmering tensions among health professionals, because of years of budget cutting against the Australian health system, exploded in July, with the hospital systems of the country's two largest states thrown into crisis. The health unions in the state of Victoria have begun rolling work stoppages to gain better working conditions, while in New South Wales (N.S.W.), the nation's largest state, senior doctors have bitterly protested demands from the state government that they reduce their hospital budgets this year—again—by \$9 million each.

This widespread revolt by doctors is a first, but they have decided to speak out because, as Prof. Graeme Stewart of the Westmead Hospital in Sydney told the July 12 *Sydney Morning Herald*, "This is not just a Westmead problem or even a N.S.W. problem, it is an Australia-wide problem."

On July 3, Dr. David Dilley, a surgeon at Sydney's Westmead Hospital, wrote a scathing letter to the *Sydney Morning Herald*, the city's major daily paper, describing the Westmead Hospital as being held together by "string, chewing gum, Band-Aids, and baling wire." "Our system is undermanned, underfunded, and run a long way below its full potential, especially in regards to beds lying fallow," he charged. "People will die unnecessarily because of our bureaucrats and politicians." In fact, they already have, and doctors have committed suicide because of the strain.

Days later, senior doctors at the hospital defied a health department gag order on speaking out about working conditions, and angrily declared

that there was no way anything could be cut out of the budget, because the last decade of cuts had meant that there was no "fat" left to cut. The head of the division of medicine, Prof. Rick Kefford, said that the cuts had brought the hospital to a "knife-edge."

Since 1993, almost 1,000 staff positions have been lost, including nurses, maintenance staff, cleaners, and doctors. There were about 505 doctors in 1983; there are now fewer than 350. More than 150 beds have been closed, yet 1,000 more patients a year are pushed through the hospital than five years ago. "The degree of sickness you have to have to be admitted to this hospital has escalated enormously," Professor Kefford said. "And then you are kicked out as soon as you can walk."

The N.S.W. state health system, which represents one-quarter of the state budget, has been systematically looted. When Westmead Hospital opened, it had more than 1,000 beds; there are now 750 beds open, and the proposed cut would reduce that number to 660. It is a tale repeated across Sydney: The Prince of Wales Hospital in Randwick has had about \$30 million cut from its budget in the past three years, losing 250 beds and 270 staff; Royal North Shore, St. Vincents, St. George, the Sydney Children's Hospital, Nepean, Coffs Harbour, and the John Hunter and Mater hospitals in Newcastle, have all been notified to expect less money this year.

The hospital crisis has, in turn, thrown the ambulance service into chaos. The ambulance union reported on July 14 that some ambulances are being dispatched 30 minutes after re-

ceiving the emergency call—15 times later than service standard—because of bottlenecks caused by the fact that 20% of emergency departments at Sydney hospitals are effectively closed every day because they can not cope with demand. "Patients are facing the double whammy of waiting for an ambulance to get them, and waiting for up to five hours once they reach the hospital," a senior ambulance officer told the July 15 *Sydney Morning Herald*.

For his part, N.S.W. Health Minister Craig Knowles has defended the budget cuts, blustering, "There are legitimate questions whether just throwing money at the system gives you better health care." He claimed that it was merely the winter flu which is causing problems, and he cynically dismissed the doctors' complaints as the "usual argy-bargy" during budget negotiations.

The health system of Victoria, under Premier Jeff Kennett and Health Minister Rob Knowles, is also in crisis, currently racked by industrial action over working conditions, which Kennett blames on "greedy unions," instead of his own "slash and burn" budget cuts. Victorians have already died because of the health cuts, while the hospitals are riddled with "golden staph" infection, directly caused by budget cuts. The privatization, budget-slashing mania of both Kennett and N.S.W. Premier Bob Carr, who has personally blocked any increase in that state's health budget, was devised by the British Crown's Mont Pelerin Society, of which both premiers are stooges, through local front groups such as the Centre for Independent Studies (CIS) and the Tasman Institute. Carr is a proud member of the CIS, while Kennett's entire administration, since he was first elected in 1992, has been directed by the Tasman Institute.

International Intelligence

'Quiet coup' said to occur in Chechnya

The lead story in the Russian daily *Nezavisimaya Gazeta* on July 15 reports on the recent reestablishment of a National Security Council inside Chechnya, a breakaway Russian autonomous republic. As *EIR* established in its July 16 issue ("British Push NATO to Cross 'Red Line' in Caucasus"), the Chechen insurgency is cultivated by the British, in this geostrategically sensitive Caucasus/Caspian region, where several former Soviet countries are also targeted for NATO expansion.

Gazeta's author Ilya Maksakov, who says his information is not confirmed, but is believed by "representatives of the Russian leadership," writes that Chechen guerrilla leader Shamil Basayev and the Chechen-ethnic, Jordanian citizen "field commander" Khattab recently gave President Aslan Maskhadov an offer he couldn't refuse: Either be a figurehead chief of the National Security Council, or be physically eliminated. The article alleges that the militants are now fully in charge.

Another article in the same issue reports that Russian Internal Affairs Minister Russhailo is pushing for arming of Cossack detachments in Stavropol Territory, which borders Chechnya and has been subjected to raids from Chechnya.

U.S. DEA links Tory leader to drug money

The lead article in the London *Times* on July 17 reports that the U.S. Drug Enforcement Administration (DEA) has Conservative Party treasurer Michael Ashcroft on its "watch-list." An unnamed U.S. DEA agent informed the *Times* that Ashcroft had come under scrutiny as part of four investigations in the late 1980s and early 1990s. The DEA source is quoted, "He has not been questioned personally but his name, his bank, and his businesses have been tied to our inquiries."

According to various media, including the *Times*, Ashcroft is a businessman who

operates out of London, Florida, and the former British colony of Belize, where his Carlisle Holdings is based, and where it operates the country's second-largest bank. The *Times* apparently got hold of reports from several British foreign service officers in the Caribbean. One report points out that one of Ashcroft's companies runs the country's shipping register, and notes "a number of instances of Belize-flagged vessels being used for the transport of drugs and the breaking of UN sanctions." The report also says that the DEA "had received information of a large amount of money entering Belize to pay for a shipment of cocaine."

Belize, which borders Mexico's Caribbean coast, is one of the major British Special Air Services bases in the Western Hemisphere, and has been a base of British operations throughout Ibero-America, particularly during the Iran-Contra days.

Ashcroft also has a large holding in Tycho International, a multibillion-dollar U.S. company. In 1998, Tycho merged with Ashcroft's Bermuda-based ADT security company. As a corporate raider in the 1970s, Ashcroft had turned ADT into a multibillion-dollar company, and then merged it with Tycho, earning over \$200 million in the deal.

Jailed 'Malvinas hero' Seineldín releases book

Some 500 people attended the release of *Malvinas, A Sentiment*, by Argentine Col. Mohamed Alí Seineldín, the "hero of the Malvinas," in Buenos Aires on June 24. Seineldín dedicated the book to "future generations of Argentinians." The book, written by the imprisoned nationalist at his son's suggestion, discusses the significance of Argentina having confronted "world power" in attempting to take back the Malvinas Islands from Britain in 1982. The warm reception given the book—Army Chief of Staff Gen. Martín Balza attended the presentation—reflects the concern of nationalists over the strategic issues involved.

In the introduction, Seineldín writes that Argentina's attempt to retake the Malvinas "must be contemplated from a spiritual standpoint. We have directly confronted

world power. All Argentinians, and especially Ibero-Americans, have valued this dimension. The only way to emerge from this crossroads, starting today (and putting military errors to one side), is to raise the banner of the Malvinas, in its philosophical, moral, ethical, and historical sense, to be able to understand the spirit of the battle. *We cannot capitulate now.* The Argentine people must embrace this sentiment. . . . It is my fervent desire that this testimony reach the hands and hearts of young Argentinians; so that they may learn their history, and feel inspired to interpret it, and feel it flow through their veins."

Egypt's Mubarak wants normalization with Sudan

Egyptian President Hosni Mubarak told the government newspaper *Al-Ahram* of July 13, that he hopes that ties between Egypt and Sudan will be fully normalized, after he met with Sudan's President Omar al-Bashir at the Organization of African Unity summit in Algiers. Mubarak told *Al-Ahram* that "ties were continually improving."

After their meeting, Mubarak told the Middle East News Agency that the talks were held "within the framework of contacts" between the two countries. The two sides are now considering a trip to Egypt by President al-Bashir. In addition, SUNA news agency reported that Mubarak sent Bashir a written message regarding his recent visits to France and the United States. According to varied sources in the United States, President Mubarak told President Bill Clinton that Egypt does not see Sudan as a "terrorist threat," and wants stability in the region. Egypt also wants a greater say in overall policy toward the Horn of Africa and northeastern Africa.

Egypt's Foreign Minister Amr Moussa also met with U.S. Assistant Secretary of State for African Affairs Susan Rice, the standard-bearer for a "human rights" jihad against Sudan, and told her the same thing in more blunt terms. If ties are officially normalized between Sudan and Egypt, it will go a long way in taking the wind out of the sails of those who use "terrorism" as one of the charges against Sudan, since it was the al-

leged Sudanese role in the 1995 assassination attempt against Mubarak during an OAU summit in Ethiopia that was used as the pretext to impose sanctions on Sudan in the first place.

Peru's Fujimori on capture of top terrorist

Peruvian President Alberto Fujimori heaped scorn on the globalist defenders of narco-terrorism, at a July 14 press conference announcing the capture of Oscar Ramírez Durand, or "Feliciano," the last remaining leader of Sendero Luminoso (Shining Path), who had been trying to resurrect the narco-terrorist group under the name Red Sendero. He had been cornered by the Armed Forces, and then captured. Fujimori had gone to Vilcaco, where Feliciano was captured, to observe the deployment of over 2,000 troops involved in the 40-day operation to hunt down the terrorist, and then returned to Lima to say that "the Inter-American Human Rights Court won't teach us how to defend human rights." He insisted, "We defend the human rights of terrorists . . . and of 24 million Peruvians." He reiterated that Peru will not accept any foreign interference in its affairs, and told reporters to expect further news about captures of some additional terrorists, who are still "wandering" about the countryside.

Feliciano was captured "without a scratch on him," Fujimori said in a 25-minute interview with Radio Programas de Perú, which was simultaneously broadcast in Colombia. The President immediately ordered that Feliciano and six other captured terrorists be fed, because they were all starving. Feliciano will be transferred to the maximum security facility at Callao naval base, where he will be jailed, along with Sendero's founder Abimael Guzmán and the MRTA's Víctor Polay Campos.

With a sardonic jab at the human rights mafia, Fujimori invited the Red Cross and the Inter-American Court to visit Feliciano there, to make sure he is unharmed. But, he continued, Feliciano will be tried by Peruvian courts and under Peruvian laws, because terrorist crimes cannot be judged by "normal" criteria, as the Inter-American

Court, "with apparent innocence," demands. The Inter-American Court has no role to play here, he repeated.

"Operation Cornering" was led by Gen. Carlos Indacochea, head of the Second Military Region. The operation was the result of patient intelligence work, and the deployment of Army, Navy, Air Force, and National Police troops, the Peruvian President explained. Told that his interview was being broadcast in Colombia, Fujimori replied that Peru's strategy is to stay ahead of the terrorists and anticipate their actions, thereby preventing them from launching any offensive or taking the initiative.

Red Cross caught aiding Colombia's FARC, again

When a Colombian Army unit manning a roadblock searched a Red Cross ambulance as it sought to enter the "demilitarized zone" of the Revolutionary Armed Forces of Colombia (FARC) on July 15, they discovered that it contained two new motorcycles and 60 pairs of military boots. The Army charged the Red Cross with aiding the narco-guerrilla FARC. A week earlier, the Red Cross had also been caught red-handed participating in the FARC offensive, by allowing FARC units to transit to and from battles in vehicles bearing Red Cross insignia, and by delivering the narco-terrorists' threat to policemen in battle: Surrender, or be annihilated.

Remember that during the late-1996 Tupac Amaru (MRTA) seizure of the Japanese ambassador's residence in Lima, Peruvian authorities caught the Red Cross providing the kidnapers with intelligence and serving as the MRTA's courier service. Peru threw the head of the International Red Cross out of the country.

In this latest Red Cross atrocity in Colombia, the head of the Colombian Red Cross, Alberto Bejarano, defended their actions, by reporting that President Andrés Pastrana's "Peace Commissioner" had asked the Red Cross to deliver the boots and motorcycles, which he claimed were destined for "unarmed municipal police" operating in the FARC's Coca Republic.

EGYPTIAN SCHOLARS want the Rosetta Stone back. On the July 15 bicentennial of the finding of the Rosetta Stone in Egypt, the British Museum held an exhibition featuring the great artifact. Although Egyptian Ambassador Adel al-Gazzar attended the ceremony, and indicated that Cairo would not contest custody of the stone, several leading Egyptian scholars voiced their demand, that the stone be returned to Egypt, according to the London *Daily Telegraph*.

BELGIAN PROSECUTOR Hubert Massa, who was heading up three critical investigations, allegedly committed suicide, according to the July 15 London *Daily Telegraph*. The most prominent investigation was into the 1996 pedophile murder of four girls by Marc Dutroux, which pointed toward an international pedophile ring. The other two cases, which are related, are the murder of Belgian Socialist Party leader André Cool and the corruption case against former NATO Secretary General Willy Claes. Massa apparently left no suicide note.

ULSTER UNIONIST Party leader David Trimble rejected the British government's July 14 directive for the Northern Ireland assembly to convene on July 15 and elect an executive body, announcing, "I have not sought, nor will I seek, a change in party policy," meaning that the UUP would not move to form the new executive until its demand for full decommissioning of IRA arms is met. The Northern Ireland peace process is now stalemated.

THE INDONESIAN Election Committee issued initial results of the first total vote count on July 15, which ruled that out of 122,305,927 votes counted, 86%, or 105,786,630, were valid. The rest were damaged, blank, or considered invalid for other reasons. Only 19 out of the 48 registered parties will be represented in the Parliament. An estimated 93.54% of registered voters voted.

Barak secures U.S. support for new peace offensive

by William Jones and Dean Andromidas

Israeli Prime Minister Ehud Barak, concluding his first official visit to the United States after having trounced Likud Prime Minister Benjamin Netanyahu in recent elections, received full support from President Clinton in his attempt to put momentum back into the Mideast peace process. After having succeeded in building his coalition government, Barak met with the key leaders in the area, Egyptian Prime Minister Hosni Mubarak, Jordanian King Abdullah II, and Palestinian Authority President Yasser Arafat.

Barak wanted to send a message to the world that he was proceeding apace to put momentum back in the Mideast peace process—a process which was aborted by Netanyahu during his term of office. From the moment he came to the United States, Barak indicated that he wished to achieve the “peace of the brave” between Israel and all its neighbors, including Syria, using the phrase coined during the initial peace ceremonies between Arafat and then-Prime Minister Yitzhak Rabin. He also indicated that something *had* to happen soon. “Time is of the essence for the whole process. We cannot sit idly and wait for the whole process to be solved somehow,” Barak warned.

Optimistic declarations pervaded Barak’s tour, but the most important achievements could not be seen in public statements. Much was made of the contrast between the positive “chemistry” created between Clinton and Barak, which contrasted sharply to the atmosphere of mistrust that had prevailed during the three years of Netanyahu’s premiership, and which had led to the collapse of the peace process. Political observers are quick to say that Barak and Clinton would not repeat the mistakes made during Netanyahu’s regime.

But the real lessons to be learned, were not those of the all-too-obvious failures of the Netanyahu years, but rather the lessons of the years of Prime Minister Yitzhak Rabin, whose spirit no doubt cast a heavy shadow over the Barak-Clinton meetings. Rabin was not merely a deceased friend and partner,

but the victim of an assassin’s bullet, whose murder in 1995 had been intended to sabotage exactly what both Barak and Clinton are now trying to accomplish. One hopes, therefore, that Clinton and Barak do not believe in “lone assassins,” and that they have learned the appropriate lessons. Some of their statements, superficial as they may be, seem to demonstrate that they have.

This was directly reflected in the structure of the visit, which was organized directly between the White House and Barak’s personal staff; the U.S. State Department and the Israeli Foreign Ministry were not involved. As a result, three private meetings with Clinton were organized, while the meetings with Vice President Al Gore, Secretary of State Madeleine Albright, and her “State Department team,” took a back seat to the main event.

The purpose of this was, first, to reestablish the Israeli Prime Minister’s relationship with the President of the United States. As far as the Israeli political elite is concerned, this was the biggest crime of Netanyahu, and perhaps the most important cause of his demise. In eyes of the more alarmed Israelis, Netanyahu had “thrown Clinton into the arms of Yasser Arafat.” Netanyahu managed to undermine this relationship so much that he began to be seen as a strategic threat to the Israeli state.

This is why Barak told reporters, prior to his first meeting with President Clinton on July 15, “I think that the United States can contribute to the process more as facilitator than as a kind of policeman, judge, and arbitrator at the same time. This was the tradition when Yitzhak Rabin was leading the peace process, and I deeply believe that this is the right way to have the best kind of influence and the best kind of contribution that the United States can bring into the peace process.”

After three years of Netanyahu, this relationship could only improve, and it obviously already has.



President Clinton and Prime Minister Barak speak to the press in Washington on July 15. As Barak emphasized, in the effort to achieve “the peace of the brave” between Israel and its neighbors, “time is of the essence for the whole process.”

State Department Anglophiles growl

The second purpose of the meetings was to deal with permanent bureaucracy in the U.S. State Department and security structures, which act independently of whoever might sit in the Oval Office, and are ready to throw hand grenades in the path of any motion toward a comprehensive Middle East peace settlement. According to Israeli press accounts, Barak was committed to ensure that it would be President Clinton who would dictate to his aides what U.S. policy would be—and not the other way around. These same accounts reported that both special U.S. envoy to Israel Dennis Ross and Assistant Secretary of State for Near East Affairs Martin Indyk—not to mention Albright—were a bit upset by Barak’s attitude.

It is now well-known in political circles that the State Department, particularly Ross and Indyk, as well as the American Ambassador to Israel, had been betting on a Netanyahu victory.

As for Clinton, Israeli sources assert that he sought Barak’s help in countering the Zionist Lobby, particularly the American Israeli Public Affairs Committee (AIPAC). These institutions are dominated by Netanyahu’s supporters. Just prior to leaving office, the latter issued orders for them to mobilize in the U.S. Congress against Clinton’s aid bill for the Palestinians. This grouping is one of the biggest challenges that Barak faces.

Another important consideration, as Barak stressed, is *time*. President Clinton has less than 18 months left in office. The possibility of George W. Bush or Al Gore as candidates for the Presidency defines the 15-month time frame that Barak announced he is following.

Barak expressed this concern when he said: “It is clear to all of us that without the United States’ participation, contribution, and without the leadership that had been shown in the past by the President, and I hope will be shown in the future by the American administration, we won’t be able to reach a peace. And I’m confident that we will find these resources and move forward toward the peace that all our peoples are waiting for.”

The meetings were structured in such a way that Barak first met Clinton at the beginning of his trip. This included a three-hour private meeting in the White House, and in the evening a private dinner between the President and Mrs. Clinton, and the Prime Minister and Mrs. Barak. This was held at Camp David, where both couples spent the night and had breakfast the next morning. A second meeting was held two days later, after Barak’s return from a trip to New York City, where he had met leaders of the Jewish community, as well as Henry Kissinger. In those intervening days, Clinton contacted Arab leaders, including Palestinian President Arafat and Egyptian President Hosni Mubarak, to brief them on his meeting with Barak, and to bring their responses to his final meeting with Barak.

Although the talks were kept confidential, the outlines of what can be expected over the next period are clear: There will be simultaneous motion on the so-called Syrian-Lebanon and Palestinian tracks. Both the Israelis and the Syrians are committed to reopening talks. The modalities are relatively straightforward: withdrawal from the Golan Heights and the security zone in south Lebanon, in exchange for full normalization of relations. This would be similar to the Egyptian-Israeli agreement and would require similar security measures and substantial U.S. involvement, both financially and in the realm of security.

The Palestinian question will be more challenging. The question is not whether there will be a Palestinian state, but what that state will look like in its territorial extent and its sovereign rights. While Barak initially sought changes to the Wye agreement, Arafat, Mubarak, and Jordanian King Abdullah have demanded that the agreements be implemented as signed. Barak also declared his intention not to dismantle Jewish settlements already established throughout the West Bank, which will be points of serious contention with the Palestinians.

A tragic flaw to overcome

Conspicuously absent from the Barak-Clinton discussion, is mention of the aspect which turned out to be the fundamental flaw in the implementation of the original peace agreements: economic development. The cornerstone to the 1993 Oslo Accords was the annexes on economic development, which called for developing a broad range of regional infrastructure, agriculture, and industrial development projects—

a policy which could be possible only in the context of a New Bretton Woods type of agreement, as Lyndon LaRouche has defined it. This is absolutely essential, given the collapse of the economies in the region, and the widespread poverty, which will eventually radicalize the political situation there. The best intentions of the Israeli, Arab, and U.S. leaders will not prevent a political explosion, perhaps ignited by terrorism, unless a prospect of hope is imparted to the population, through seeing a improvement in their everyday lives and a better future for their children.

The creation of an Israeli Ministry of Regional Development under Shimon Peres is a glimmer of hope, but it must have the powers, resources, and vision necessary to produce concrete results.

One very bad sign is the fact that World Bank Director James Wolfensohn arrived in Israel on July 22. He held meetings with Arafat and with Israeli officials. It was reported that in the five years since the Oslo Accords were signed, the World Bank has presented only 16 projects worth a paltry \$267 million, and not all of this money has been disbursed. Wolfensohn will also travel to Jordan, which is in effect bankrupt.

Unless motion on this track is made, then all other efforts will easily stall or be sabotaged, and war will no doubt follow.

The joint statement issued by the two leaders following their meetings on July 19 is in large part geared to help restore confidence among the Israelis in the viability of the process, by assuring that Israeli security concerns will not be sacrificed. The United States will provide funding for a third Arrow anti-missile battery to protect against any ballistic missile threat. In addition, a new Strategic Policy Planning Group, composed of senior representatives of the relevant national security entities of both countries, will develop recommendations to bolster Israel's deterrent capabilities. The United States will also initiate a closer cooperation with Israel in the area of space. The President informed Barak that an Israeli astronaut and payload of Israeli experiments will fly on a U.S. shuttle mission in the year 2000. But here, again, without serious economic development for the region as a whole, no amount of military hardware or sophisticated defense systems will guarantee peace or security.

President Clinton has promised to follow up Barak's initiative, with Secretary of State Albright assigned to go the the Middle East in August, with an eye on moving forward the negotiations with the Syrians.

Barak spent most of his last day in Washington visiting Congressmen. When asked by some Republicans if he would support Congressional moves that would that mandate that the U.S. move its embassy from Tel Aviv to Jerusalem, Barak said he would never oppose such a move, but made it clear to them that it would seriously imperil negotiations with the Palestinians. Such a move would throw a monkey-wrench into any further progress on so-called final status issues of the peace negotiations, one of which is the status of Jerusalem.

Senate GOP backs HMOs, defeats patients' rights

by Linda Everett

For the first time in the two years since President Clinton proposed his Patients' Bill of Rights, millions of desperate Americans who battle their health maintenance organizations (HMOs) to get medical care, hoped that they would finally be represented when the U.S. Senate took up the HMO crisis. But, when the Senate acted, on July 12-15—only because of Democrats' threats to paralyze the Senate if the Republican leadership refused to allow debate on the issue—the GOP blocked every patient protection the Democrats offered, finally killing the entire Democratic package by inserting a GOP substitute.

The Republican action outraged patients and physicians alike. Some 80-83% of Americans support every major HMO reform in the Democratic bill, sponsored by Sens. Edward Kennedy (D-Mass.) and Tom Daschle (D-N.D.), which included guaranteed access to the nearest emergency room and to specialists, and the right to sue an HMO for malpractice. Emergency room doctors in California, for example, complain that they are limited to 12 minutes of care per patient in the ER; and physicians who keep their patients in intensive care one day extra have been told by their HMOs that they themselves would have to pay for it.

The GOP's political protection of these insurance vultures is a slap in the face to thousands of people harmed or killed by HMOs' denial of care. The final GOP bill (S. 1344) would codify such barbarous HMO policies into law. How can a nation tolerate policies, which kill children with cystic fibrosis by denying them access to the appropriate specialists to perform life-saving surgery? How can hospitals survive if HMOs are allowed to steal outright, exemplified by the case of Blue Cross and Blue Shield of Maryland, which has denied Maryland hospitals more than \$155 million reimbursement for HMO-approved services that the hospitals provided, which the HMO had approved? These human rights violations, outright theft, and destruction of hospital care are escalating as the global economic crisis worsens—making it all the more urgent that the “managed care system,” and the predatory free-market policies driving it, are scrapped immediately, as the LaRouche movement has urged.

The hospital system must be salvaged, kept functioning, and rebuilt to serve the nation, while the financial system undergoes economic restructuring, as per the LaRouche's proposed New Bretton Woods system. Until that occurs, pa-

tient protections, such as those in the administration's Patients' Bill of Rights, should be supported when Congress takes up the battle in the House in late July.

The Democratic Patients' Bill of Rights provides decent protections for 161 million privately insured Americans, and has the support of *every* health care organization. The Republicans' counterfeit bill, sponsored by Senate Majority Leader Trent Lott (R-Miss.), has patronizing, but hollow provisions, that cover about 10% of the 48 million people in self-insured employer plans who are covered by HMOs. The Republican bill leaves out more than 130 million people in all but two of its provisions—but it has the backing of the insurance/HMO industry and its \$100 million blitz of lying ads, lobbyists, and consultants.

Emergency and specialist care

When a Maryland woman, Jacqueline Lee, fell off a 40-foot cliff while hiking, she was airlifted to a Virginia hospital for trauma care, which her HMO refused to cover because she failed to get preauthorization from her HMO for an emergency room visit—despite the fact that she was unconscious! The Democrats' bill ensures that when a "prudent lay person" thinks he or she has a medical emergency, the patient must be assured that emergency care, screening, stabilization/post-stabilization care at the nearest hospital are covered without prior authorization by their plan. The Republican defeated this provision, exchanging it for one of their own, which gives "access" to emergency care screening and stabilization only if these services are "available under the group health plan," and only if the emergency is on the HMO's approved list of conditions that warrant emergency care.

The American College of Emergency Physicians calls the GOP's interpretation of "post-stabilization care" dangerous. When a patient with a smashed elbow was recently brought to a hospital outside his plan's network, the ER doctors "stabilized" him, but the HMO denied authorization for the necessary orthopedic surgery (post-stabilization care) which their surgeon was prepared to do. The HMO ordered the patient sent to another network hospital, which had no orthopedic surgeon available; then, sent him to a third network hospital, that also had no orthopedic surgeon. Twelve hours later, after risk of infection and degradation of the wound, the patient was returned to the original, non-network hospital, to get the necessary surgery.

The Democrats' bill requires plans to cover specialist care outside the plan if it does not have a specialist to treat a patient's specific condition; it requires that plans have an adequate number of specialists to assure timely care (some plans have so few specialists that patients wait months for appointments); it allows for chronically ill patients to have a specialist as their primary care doctor. The Republicans defeated this for a meaningless provision that says if a plan does cover specialist care, it must provide it, but can charge extra.

When the family of a teenager with a seriously injured

hand was told by his insurance company that it would pay to amputate his hand, but not to reconstruct it, the family needed access to timely, independent review of the HMO's denial of treatment—which the Democratic bill provides for, but which the GOP defeated. Sen. Bill Frist (R-Tenn.), whose family helped found Columbia-HCA, the world's largest for-profit hospital cartel that is charged with bilking Medicare, repeatedly lied that the Republican bill guarantees 113 million patients access to independent external appeals. The truth is, the HMO chooses and pays for an "expert," who works for the HMO, who is under contract with the HMO, and who must base his review of the HMO's treatment decision on the HMO's own arbitrary definition of "medical necessity."

Hence, Aetna-US Healthcare (the nation's largest managed care company, which just bought up Prudential Healthcare for \$1 billion), which controls up to 60% of all U.S. insured patients, will be allowed to continue its physician contracts under which Aetna retains its "power to amend, unilaterally, all terms of the contract," including power to alter the definition of the term "medically necessary treatment." Another HMO calls medically necessary care "the shortest, least expensive or least intense level of treatment as determined by the plan."

The right to sue

In the event of serious injury or death, the Democrats' plan allows patients or families to sue an HMO if their state law allows it. In one case, despite a doctor's begging, an emergency room patient's HMO repeatedly denied authorization to treat the man's uncontrollable blood pressure overnight with IV medications. The patient, saying that "I am sure my HMO would never put me in danger," went home. He thereupon suffered a stroke, and remains permanently paralyzed on one side of his body.

The Democratic bill makes HMOs and insurers legally accountable for their negligence, but it does not, as the GOP/HMO lobby lie, hold employers liable, unless they block treatment. Sen. John Chafee (R-R.I.) offered a compromise which gives patients the right to sue in Federal court, but not in state court, for damages and for pain and suffering. Chafee expressed hope, that his bill, which has several Democratic co-sponsors, would be heard this year. No other industry in America enjoys such immunity from accountability for its actions. Under the Employee Retirement Income Security Act of 1974, employee group health and benefit plans cannot be sued. Court papers filed in a class-action suit against Aetna, which covers 21 million people, reveal that Aetna explicitly directs its employees to discriminate against patients in ERISA plans—i.e., deny them services—because under ERISA, Aetna has total immunity from liability. The Democrats' bill changes that, and this strikes terror in HMOs. The Republicans defeated this measure as well.

The final Republican bill, which Chafee and Peter Fitzgerald (R-Ill.) opposed, passed 53-47.

Export controls hurt U.S. national security

by Marsha Freeman

Late last year, in response to a non-stop media campaign, the U.S. Congress voted, under the guise of protecting U.S. national security, to make it more difficult to export commercial communications satellites. Starting with an article in the April 12, 1998 *New York Times*, allegations were made daily that China had gained access to, if not stolen, satellite- and rocket-launch technology that could be used for military purposes.

Representatives from the satellite industry, the aerospace industry more broadly, and the U.S. Commerce Department warned at the time that tightening export restrictions on satellites, by taking the license approval process out of the hands of the Commerce Department and placing commercial satellites on the Munitions List of the State Department, would have a detrimental effect on the industry.

The legislated change in licensing procedure took place on March 15. While there have been howls of protest from Europe and Japan — whose domestic satellites contain American components, and are, therefore, bound by the same draconian restrictions as satellites made in America — and lucrative contracts with Chinese and other Asian customers have been cancelled, the truth of the matter is that restricting U.S. high-technology exports will not protect national security; rather, such restrictions threaten it.

Strangling U.S. industry

In testimony to the International Economic Policy, Export, and Trade Promotion Subcommittee of the Senate Committee on Foreign Relations on June 24, the president of the Space and Strategic Missiles Sector of Lockheed Martin Corp., Thomas A. Corcoran, stated that the export policy codified in the law that became effective on March 15, “has been extremely damaging to the satellite and launch industries.” He described the restrictions as creating a “regulatory stranglehold” on industry’s ability to compete in the international marketplace, and to secure satellite export contracts from foreign customers.

Corcoran stated that Japanese and European customers, who use U.S. components in satellites, are threatening to look elsewhere for suppliers, because they can no longer depend on a transparent and reliable export control regime in the United

States. Even NATO allies have to go through bureaucratic license approvals and clearances, just to *talk* to each other. “We in industry cannot conduct our business under a system like this,” he stated.

The consequences of this “unilateral” attempt at controlling the export of technology, Corcoran said, is not simply that American corporations lose money, and jobs, but that “we jeopardize our national security and technological edge when industry is positioned to lose exports to foreign competitors.” He concluded, “We need to rebuild a consensus on what constitutes national security. . . . Business and national security interests are integrally linked.”

In an interview with this reporter on June 16, Undersecretary of Commerce, Bureau of Export Administration William Reinsch explained why the linkage between the aerospace and other high-technology industries, and national security, is direct. “What has been happening in the economy is a sea-change in the last 15 years, from specialized military production by military prime contractors, in a close relationship with the Defense Department that sustained them, to the civilianization” of advanced military technology.

Reinsch stated, “Our defense establishment is turning increasingly to advanced technologies, but those technologies are developed and manufactured by the civilian sector, for the civilian marketplace. Defense sales are in the single digits [percentages] to most of these companies. What this means is that the health of our military establishment is tied much more directly than it ever was before, to the health of civilian companies.”

How do export restrictions affect this linkage? Reinsch explained that “more than 50% [of corporate] sales are exports. In a globalized economy, exports are the key to prosperity. So, the new equation in exports means, healthy high-tech companies equal strong defense.” Both the Commerce Department and the industry warn that as exports fall, and corporate income declines, less and less funding will go into research and development, upon which the Defense Department depends for new weapons systems.

To think that you are defending “national security” by trying to deny technology to other nations, Reinsch stated, also undercuts how the United States can actually keep the technological edge. Agreeing with nuclear physicist Edward Teller’s insistence that the way to protect America’s nuclear weapons is by advancing our science, not trying to keep secrets, Reinsch stated that an important way to “maximize the technological gap between us and our adversaries is to run faster than they are. And that means making sure that our suppliers of technology, which are no longer the military prime [contractor] but the civilian company, are, in fact, healthy and doing a lot of R&D.”

In an essay on “An Export Control Agenda for the 21st Century,” appearing in *Economic Casualties*, published by the Cato Institute earlier this year, Reinsch also makes the



Undersecretary of Commerce William Reinsch: The way to “maximize the technological gap between us and our adversaries is to run faster than they are.”

point that “our national security interest lies more in making sure we maintain healthy high-tech companies that can supply our military’s needs than it does in attempting to ‘control the uncontrollable.’” Not only in communications satellites, but in computers and advanced machine tools, the United States has implemented virtually unilateral sanctions against “sensitive” countries, such as China.

Build bridges, don’t invent adversaries

In the essay, Reinsch states: “We do not have a fully adversarial relationship with all the targets of our proliferation controls. On the contrary, we are seeking to engage those states in a dialogue to lead to closer integration with the international community and to develop a range of normal trade relations.” A case in point, is the People’s Republic of China.

Over the past year, Reinsch has made the point, in Congressional testimony and speeches, that the trade and economic relations we put forward with China will have an impact on China’s strategic orientation to the United States. In his interview with *EIR*, Reinsch observed, “I think there’s been a tendency among some in the Congress to try to draw a Cold War analogy between China and the Soviet Union in the 1950s.” But, he said, “the Soviet Union participated in walling itself off from Western influence, and really created a second camp, and articulated an alternative ideology and world view. The Chinese are really doing the opposite, as far as economics is concerned,” seeking to engage themselves in the world economy.

Reflecting back on U.S. economic and trade policy over the past four decades, Reinsch stated, “One of President Kennedy’s theories about these things was that the way to reach better relationships was to build bridges. You start out building cultural and economic bridges, because those are the easiest ones to build.

“Each time you build a bridge, you increase the stake in the relationship and you increase the cost of disrupting the relationship. Each little bridge that you build, even the smallest, becomes one more thing that binds us together and gives us incentives to work on our differences peacefully, rather than become adversaries. That’s what we’ve been trying to do with the Chinese.” The current “assumption that they are going to be an enemy,” he said, “would essentially turn the last 20 years of strides, ever since 1979, on its head, and move our policy in the opposite direction.”

Asked if the attempt to re-create the Cold War, this time with China, could push the Chinese into an adversarial relationship with the United States, where it does not now exist, Reinsch replied, “Yes, it is a self-fulfilling prophecy; you treat them like one, you increase the likelihood that they’ll become one.”

Secretary Reinsch expressed a somewhat cynical view, stating, “I start with the premise that [the Chinese] are fundamentally interested in two things: one, the government is interested in keeping itself in power, which is what governments are always interested in. But they perceive that, historically in China, the best way to do that is to increase the prosperity of the people. So, they are focussed on the reforms that are necessary to produce economic growth and prosperity.” In reality, the primary concern of the government of China is to promote the policies that will raise the standard of living of its people, which it can do from a position in power, not the other way around.

The Clinton administration, Reinsch stated, believes that “political developments inevitably will follow economic developments. You can’t link them [the Chinese] to Western capital, Western technologies, Western goods, Western intellectual property, in an economic sense, and expect Western ideas to somehow be missing from that equation. . . . The consequences start out being economic, but they don’t end up being only economic. There is an inevitability about this, that is historically compelling. That is what we really toss into the trash can, if we pursue a Cold War policy.”

Reinsch stated that the ongoing economic relationship between the United States and China has been affected by the NATO war with Yugoslavia. Because of the Chinese Embassy bombing in Belgrade, “a lot of things have stopped or been put on hold,” he said. While he was unaware that any contracts had been cancelled, “it had an effect, at minimum, of slowing things down.” Meetings have been cancelled, or delayed, and the Chinese population has demonstrated its opposition to the NATO policy by boycotting American-made goods.

It is clear that the policy of “building bridges”—figuratively with China, and literally in the Balkans—is what is needed by this administration, if those promoting various “enemy-images” are not to have the upper hand in U.S. foreign policy.

Africa trade bill is passed by House

On July 16, the House passed the so-called Africa Growth and Opportunity Act, by a vote of 234-163. The bill, in the words of International Relations Committee Chairman Benjamin Gilman (R-N.Y.), "authorizes a new trade and investment policy toward the countries of Sub-Saharan Africa, and expresses the willingness of our nation to assist the eligible countries of that region with a reduction of trade barriers, the creation of an economic cooperation forum, the promotion of a free trade area, and a variety of other trade and related mechanisms." He added that "the bill does not attempt to do anything for the people of Africa, but rather it proposes to encourage beneficial trade with the countries of Africa."

The drive for the bill was led by Trade Subcommittee Chairman Phil Crane (R-Ill.), and Charles Rangel (D-N.Y.), the senior member on the Ways and Means Committee. Rangel's high-profile role resulted in most, but not all, the members of the Black Caucus giving their support.

The opposition consisted of anti-free traders on both sides of the aisle, such as Duncan Hunter (R-Calif.) and David Bonior (D-Mich.). Most of the opposition focussed on comparing the bill to the North American Free Trade Agreement, and how that has lowered wages on both sides of the U.S.-Mexico border, or on "transshipment," by which other countries, notably China, might set up assembly plants in Africa and ship products to the United States, thereby avoiding U.S. import quotas.

Others warned of the colonial nature of the bill. Maxine Waters (D-Calif.) said that language in the bill echoes that of the International Monetary Fund and the World Bank—"not wanting Africa to own its own infra-

structure, wanting them to reduce corporate taxes, wanting them basically not to be able to be in control of their railroads and their airports, because we want to have the ability to own it all when we come in on this trade bill."

The House rejected an amendment by Jesse Jackson, Jr., intended, in part, to address the problems raised by Waters, that would have required the Overseas Private Investment Corp. and the Export-Import Bank to target financial support specifically to improving physical infrastructure, including schools, hospitals, electricity, and drinking water.

Treasury spending bill narrowly passes House

The July 15 House debate on the Treasury, Postal Service, and General Government Appropriations bill took on characteristics that are becoming increasingly common. As Steny Hoyer (D-Md.) described it, the bill passed out of subcommittee unanimously as a bipartisan bill, but was changed by the House GOP leadership such that Democrats could no longer support it. The razor-thin vote of 210-209, indicates the partisan nature of what transpired on the floor.

The \$13.5 billion bill (the same as for fiscal 1999) was dictated by the budget caps of the 1997 balanced budget agreement. The chairman of the Treasury Appropriations subcommittee, Jim Kolbe (R-Ariz.), told the House that the caps "required us to make some tough choices to put this bill together." He said that nearly \$600 million was needed to keep up with inflation, but this was not available, so new courthouse construction was postponed.

Hoyer said that the bill, as passed

by the subcommittee, was only allowed a 1.8% increase by the budget caps, but the GOP leadership decided, arbitrarily, to cut \$240 million off what the subcommittee had passed. He said that this occurred because "a relatively small group in this House has decided that we are going to make cuts notwithstanding the needs of this nation." The cut, he said, rendered the bill "unsupportable." He also warned that the funding levels in the bill are insufficient to support Internal Revenue Service reform efforts mandated in a bill passed overwhelmingly last year.

Two other spending measures, however, had an easier time. The Interior Department appropriations bill, which has had a difficult time in past years, passed easily on July 14 by a vote of 377-47, and the Military Construction bill, traditionally a noncontroversial bill, passed a day earlier by a vote of 418-4.

House GOP subpoenas Saipan sweatshop foes

The House Resources Committee has issued subpoenas to Interior Secretary Bruce Babbitt; David North, the director of public affairs at the Office of Insular Affairs (OIA); and the Democratic Congressional Campaign Committee (DCCC), based on allegations that North has been providing unfavorable information to the DCCC on Republicans, the July 16 *Washington Post* reported. Those Republicans are House Majority Leader Dick Armey (R-Tex.), Majority Whip Tom DeLay (R-Tex.), and Dana Rohrabacher (R-Calif.), all of whom have been instrumental in blocking attempts by House Democrats and the Clinton administration to clean up the horrendous la-

bor conditions on the island of Saipan in the Commonwealth of the Northern Marianas Islands, a U.S. territory in the western Pacific infamous for its sweatshop garment factories.

In a July 16 memo to committee members, Young wrote, "I issued subpoenas and oversight letters in this case simultaneously because of specific and credible information that one or more people within the Insular Affairs staff may be conducting partisan political activities at taxpayer expense—efforts which may be directed at defeating certain sitting members of Congress." He threatened to seek a contempt of Congress citation against OIA Acting Director Ferdinand Aranza, if Aranza does not comply with the subpoenas by July 21.

The committee's ranking member, George Miller (D-Calif.), said shortly before his death on July 15, that the subpoenas are an attempt to intimidate Federal bureaucrats who disagree with the GOP. "It's a way to run roughshod over individuals in government agencies that these people disagree with," he said. "Even if there's some wrongdoing here, they go about ferreting out that wrongdoing in a capricious and arbitrary way."

Tax cut proposal begins partisan battle

With great fanfare, House Ways and Means Committee Chairman Bill Archer (R-Tex.) released his tax-cut plan, the "Financial Freedom Act of 1999," on July 13. Provisions include reducing individual income tax rates 10% over 10 years, cutting the capital gains tax rate from 20% to 15%, retroactive to July 1, 1999, phasing out the estate and gift taxes over 10 years, making long-term health care cover-

age tax deductible, eliminating the so-called marriage penalty, and expanding education IRAs to allow them to be used to pay elementary and secondary school expenses and college expenses. The cost of the tax cut is projected to be \$864 billion.

Archer told reporters that, with the GOP plan, "we have the ability to save Social Security, fix Medicare, pay down the debt and to give tax relief." He claimed that the entire cost of the tax cut will come out of the on-budget (that is, not including Social Security) surplus over the next ten years. With the Social Security surplus projected at \$1.9 trillion, and \$1.3 trillion needed to "save" it, that, Archer said, leaves \$600 billion for Medicare.

Democrats are disputing Archer's figures. Minority Leader Richard Gephardt (D-Mo.) told reporters on July 15 that the GOP bill "calls for massive, risky, irresponsible tax cuts that result in higher deficits and, ultimately, higher interest rates." He compared it to the 1981 tax cuts and the deficits that followed throughout the 1980s and into the 1990s. "We think that risks the economic advancement that's been made over the last three or four years and we think it's a risk that America doesn't want or need," he said. Democrats are pushing a plan for about \$250 billion in cuts targeted more to the middle class.

The Committee modified the bill to bring it closer in line with the Senate proposal, and passed it on a party-line vote on July 16. But, its future remains uncertain—and not just because of a likely Presidential veto. Sensitive to Democratic charges that the size of the proposed tax cut threatens Social Security and Medicare, a group of GOP moderates led by Michael Castle (R-Del.) have put forward an alternative of \$500 billion in tax cuts. Castle's group is reported to include about 20

Republicans, which is enough to put passage of Archer's bill in doubt.

Leahy bill to protect Secret Service function

On July 13, Sen. Pat Leahy (D-Vt.) introduced a bill to establish a protective function privilege for the U.S. Secret Service. In remarks on the Senate floor, Leahy said that the purpose of his bill is "to ensure the ability of the Secret Service to fulfill its vital mission of protecting the life and safety of the President and other important persons."

Leahy made clear that his bill is in response to what he called the "misguided efforts" of independent counsel Kenneth Starr to compel Secret Service agents to testify about what they may have observed while protecting the President. "Few national interests are more compelling than protecting the life of the President of the United States," Leahy said. "What's at stake is the ability of the Executive branch to function in an effective and orderly fashion, and the capacity of the United States to respond to threats and crises." Invoking the assassination of President Kennedy in 1963, Leahy added that an attack on the President "has international repercussions and threatens the security and future of the entire nation."

Leahy warned that the Secret Service's protective function depends on building complete trust between its agents and the protectee. That trust is threatened by court decisions favorable to Starr's efforts. "Requiring Secret Service agents to betray the confidence of the people whose lives they protect could seriously jeopardize the ability of the Service to perform its crucial national security function," he said.

Stop the British killers of U.S. Presidents

Anyone who has any doubts about the British oligarchy's visceral hatred of everything great that America stands for, should hold his nose and inspect the vile piece of garbage circulated by the Sir Rupert Murdoch's *New York Post*, in a July 21 editorial by editorial-page editor John Podhoretz, titled "A Conversation in Hell," about the death of John F. Kennedy, Jr. One can only conclude that Podhoretz, and by extension, Murdoch, know Satan quite intimately.

Lyndon H. LaRouche, Jr. evaluated Sir Rupert's satanic outburst against the Kennedys as also a direct threat against President Bill Clinton.

The British oligarchy carried out the assassination of President John F. Kennedy in November 1963, through a Montreal-based British intelligence front, Permindex. Kennedy was a great American President, who threatened to kick over the chessboard of British geopolitics. That is why he had to be eliminated.

That same British oligarchy today is in a desperate, killer rage against the United States, as their empire of financial paper edges closer to doom. For Queen Elizabeth, Prince Philip, and the other leading figures within the British oligarchy, the number-one enemy is Lyndon LaRouche, the man whose ideas can bring about a world freed from these mass murderers. Second on their list of targets is President Clinton, the man with the power to turn LaRouche's ideas into reality.

Do not imagine that this article was the author's personal psychotic episode. John Podhoretz is Rupert Murdoch's very own poison pen. In the same way that Murdoch's mentor, Canadian press baron Lord Beaverbrook, sent a gloating note to Joseph Kennedy, following JFK's assassination, expressing hope that Robert Kennedy would not meet the same fate, so, today, Murdoch and Podhoretz were delivering a personal message on behalf of the British Crown.

Podhoretz's column was written in the form of a monologue by the Devil, explaining to Joseph Kennedy why he had to exact revenge on the head of the Kennedy clan by claiming yet another young life.

In reality, it is Podhoretz, writing about the Faustian bargain, who comes across as the "soul-less one." Like Marlow's Dr. Faustus, the thing most alien to Podhoretz

and his cohorts from the Conservative Revolution, is that quality most needed in America today: agapic love, known as the Latin *caritas*, or charity, as described in St. Paul's *I Corinthians* 13.

Instead, with Satanic glee, Podhoretz takes the side of the Devil, in an allegory that explains why "another Kennedy, had to die."

Podhoretz's filth defies description, but a few excerpts suffice. Speaking for Satan, Podhoretz writes:

"Joe! Joe Kennedy! . . . Nice to see you. . . . You wanted wealth and power, and you wanted it to stretch through the generations. You wanted to be the creator of a dynasty that would rule America. . . .

"And you wanted your son to be President. . . .

"You got everything you wanted. But when I make a deal for a soul like yours — so unyielding in its sense of entitlement, so sure that the world should bow before it, so damned tough — it's raw to me, like uncooked meat. I need to season it, pound on it a bit so that it becomes tender, brown it a bit on the fire before I'm ready to put it in the infernal oven.

"So if I'd let that son of yours that you wanted to become President make it to the White House, it would have meant that the supper I intended to make of your soul indigestible. He simply had to go. . . .

"You were so triumphant with Jack's victory. . . . I said I'd make Jack President, but I didn't say he'd finish out his term. And I didn't say you'd get another. That was your mistake, trying again with Bobby. That was a violation of the contract. . . .

"And you didn't listen . . . you were still intent on the idea that Teddy might do it. . . .

"Your time was up, wasn't it, after Chappaquiddick. You died a few months later. . . .

"So every time you think the deal is done, every time you think your family is on its way back to glory, I just have to do something. Like I did this weekend, with your grandson John."

Within hours of its appearance, the Podhoretz article was pulled from the pages of the *New York Post*. But that's not enough. Rupert Murdoch and other collaborators with the British assassins of American Presidents must be shunned — and politically destroyed.

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- ALABAMA**
 ⇨BIRMINGHAM—T/W Ch. 4
 Thursdays—11 p.m.
 ⇨MONTGOMERY—TCI Ch. 3
 Mondays—10:30 p.m.
- ALASKA**
 ⇨ANCHORAGE—ACTV Ch. 44
 Thursdays—10:30 p.m.
 ⇨JUNEAU—GCI Ch. 2
 Wednesdays—10 p.m.
- ARIZONA**
 ⇨PHOENIX—Access Ch. 98
 Sundays—7 p.m.
 ⇨TUCSON—Access
 Ch. 62 (Cox)
 Ch. 54 (CableReady)
 Thursdays—12 Midnight
- ARKANSAS**
 ⇨CABOT—Ch. 15
 Daily—8 p.m.
 ⇨LITTLE ROCK—Comcast Ch. 18
 Tue. or Sat.: 1 a.m., or
 Saturdays—6 a.m.
- CALIFORNIA**
 ⇨BEVERLY HILLS*
 Century Cable Ch. 37
 ⇨BREA*
 Century Cable Ch. 17
 ⇨CHATSWORTH
 Time Warner—Ch. 27/34
 Wednesdays—5:30 p.m.
 ⇨CONCORD—Ch. 25
 Thursdays—9:30 p.m.
 ⇨COSTA MESA—Ch. 61
 Mon.—6 pm; Wed—3 pm
 Thursdays—2 p.m.
 CULVER CITY
 MediaOne Ch. 43
 Wednesdays—7 p.m.
 Aug. 4, 11, 18, 25
 ⇨E.LOS ANGELES
 BuenaVision—Ch. 6
 Fridays—12 Noon
 ⇨HOLLYWOOD
 MediaOne Ch. 43
 Wednesdays—7 p.m.
 Aug. 4, 11, 18, 25
 ⇨LANCASTER/PALMDALE
 Jones Ch. 16
 Sundays—9 p.m.
 ⇨MARINA DEL REY
 Century Cable Ch. 3*
 MediaOne Ch. 43
 Wednesdays—7 p.m.
 Aug. 4, 11, 18, 25
 MID-WILSHIRE
 MediaOne Ch. 43
 Wednesdays—7 p.m.
 Aug. 4, 11, 18, 25
 ⇨MODESTO—Access Ch. 8
 Mondays—2:30 p.m.
 ⇨SAN DIEGO—SW Ch. 16
 Mondays—10 p.m.
 ⇨SAN FRANCISCO—Ch. 53
 2nd & 4th Tues.—5 p.m.
- ⇨SANTA ANA—Ch. 53
 Tuesdays—6:30 p.m.
 ⇨SANTA CLARITA
 MediaOne/T-W Ch. 20
 Fridays—3 p.m.
 ⇨SANTA MONICA*
 Century Cable Ch. 77
 ⇨TUJUNGA—Ch. 19
 Fridays—5 p.m.
 VENICE
 MediaOne Ch. 43
 Wednesdays—7 p.m.
 Aug. 4, 11, 18, 25
 ⇨WEST HOLLYWOOD*
 Century Cable Ch. 3
- COLORADO**
 ⇨DENVER—DCTV Ch. 57
 Sat.-1 p.m.; Tue.-7 p.m.
- COLORADO**
 ⇨BRANFORD—TCI Ch. 21
 Thursdays—9 p.m.
 Fridays—10 a.m.
 ⇨GROTON—Comcast Ch. 23
 Mondays—10 p.m.
- NEW HAVEN**
 Comcast Ch. 28
 Sundays—10 p.m.
 ⇨NEWTOWN/NEW MILFORD
 Charter Ch. 21
 Thursdays—9:30 p.m.
- DIST. OF COLUMBIA**
 ⇨WASHINGTON—DCTV Ch. 25
 Sundays—3:30 p.m.
- ILLINOIS**
 ⇨CHICAGO—CAN Ch. 21*
 Mon., Aug. 2: 10 p.m.
 Sat., Aug. 21: 7 p.m.
 ⇨SPRINGFIELD—Ch. 4
 Wednesdays—5:30 p.m.
- IOWA**
 ⇨DES MOINES—TCI Ch. 15
 1st Wednesdays—8:30 p.m.
 Following Sat.—3 p.m.
 ⇨WATERLOO—TCI Ch. 15
 Tuesdays—5 p.m.
- KANSAS**
 ⇨SALINA—CATV Ch. 6*
- KENTUCKY**
 ⇨LATONIA
 Intermedia Ch. 21
 Mon.-8 p.m.; Sat.-6 p.m.
 ⇨LOUISVILLE—Ch. 70/18
 Fridays—2 p.m.
- LOUISIANA**
 ⇨ORLEANS—Cox Ch. 6
 Thurs. & Sat.—10 p.m.
- MARYLAND**
 ⇨ANNE ARUNDEL—Ch. 20
 Fri. & Sat.—11 p.m.
 ⇨BALTIMORE—BCAC Ch. 5
 Wednesdays—4 p.m. & 8 p.m.
 ⇨MONTGOMERY—MCTV Ch. 49
 Fridays—7 p.m.
 ⇨PRINCE GEORGES—Ch. 15
 Mondays—10:30 p.m.
- ⇨W. HOWARD COUNTY—Ch. 6
 Monday thru Sunday—
 1:30 a.m., 11:30 a.m.,
 4 p.m., 8:30 p.m.
- MASSACHUSETTS**
 ⇨AMHERST—ACTV Ch. 10*
 ⇨BOSTON—BNN Ch. 3
 Saturdays—12 Noon
 ⇨WORCESTER—WCCA Ch. 13
 Wednesdays—6 p.m.
- MICHIGAN**
 ⇨CANTON TOWNSHIP
 MediaOne Ch. 18: Thu.—6 p.m.
 ⇨DEARBORN HEIGHTS
 MediaOne Ch. 18: Thu.—6 p.m.
 ⇨GRAND RAPIDS—GRTV Ch. 25
 Fridays—1:30 p.m.
 ⇨PLYMOUTH
 MediaOne Ch. 18: Thu.—6 p.m.
- MINNESOTA**
 ⇨ANOKA—QCTV Ch. 15
 Thu.—11 a.m.; 5 p.m.,
 12 Midnight
 ⇨COLUMBIA HEIGHTS
 Community TV—Ch. 15
 Wednesdays—8 p.m.
 ⇨DULUTH—PACT Ch. 24
 Thu.—10 p.m.; Sat.—12 Noon
 ⇨MINNEAPOLIS—MTN Ch. 32
 Wednesdays—8:30 p.m.
 ⇨NEW ULM—Paragon Ch. 12
 Fridays—7 p.m.
 ⇨PROCTOR/HERMAN—Ch. 12
 Tue.: between 5 pm & 1 am
 ⇨ST. LOUIS PARK—Ch. 33
 Friday through Monday
 3 p.m., 11 p.m., 7 a.m.
 ⇨ST. PAUL—Ch. 33
 Sundays—10 p.m.
 ⇨ST. PAUL (NE burbs)*
 Suburban Community Ch. 15
- MISSOURI**
 ⇨ST. LOUIS—Ch. 22
 Wed.—5 p.m.; Thu.—Noon
- MONTANA**
 ⇨MISSOULA—TCI Ch. 13/8
 Sun.—9 pm; Tue.—4:30 pm
- NEVADA**
 ⇨CARSON CITY—Ch. 10
 Sun.—2:30 pm; Wed.—7 pm
 Saturdays—3 p.m.
- NEW JERSEY**
 ⇨MONTVALE/MAHWAH—Ch. 27
 Wednesdays—5:30 p.m.
- NEW YORK**
 ⇨AMSTERDAM—TCI Ch. 16
 Fridays—7 p.m.
 ⇨BROOKHAVEN (E. Suffolk)
 Cablevision Ch. 1/99
 Wednesdays—9:30 p.m.
 ⇨BROOKLYN—BCAT
 Time/Warner Ch. 35
 Cablevision Ch. 68
 Sundays—9 a.m.
- ⇨CORTLANDT/PEEKSKILL
 MediaOne Ch. 32/6
 Wednesdays—3 p.m.
 ⇨HORSEHEADS—T/W Ch. 1
 Mon. & Fri.—4:30 p.m.
 ⇨HUDSON VALLEY—Ch. 6
 2nd & 3rd Sun.—1:30 p.m.
 ⇨ILION—T/W Ch. 10
 Saturdays—12:30 p.m.
 ⇨IRONDEQUOIT—Ch. 15
 Mon. & Thurs.—7 p.m.
 ⇨ITHACA—Pegasys Ch. 78
 Mon.—8 pm; Thu.—9:30 pm
 Saturdays—4 p.m.
 ⇨JOHNSTOWN—Ch. 7
 Tuesdays—4 p.m.
 ⇨MANHATTAN—MNN
 T/W Ch. 34; RCN Ch. 109
 Sun., Aug. 8, 22: 9 a.m.
 Sun., Sep. 5, 19: 9 a.m.
 ⇨N. CHAUTAUQUA COUNTY
 Gateway Access Ch. 12
 Fridays—7:30 p.m.
 ⇨ONEIDA—PAC Ch. 10
 Thursdays—10 p.m.
 ⇨OSSINING—Ch. 19/16
 Wednesdays—3 p.m.
 ⇨PENFIELD—Ch. 12
 Penfield Community TV*
 ⇨POUGHKEEPSIE—Ch. 28
 1st & 2nd Fridays—4 p.m.
 ⇨QUEENSBURY
 Harron Cable Ch. 71
 Thursdays—7 p.m.
 ⇨RIVERHEAD—Peconic Ch. 27
 Thursdays—12 Midnight
 ⇨ROCHESTER—GRC Ch. 15
 Fri.—11 p.m.; Sun.—11 a.m.
 ⇨ROCKLAND—T/W Ch. 27
 Wednesdays—5:30 p.m.
 ⇨SCHENECTADY—SACC Ch. 16
 Tuesdays—10 p.m.
 ⇨STATEN ISL.—CTV Ch. 57
 Wed.—11 p.m.; Sat.—7 a.m.
 ⇨SUFFOLK, L.I.—Ch. 25
 2nd & 4th Mondays—10 p.m.
 ⇨SYRACUSE—T/W
 City: Ch. 3; Burbs: Ch. 13
 Fridays—8 p.m.
 ⇨UTICA—Harron Ch. 3
 Thursdays—6 p.m.
 ⇨WATERTOWN—T/W Ch. 2
 Tue. between Noon & 5 p.m.
 ⇨WEBSTER—WCA-TV Ch. 12
 Wednesdays—8:30 p.m.
 ⇨WESTFIELD—Ch. 21
 Mondays—12 Noon
 Wed. & Sat.—10 a.m.
 Sundays—11 a.m.
 ⇨WEST SENECA—Ch. 68
 Thursdays—10:30 p.m.
 ⇨YONKERS—Ch. 37
 Saturdays—3:30 p.m.
 ⇨YORKTOWN—Ch. 34
 Thursdays—3 p.m.
- NORTH DAKOTA**
 ⇨BISMARCK—Ch. 12
 Thursdays—6 p.m.
- OHIO**
 ⇨COLUMBUS—Ch. 21*
 ⇨OBERLIN—Ch. 9
 Tuesdays—7 p.m.
- OREGON**
 ⇨CORVALLIS/ALBANY
 Public Access Ch. 99
 Tuesdays—1 p.m.
 ⇨PORTLAND—Access
 Tuesdays—6 p.m. (Ch. 27)
 Thursdays—3 p.m. (Ch. 33)
- RHODE ISLAND**
 ⇨E. PROVIDENCE—Cox Ch. 18
 Sundays—12 Noon
- TEXAS**
 ⇨AUSTIN—ACT Ch. 10/16*
 ⇨EL PASO—Paragon Ch. 15
 Wednesdays—5 p.m.
 ⇨HOUSTON—Access Houston
 Tue., Aug. 8: 12:30 p.m.
 Wed., Aug. 4: 6-7 p.m.
 Thu., Aug. 5: 5-6 p.m.
- UTAH**
 ⇨GLENWOOD, Etc.—SCAT-TV
 Channels 26, 29, 37, 38, 98
 Sundays—about 9 p.m.
- VIRGINIA**
 ⇨ALEXANDRIA—Jones Ch. 10*
 ⇨ARLINGTON—ACT Ch. 33
 Sun.—1 pm; Mon.—6:30 pm
 Wednesdays—12 Noon
 ⇨CHESTERFIELD—Ch. 6
 Tuesdays—5 p.m.
 ⇨FAIRFAX—FCAC Ch. 10
 Tuesdays—12 Noon
 Thu.—7 p.m.; Sat.—10 a.m.
 ⇨LOUDOUN—Cablevision Ch. 59
 Thursdays—7:30 p.m. & 10 p.m.
 ⇨P.W. COUNTY—Jones Ch. 3
 Mondays—6 p.m.
 ⇨ROANOKE COUNTY—Cox Ch. 9
 Thursdays—2 p.m.
 ⇨SALEM—Adelphia Ch. 13
 Thursdays—2 p.m.
- WASHINGTON**
 ⇨KING COUNTY—Ch. 29
 Mondays—11:30 a.m.
 ⇨SPOKANE—Cox Ch. 25
 Wednesdays—6 p.m.
 ⇨TRI-CITIES—TCI Ch. 13
 Mon.—12 Noon; Wed.—6 p.m.
 Thursdays—8:30 p.m.
- WISCONSIN**
 ⇨KENOSHA—T/W Ch. 21
 Mondays—1:30 p.m.
 ⇨MADISON—WYOU Ch. 4
 Tue.—2 pm; Wed.—8 am
 ⇨OSHKOSH—Ch. 10
 Fridays—11:00 p.m.
 ⇨WAUSAU—Marcus Ch. 10
 Fri.—10 p.m.; Sat.—5:30 p.m.
- WYOMING**
 ⇨GILLETTE—Ch. 36
 Thursdays—5 p.m.

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