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LaRouche: Trade without Currency
The Fatal Flaw That Doomed the Mideast Talks
Taking to the Stump, To Revive the Party of FDR

Group of Eight Chooses Laptops, Ignores Reality



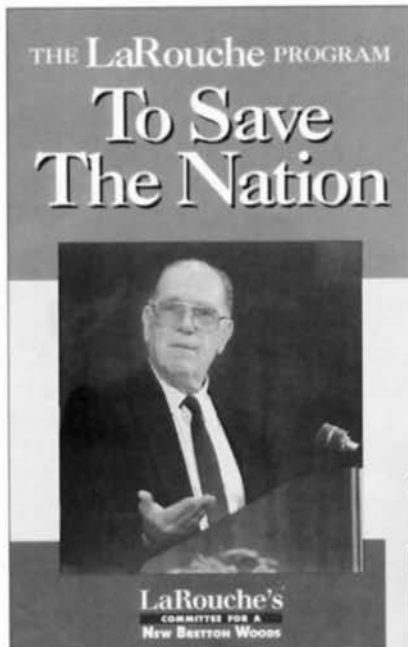
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and all of the people some of the time;
but you cannot fool all of the people all the time.”

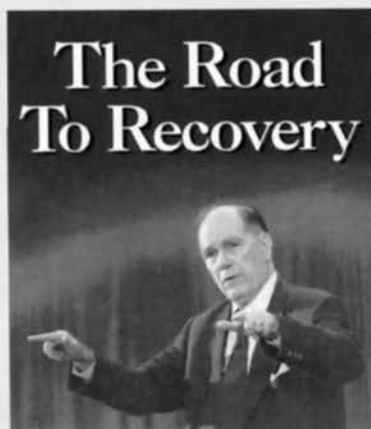
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From the Associate Editor

Can the United States be returned to sanity?

The symptoms of dementia, as chronicled in various articles in this issue, are, admittedly, severe.

At the G-8 summit in Okinawa, we of the so-called advanced sector offered Information Technology to Third World nations that lack the most basic infrastructure required for civilized human life: water, food, electricity, education. To Sub-Saharan Africa, ravaged by AIDS, we offered laptops. (See *Economics*.)

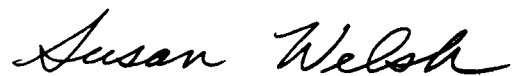
In the U.S. political arena, every newspaper cartoonist is making his living on some version or other of the same theme: “Vote for Bush so you don’t get Gore! Vote for Gore so you don’t get Bush!” Both candidates are universally viewed as morons, even fascists.

Where, then, does hope lie?

Two weeks ago in *EIR*, Lyndon H. LaRouche’s article “Call Them ‘The Baby Doomers,’ ” summed up the matter so precisely, that it bears repeating in this context. “Clearly, if Bush or Gore is chosen,” he wrote, “the popular majority of the people of the U.S. will have shown themselves lacking the moral fitness to survive, will have avowed themselves as, collectively, functionally insane—at least for the present time. They can, and might survive; but that depends on whether or not enough among you, the readers, will help me lead our people back to sanity in their thinking about economic matters.”

In this week’s issue, LaRouche, once again, contributes a brilliant pedagogical discussion of those “economic matters.” While presenting his “sympathetic disagreement” with the proposal of some Asian leaders to put together a basket of regional currencies, in hopes of dealing with the bankruptcy of the global financial system, LaRouche outlines the core of his economic method in an eight-point summary. This is the method that will restore sanity to America and the world, or nothing will.

Some Democratic Party constituency leaders are getting the message, as our *National* lead article reports. Courageously, under thug-gish pressure from the Gore clique, they are mobilizing to return their party to the tradition of Franklin D. Roosevelt. Others, reading this magazine from the sidelines, must join them now. There is not much time left.



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On a Basket of Hard Commodities: Trade without Currency

by Lyndon H. LaRouche, Jr.

July 18, 2000

Excepting the usual rogues and economics illiterates, influential circles around much of the world are reporting, with ever lessening hesitation, that the presently rotten-overripe, world monetary and financial system, is doomed to an early chain-reaction collapse. Increasingly, among relevant circles outside the U.S.A., world wide, the most notable questions include, how to replace the present global system, and with exactly what?

Consequently, increasingly bold steps in search for a replacement have been taken, in East and South Asia, trends in progress since Malaysia, under the leadership of Prime Minister Mahathir bin Mohamad, has persisted in the clearly successful use of capital and exchange controls. Recent weeks of persisting, desperate, and provocative actions, from U.S. Treasury Secretary Larry Summers and perennial Federal Reserve Chairman Alan Greenspan, have provoked similar discussions currently in progress outside of Asia. These steps point, increasingly, toward the emergence of regional systems of economic cooperation. Such regional efforts, if combined, could serve as building-blocks of the new world monetary and financial system, once the present International Monetary Fund (IMF) is either sent, mercifully, into bankruptcy-reorganization, or simply disintegrates, soon, of its own accord.

Among those studying the prospect of regional alternatives to the imminently bankrupt IMF, some leading economists have proposed that the precedent, of the former role of the 1945-1966 U.S. gold-reserve dollar in creating a system of fixed exchange rates, might be superseded now by revival of a new system of relatively fixed exchange-rates, which is based upon regional and other “baskets of currencies,” instead of the former gold-reserve-based dollar. The presently most publicized proposals in that direction, are those which have come from among the “ASEAN Plus Three” group of nations in Asia, and, secondly, among important



The "ASEAN Plus Three" group of nations is discussing a "basket of currencies" as a basis for protecting themselves from the bankrupt global monetary system. Writes LaRouche: "I disagree, although sympathetically, with the suggestion that a basket of currencies could be a successful feature of the urgently needed reform." He proposes a two-phased alternative approach. Shown here are (left to right) Japanese Finance Minister Kiichi Miyazawa (Japan is one of the "Plus Three"), Malaysian Prime Minister Dr. Mahathir bin Mohamad, and Indonesian President Abdurrahman Wahid (both from ASEAN member countries).

circles within continental western Europe. Similar discussions are in progress among the Organization of the Islamic Conference countries.

In some relevant, leading European circles, attention has been directed to both the IMF Special Drawing Rights (SDRs), and the European Monetary System (EMS) proposal launched jointly by France's President Giscard d'Estaing and Germany's Chancellor Helmut Schmidt, the latter during the late 1970s. It is useful to compare such, and kindred proposals with my own mid-1970s proposal for an International Development Bank (IDB), which attracted vigorously antagonistic attention from sometime U.S. Secretary of State Henry A. Kissinger, and related circles, at that time.

In today's relevant European circles, as elsewhere, it is generally agreed that what President Franklin Roosevelt's U.S. did, to organize a post-World War II monetary system, worked very well, most notably to the benefit of both the U.S. and western Europe. This system prospered until the aftermath of that fateful year, 1963, when Germany's Chancellor Konrad Adenauer was pushed into resigning, U.S. President Kennedy was assassinated, and France's President Charles de Gaulle continued to come under the corrosive pressure of assassination and other attacks, attacks which persisted through the tumultuous cultural and economic paradigm-shift of 1967-1969.¹

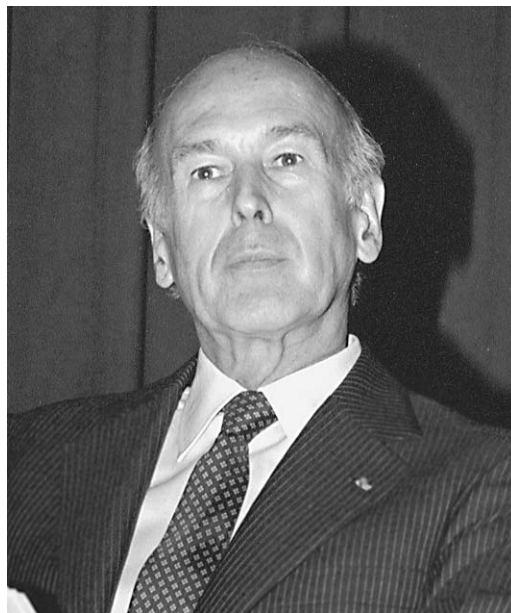
1. For those who may have forgotten, the following highlights of the period from the August 22, 1962 assassination attack on President Charles de Gaulle,

However, it is also emphasized among those who recognize the urgency of returning to the principles of the pre-1971 types of international monetary agreements of fixed exchange-rates, that the U.S. dollar of this year 2000, if compared to the prestigious U.S. dollar and economy which still existed while President Kennedy was alive, is a relatively shabby thing. In addition to that fact, the fear is, that under either a new U.S. Bush Administration, or a presently unlikely

through the October 18, 1964 rise of the disastrous Harold Wilson as Prime Minister of the United Kingdom, are notable. On October 22, 1962, President John F. Kennedy declared the U.S.-Soviet missiles crisis. The October 28, 1962 establishment of France's Fifth Republic under de Gaulle, is notable. There is the historic January 14, 1963 meeting between de Gaulle and Chancellor Konrad Adenauer. The February 14, 1963 election of Harold Wilson as successor to British Labor Party chief Hugh Gaitskell. A new assassination attack upon President de Gaulle on February 15, 1963. The July 1963 unleashing of that Profumo scandal in Britain, which led to the October 18, 1963 retirement of Prime Minister Harold Macmillan. On April 23, 1963, Chancellor Konrad Adenauer announces his intention to retire in the coming October. On November 22, 1963 President Kennedy is assassinated. This interval, from mid-1962 through the election of Harold Wilson, is the location of one of the great turning-points in the course of modern history. The 1968 assassinations of Rev. Martin Luther King and of Democratic Presidential pre-candidate Robert Kennedy, less than six years after the Wilson election, and during the approximately half-year following Wilson's Autumn 1967 unleashing of the first of the series of monetary crises leading into Nixon's destroying the old Bretton Woods system, in mid-August 1971, are not to be regarded as the inevitable aftermath of the 1962-1964 interval, but as developments greatly encouraged by what occurred during that earlier interval.



During the late 1970s, German Chancellor Helmut Schmidt (left) and French President Valery Giscard d'Estaing initiated the European Monetary System proposal, which is usefully compared with LaRouche's 1975 call for an International Development Bank.



Gore alternative, the worth of the dollar would sink quickly to incalculable depths. In addition to those considerations, as relevant circles in Europe and Asia note, the most conspicuously stubborn current source of resistance to re-establishing a system of fixed exchange-rates, is coming from the U.S.A. itself. *For that latter and other reasons, it has been mooted that the needed, new monetary and trade system, should use a basket of currencies, as a replacement for the 1945-1965 role of the U.S. gold-reserve-denominated dollar.*

I agree that the model of SDRs could be a leading included feature of the required economic recovery measures; but, I disagree, although sympathetically, with the suggestion that a basket of currencies could be a successful feature of the urgently needed reform. Instead of the suggested basket of currencies, I propose the following two-phased approach to the establishment of the needed new, global, fixed exchange-rate monetary and trade system.

I propose, that we structure the discussion of these matters in the following terms. Let us agree, that, at the present moment, the agenda for proposed reforms, is organized implicitly around the notion, that the safe escape from the presently ongoing global financial and monetary disasters, is likely to occur only in two distinct, if overlapping, successive stages.

That is to emphasize the fact, that, since the tragic blunder adopted by the U.S. Government for the October 1998 Washington, D.C. monetary conference, that government has not only abandoned its earlier options for leading comprehensive monetary reform, but has entered into promoting, most stubbornly, a global financial hyperinflationary spiral, one which has become recently, analogous to that which led into the Weimar Germany commodity-price hyperinflation of March-

November 1923.² The continued folly of the U.S. monetary and related policies, since the October 1998 Washington conference sessions, aggravated by the conduct and catastrophic outcome of the recent NATO war against Yugoslavia, has ruined much of the U.S.'s former, pre-October 1998 diplomatic potential for playing a constructive leading role in global monetary reform.

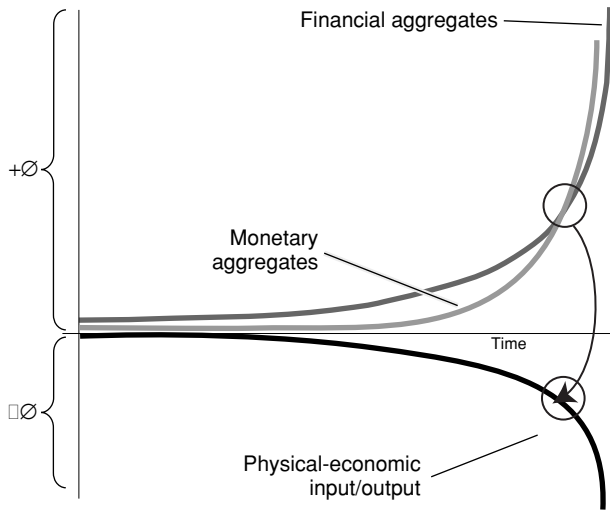
Thus, in light of the monstrous degree of degeneration in both U.S. credibility and policy-shaping since October 1998, a feasible reform, if it is to occur at all, were almost certain to come in two successive, regional and global phases.

The first stage, as typified by the ongoing discussion among representatives of the *ASEAN Plus Three* association, is typified by the revival of the 1997 proposal, by Japan's E. Sakakibara, for an *Asian Monetary Fund*. Such a facility is intended, not only as a measure of defense against financial-warfare attacks by hedge funds and similar speculators. It is also aimed to promote urgently needed measures of hard-

2. As my associate Richard Freeman has documented the available, pertinent evidence, about the close of July 1923 the German authorities' use of monetary inflation to continue to meet reparations-related payments, produced a phase-shift in the ratio of rates of monetary emission to outstanding financial debt. This unleashed the wild spiral of commodity-price inflation which completed the destruction of the currency itself three months later. The launching of "wall of money" policies adopted jointly by U.S. Federal Reserve Chairman Alan Greenspan and present U.S. Treasury Secretary Larry Summers during the interval October 1998-February 1999, has recently produced a phase-shift between monetary and financial appreciations of the same principled form as the July-August 1923 German case. The recent escalation of inflation in primary commodities, such as petroleum, food, and in real estate, reflects the recent and continuing onset of movement in the direction of a Weimar-style blow-out of both the U.S. dollar and the IMF system with it. [See **Figure 1.**]

FIGURE 1A

The Collapse Reaches a Critical Point of Instability



LaRouche’s “Triple Curve” representation of an economy approaching collapse (a). With creation of money supply and of financial aggregates both growing at accelerating rates, the point at which the money-supply growth accelerates past even the growth of financial aggregates, is the boundary-point of entry into hyperinflation, as in 1923 Germany, or today’s globalized economy. At that same point, the deterioration of the underlying physical economy (lower curve) also accelerates.

commodity forms of combined trade and long-term capital improvements among those Asian nations. In this first stage, we might foresee regional, somewhat overlapping, groupings of similar outlook appearing, and cooperating among one another, in various regions of the planet.

The second stage, would be the re-establishment of an effectively global monetary organization, featuring a return to fixed exchange-rates, to supersede the presently bankrupt IMF system. This second stage, would be a new monetary system, one assembled on the included initiative of participating regional groups of nations.

Therefore, examine the issue of “a basket of currencies” in light of the fact, that the two-phased approach to reform is, presently, the only visible prospect, if the world still has any favorable prospect of any kind, during the medium-term decades ahead.

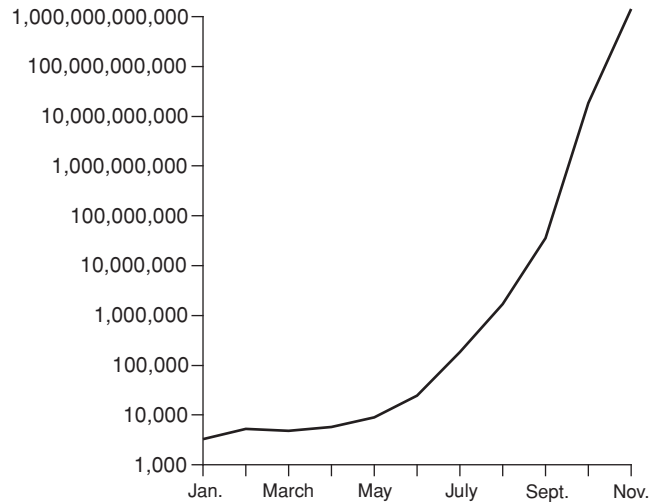
The problem thus defined, is the following.

As long as the IMF system, and its related attributes exist in their present form, the attempt to use a “basket of currencies” as a substitute for the kind of role performed by the 1945-1963 U.S. dollar, is not a remedy, but a trap. Yet, the world can not wait until a general monetary reform occurs, to

FIGURE 1B

Weimar Hyperinflation in 1923: Wholesale Prices (1913 = 1)

(logarithmic scale)



take certain urgent practical measures of defense against the worst effects of the presently onrushing global financial and monetary catastrophe. Therefore, at this stage, it has become essential to institute preliminary measures which operate entirely outside the supervision, or other control by the presently doomed, “globalized” monetary system.

Hence, today, we need to see monetary reform presently as a two-step process. The first stage, is the emergence of regional blocs which operate either outside, or in parallel to the existing IMF system. The second stage, will be the crucial role of such regional blocs in constituting a replacement for the now already hopelessly bankrupt IMF system. In the interim, measures taken by regional blocs must scrupulously avoid the ruinous effects which must result, were such measures to become entangled systemically in the already doomed IMF system. A prudent man does not remain within a cabin of an already sinking *H.M.S. Titanic*. The transition must be based upon economic values which exist independently of the present IMF system, and which can assuredly outlive that latter system.

What Is in That Basket?

In assessing any selection of a basket of currencies, ask the question: “What are any among these currencies actually worth?” A scrupulously crafted answer would be: “Any combination of these currencies would be about as sound an investment as the German Reichsmark was at the beginning of July 1923.” In short, the entirety of the present world mone-

tary and financial system, is one gripped by an accelerating rate of financial and monetary hyperinflation in nominal financial assets; it is a system which is presently trapped in a critical boundary-state. We are presently at the verge of general disintegration of the present global system, including most leading currencies, excepting perhaps that of China and a few others, today.

All prudent policies must be designed to protect the credit of national governments from being dragged into the muck in which the present system will be surely buried. In short, the needed advice is: "Don't send good money down the sink-hole with the bad."

The crucial fact upon which all sound economic decisions are now premised, is the evidence which shows that the presently reigning financial and monetary institutions, are so hopelessly and profoundly bankrupt, that the world economy could not be saved without wiping several hundreds of trillions of current U.S.-dollar equivalent from the current, vastly hyperinflated, financial-asset-values account. In other words, outstanding financial claims must be brought implicitly into line with the world's present levels of an estimated hard-commodity valuation of the world's combined domestic product. Without such drastic reductions in nominal financial claims, no economic recovery from this onrushing, biggest and deepest world depression, were possible. As much as the equivalent to \$400 trillions in presently extant nominal financial assets of the world at large, will have to be either wiped from the world's accounts, or reduced, by reorganization in bankruptcy, to a mere fraction of their current nominal hard-commodity valuation.

Those claims denoted in such forms as financial derivatives, especially over-the-counter (OTC) derivatives, must simply be wiped from the books, categorically. Claims rooted in so-called "junk bonds" and kindred speculative fancies, must be treated similarly. Much of the international debt created, not by actual purchases, but by synthetic bookkeeping constructions, by administrative mechanisms of a floating-exchange-rate monetary system, must be simply cancelled. Large-scale write-downs in inflated financial value of real estate and other matters must occur. Even much honorable debt, including that actually incurred by sovereign governments, must be reorganized or rescheduled. In general, the total mass of financial claims must be pared down to those rates of aggregated debt-service payments which are consistent with a return to the economic-growth policies prevailing in western Europe and the Americas during the interval 1945-1965.

The principal concerns governing such financial and monetary reorganization, must be to resume and maintain levels of employment, consumption, and production, especially in hard-commodity categories of production and consumption, and to maintain rates of net growth, per capita, and per square kilometer, in hard commodity and related infrastructural qualities, which are consistent with what had been the converging

policy-objectives of the governments of the U.S.A., France, and Germany, during the incumbencies of President John F. Kennedy, Charles de Gaulle, and Konrad Adenauer. In other words, the needed reorganization of the presently bankrupt international financial and monetary systems, must amount to a structural reform in composition of categories of employment, investment, and credit-flows, to return to goals and standards which are not inconsistent with the then-current operating objectives of those governments from that time.

Such seemingly drastic and sudden measures are not merely policy options. Such measures are now a precondition for the possibility for continuing anything deserving of the name "modern civilized life."

To those who have not yet thought through the relevant facts, it may seem extravagant to warn, that without such seemingly drastic measures of financial and monetary reorganization, without the kind of reversal of hard-commodity investment and production trends increasingly prevalent today, this planet will soon be plunged into a global dark age, into a downward spiral into sub-Saharan-Africa-like conditions, under which it were likely that world population levels would sink during coming decades, to well below a billion individuals. The alarming, but not exaggerated report of the new level of danger to all nations from global and regional infectious diseases, is to be read by all intelligent governments, and other relevant agencies, as a "marker" reflecting the presently diseased state of the world's economy at large.

This warning will not be considered an extravagant one, by any among those qualified specialists who have studied the physical and immediately related causes for the changes in the potential relative population-density (and life-expectancy levels) of Europe and the Americas since about A.D. 1500. If we consider the cumulative development of infrastructure and productive technology since the mid-Fourteenth-Century New Dark Age, we must recognize that the trends in policy-making under the IMF system since the mid-1960s, have reversed the long-term, net upward demographic trends in the direction of population-levels which had been reached, prior to 1966-1971, which had dominated long swings in European civilization during several preceding centuries. Without reversing sharply the accelerating down-shift in demographically relevant technology of investment and related practice, which has predominated under the IMF system since the mid-1960s, we have recently reached the brink of a global demographic catastrophe.

Such a catastrophe could be averted, even at this late stage, if leading nations of the world were to agree on measures which, in effect, bring the world's economic relations into forms of cooperation comparable to that shared between the U.S.A. and western Europe during the 1945-1965 post-war interval. It were sufficient to return to policies of practice comparable to what we in the U.S.A. and western continental Europe did rather well, if with some ups and downs, during those post-war years. Today, we must add the warning, that

The 1963-68 Historical Turning Point

The postwar monetary system prospered, writes LaRouche, "until the aftermath of that fateful year, 1963, when Germany's Chancellor Konrad Adenauer was pushed into resigning, U.S. President Kennedy was assassinated, and France's President Charles de Gaulle continued to come under the corrosive pressure of assassination and other attacks, attacks which persisted through the tumultuous cultural and economic paradigm-shift of 1967-1969."



German Chancellor Konrad Adenauer (left) with French President Charles de Gaulle, in Paris in 1963.



Dr. Martin Luther King, Jr. (left) with Robert F. Kennedy.



President John F. Kennedy (right) and his brother Robert, the Attorney General.



British Prime Minister Harold Wilson.

such cooperation be based upon a true, essentially global partnership with those nations which have been, until now, the continued victims of the legacy of colonialism, including the neo-colonial practices presently inhering in the common practice of the presently bankrupt IMF system.

The participation of a leading technology-exporting nation, Japan, in the ASEAN Plus Three process, if extended, in fact, into a more general cooperation throughout Eurasia, represents, at least approximately, a “full-set economy” base for high rates of gain in physically defined, per capita, productive powers of labor among all of the partners in such an arrangement. My hope is, that, despite the admittedly lamentable qualities of certain currently predominant preferences for U.S. Presidential pre-candidates, a sane government could emerge in 2001 out of the present, turbulent and mostly disgusting political process ongoing there at this moment, a government which will be a willing, cooperating partner in a global arrangement of the type which the aspirations of the ASEAN Plus Three group imply.

To reach that point in a timely fashion, certain preliminary steps are indispensable. To locate the required measures, we must take into account certain leading lessons from the period preceding the drift into the ruinous, presently bankrupt IMF “floating-exchange-rate” system. We must depart the disastrous changes in policy of the recent thirty-odd years, in preference for lessons to be learned from the successful experience of the 1945-1966 interval.

We are thus, in a condition, in which even many among the world’s leading currencies will have to be either simply wiped from the accounts, or put through bankruptcy-reorganization under the authority of a new world system. In this transition, many presently leading currencies are to be, either, systemically reorganized, or, replaced by newly defined currencies and related credit-mechanisms. These currencies can be reorganized or created, so, only by reversing recent trends toward “globalization,” by invoking the credit-creating authority of the perfectly sovereign nation-state.

It must be understood, that such reorganization is not the unthinkable radical proposal which some wild-eyed, promonetarist hysterics insist it is. As I have said: Either we do this rationally, by will, or the presently onrushing shock-fronts of global financial, economic, political, and social chaos will soon do it for us, whether we choose that outcome, or not.

We have been in similar conditions during the course of the just-concluded Twentieth Century; the present world financial and monetary crisis is deeper, wider, and bigger than anything seen during the Twentieth Century. Also, as in some relevant Twentieth-Century precedents, we shall be obliged to cancel bankrupt currencies from the accounts, replacing those by creating new currencies, new currencies to be established by the sovereign power of nation-state governments.

Admittedly, there is presently, hysterical resistance to any

such reform. This is to be seen among politically powerful circles of financier-oligarchical interest, which represent today the same point of view on this matter as those Anglo-Americans, and others, who responded to the outbreak of the 1930s Great Depression, by joining forces to install and consolidate Adolf Hitler in power, during 1933-1934. The relevance of this point is made clear, by contrasting the proposed reform resolved upon by Germany’s Friedrich List Gesellschaft in 1931, to the policies of the circles of such representatives of financier-oligarchical interest, as Britain’s Montagu Norman, Norman’s asset Hjalmar Schacht, New York’s Brown Brothers, Harriman, and von Papen.

Today, the policies of the latter class of monetarist opponents of presently needed reforms, today’s equivalents of the 1920s and 1930s Normans and Schachts, are represented chiefly, and exactly, by the circles of the Mont Pelerin Society, and such Mont Pelerin Society accomplices as Britain’s former Prime Minister Margaret Thatcher, the U.S. Heritage Foundation, and the radical “free trade” fanatics in the U.S. Congress. If these latter, pro-financier-oligarchical forces prevail, as typified, in the U.S.A., by Larry Summers, Alan Greenspan, and the followers of pollster “Dick” Morris today, the world would soon see regimes and conditions worse than those which Europe experienced under Adolf Hitler’s reign. *Here, on this point, lies, precisely, the immediate danger to all civilization, as typified by the U.S. Presidential pre-candidacies of Governor George W. Bush and Vice-President Al Gore.*

In this set of circumstances, policy-shapers should study more carefully the more deeply underlying principle behind the approximately twenty-year, 1945-1965, success of the post-World War II, Bretton Woods fixed-exchange-rate system, especially as that system operated in relations among the U.S.A., western Europe, and Japan. In this account, include attention to the fact that the way in which the system was implemented, after President Roosevelt’s most untimely death, was vastly inferior to what the result would have been, both morally and economically, had Roosevelt’s intentions not been significantly overturned by the successor, Truman Administration. As much of Roosevelt’s intentions which were actually adopted, worked to great benefit for both the U.S.A. and western Europe, at least up through the middle of the 1960s. The question now to be addressed, against that background, is: *What are the crucially successful features of that fixed-exchange-rate system, which are fully applicable, as a matter of principle, to the vastly different world conditions of today?*

On the surface, the answer to that challenge for today, is rather elementary, and therefore readily adopted and supported by rational leading political bodies. However, as I shall indicate here, the success of such remedies requires leading roles by experts who also understand certain deeper subtleties of the matter. I explain the distinctions and their implications here.

A Basket of Commodities

In fact, the strength of the 1945-1965 Bretton Woods System, lay in the fact that the standard of value was, *in effect*, a basket of *hard commodities*. The U.S. dollar's strength as a reserve currency, was based upon the assurance that the current obligations against the U.S. dollar would be matched by the combination of an export-surplus plus gold bullion at a standard, fixed price for monetary-reserve gold. The gold-reserve system worked, because it was defended by protectionist and related regulatory measures, both internationally, and within the relevant nations themselves. It was the *physical* strength of the U.S. economy, as measurable per capita, *a strength measured in terms of rates of growth of physical productivity per capita and per square kilometer*, a strength expressed as *periods of high rate of increase in hard-commodity forms of capital formation*, which was crucial for the way in which the U.S. economy performed during the initial two decades of the post-war monetary system. This physical strength, matched with war-torn Europe's needs for both expanded volumes of U.S. agricultural products and machine-tool categories, enabled U.S. credit to stimulate a rate of growth of physical productivity, per capita, in western Europe, a growth from which Europe obtained the means to meet its obligations to the U.S.

In effect, in President Franklin Roosevelt's recovery policies of the 1930s, and in the 1945-1965 Bretton Woods System, the U.S.A. was carrying out the same type of economic-growth policies proposed by Dr. Lautenbach at the 1931 meeting of the Friedrich List Gesellschaft, extending credit to build up the productive powers of its customers, and thus, during 1945-1965, enriching a growing U.S. economy by providing Europe the power to repay the credit extended to it. Thus, Dr. Lautenbach's proposal had been not only congruent with the measures actually taken in the U.S.A. under President Franklin Roosevelt, a Roosevelt legacy which informed the 1945-1965 post-war economic relations between the U.S.A. and western Europe. The point to be stressed, is that the policies of both FDR and Lautenbach, were premised explicitly upon what U.S. Treasury Secretary Alexander Hamilton had defined for the U.S. Congress as the anti-Adam Smith *American System of political-economy*, the same policy represented by the leading Nineteenth-Century economists Friedrich List and Henry C. Carey, and the policies which the Friedrich List Gesellschaft represented in Germany at the time of Dr. Lautenbach's presentation of the proposed policy.

This is essentially the same view expressed by Japan and other current proponents of an ASEAN Plus Three system of cooperation in Asia. Those sectors of the international economy which have the ability to supply nations with the means to increase the latter's productive powers of labor, are to be repaid, according to appropriate medium- to long-term capital funding agreements, out of those gains in per-capita productive powers of labor, which result from the use of the relevant imported technologies.

This had been President Franklin Roosevelt's intention for post-war U.S. aid to nations and peoples he intended should be liberated from the colonialist systems and legacies of Portugal, the Netherlands, the British monarchy, and France. Roosevelt detailed infrastructure-development for Africa as an example of this policy. That policy, as it had been intended by Roosevelt, should become the basis for new forms of cooperation between those sections of the world's economy which have the ability to provide advanced technologies, and less developed regions. This policy-orientation provides the mission-orientation which a new, fixed-exchange-rate, world monetary system must adopt.

A point concerning a fixed-exchange-rate requirement, is to be emphasized, at this juncture. If the discount rate on medium- to long-term extension of international credit exceeds the levels of 1-2% per year *simple interest*, high average rates of hard-commodity capital formation are not possible generally, and, most emphatically, not possible for developing nations as entireties. If the values of relevant currencies are allowed to fluctuate under pressures from financier-oligarchical centers such as London, the general, open-market rate of borrowing-costs must rise accordingly, and must tend to be reflected, even axiomatically, in compounded interest-payment requirements, rather than merely simple interest. In effect, the very existence of a gold-standard system, such as that which London maintained world-wide, until 1931, or, a floating-exchange-rate system, such as that set into motion by President Richard Nixon's decree of August 1971, spells relatively immediate catastrophe for so-called developing nations, and ultimate ruin for the others.³

In the present situation, where the valuation to be placed on each and every currency of Europe and the Americas, among others, is increasingly in doubt, what constitutes the quality of durable value upon which medium- to long-term, hard-commodity capital formation could be rationally premised? In the celebrated words of Shakespeare's Hamlet: "To be, or not to be: that is the question." When it is, thus, most forcefully demonstrated, that durable forms of economic values, can not be adduced from a quantity of money, where does a measurable valuation of economic activity lie?

Enter, once again, the matter of "a basket of commodities." I mean a "basket of commodities" as that notion implicitly underlies the relative success of the 1945-1965 fixed-

3. Typical of the evils fostered by a floating-exchange-rate system, is the swindle by means of which the IMF system looted so-called Latin America. The London market, which is the center of most of the world's financial speculation, would orchestrate a run against the currency of a nation of South or Central America. Then, the international monetary authorities, would intervene to require a reduction in the value of the targetted currency. Worse, they would then increase the foreign debt of the targetted nation, to compensate the international lenders for the loss in expected debt-service revenues which might otherwise be caused by the forced devaluation. *Thus, since 1971, the nations of South and Central America have, aggregately, paid vastly more debt-payment than they ever actually incurred!*

exchange-rate monetary system. I mean a “basket of commodities” as U.S. Treasury Secretary Alexander Hamilton’s 1791 Report to the U.S. Congress *On The Subject of Manufactures* defined what became known world-wide as *The American System of political-economy*. Just as the success of the 1945-1965 Transatlantic system was premised upon coordinate physical-economic growth in the combined national economies of the U.S.A. and western Europe, so Hamilton, basing himself, via Vattel, on the work of Gottfried Leibniz, based the economic policies of the U.S.A. on the mutual growth of the urban industries and the rural countryside.⁴ In short, sound economics premises its measurements of performance upon growth-rates, measured in physical units per capita and per square kilometer, not upon nominal (e.g., financial) prices attached to a list of produced goods.

So, in a situation in which the hard-commodity content among currencies is fluctuating, one has still the option of constructing a synthetic unit of account which is based upon an agreed basket of hard commodities. Thereafter, as currencies fluctuate, it is the currencies, not the commodities, which are given implicitly adjusted values, as based upon the basket of commodities used to define the unit. Such a synthetic unit could serve as the accounting-system of an international credit facility, as, in that sense, the basis for creating a kind of successor to SDRs.

Thus, in the matter of medium- to long-term capital loans for hard-commodity investments, the relevant currencies are priced according to the basket of commodities as a standard. The loan is made in these units, not currency-prices; however, the exporter is credited with that number of synthetic units at the time the product is delivered, and repayments of the loan are determined by the price of the relevant currency, in those units, at the time that specific payment is due.

Thus, in effect, a barter-like system of medium- to long-term lending of hard commodity product, is used to approximate the “gold-reserve plus basket of commodities exported” system which operated in relevant Transatlantic relations during the 1945-1965 interval of a fixed-exchange-rate system.

That is the gist of the matter.

Now, examine the interim use of such a synthetic unit of trading account more closely. Examine the way in which such a unit is to be designed and managed.

It will be obvious to the reader that what is to be said on this account, involves a set of nested approximations of the exact values desired; but, that should not be considered cause

4. Today, it must be emphasized often, that the U.S. political-economy, and Constitution, echoed the influence of Gottfried Leibniz, and rejected the contrary dogma of John Locke. For example, the use of Leibniz’s rebuttal of Locke: “life, liberty, and the pursuit of happiness,” in the 1776 Declaration of Independence reflects this, as does Benjamin Franklin’s connections to followers of Leibniz in Germany itself, such as Göttingen University’s Abraham Kästner. Vattel’s influence, on Hamilton and others in the Americas, is reflective of this. (See Robert Trout, “Life, Liberty, and The Pursuit of Happiness,” *Fidelio*, Spring 1997.)

for reasonable objections. The fact of the matter is, that, contrary to the *Laputa*-like superstitions which certain academic mystics spread to their credulous students at Harvard and Chicago Universities and elsewhere, all prices and related set values in day-to-day economic practice, are never closer to reality, than serving as reasonable approximations; the mythical “right price” exists only in the minds of deluded persons. Contrary to utilitarians such as Jeremy Bentham, there is no asymptotic price-value upon which commodities must tend to converge in a state of “free fall.” There are no random numbers in real economic processes, but only the customary charlatans who teach a dogma of random numbers.

The margin of error which may be incurred in adopting an estimated value, such as a standard basket of commodities,

The Lautenbach Plan for Economic Recovery

In a speech on Feb. 22, 1998, Helga Zepp-LaRouche, founder of the Schiller Institute, discussed Dr. Wilhelm Lautenbach’s economic program for getting Germany out of the Depression of the 1930s. Here are excerpts.

... I want to refer to the economic policy debate in Germany at the beginning of the 1930s. I do not make a comparison to the 1930s because I say that this crisis is like that of the 30s; it is quite different. But, I raise it, because it is connected to the question of what to do under conditions of a depression and a financial crisis.

Recently, in 1991, the transcript of a secret conference of the Friedrich List Society of 1931, was published. The issue was how to boost the economy under conditions of a world economic crisis. Among the participants in this conference was the president of the Reichsbank, Dr. Luther, and 30 leading economists and bankers.

And, a person who is not very well known, but deserves to be better known, Dr. Wilhelm Lautenbach, wrote a memorandum for this conference, the title of which was “The Possibilities of Boosting Economic Activities by Means of Investment and Expansion of Credit,” in which he said, “The natural course for overcoming an economic and financial emergency is not to limit economic activity, but to increase it.”

He pointed out that there are two different kinds of emergency situations. One, is war, earthquakes, other national catastrophes. And then there’s a second type of crisis, which is economic and international, emergencies with

should be understood as a reasonable choice made, in effect, by relying upon intelligent management of the relationships by such a qualified agency, and upon an understanding rooted in good faith among the parties to the arrangement.

The Practice and the Theory

The key to establishing a reasonably determined standard unit of account for a basket of commodities, is to reject, from the outset, the reductionist input-output presumption of Britain's Piero Sraffa, for example, that consumption might be represented as a process of production of commodities by commodities. We must examine the way in which combined market-baskets of economic infrastructure (such as public works), combined with household consumption and with

technologically progressive, hard-commodity forms of increasingly capital-intensive investments in capital goods of production and physical distribution, increases the relative productive powers of labor, as this is to be measured, in physical product, per capita and per square kilometer. *It is that factor of rate of growth, as expressed in hard-commodity terms, which defines the appropriate notion of assignable economic value.*

So far, so good; but, there is a catch. In some respects, such measurements of growth-rates are relatively obvious; but, therein lies an often overlooked subtlety, to ignore which may have dreadful results. Consider the more obvious kinds of measurements, and then what might appear to some to be the awfully clever subtleties.

international dimensions.

In such situations, it would be clear that more should be produced. But, if you only follow the laws of the market, this is not possible, because, in the second case, of a collapse of the financial system, you have a paradoxical situation, where, despite the fact that production already is collapsing, the demand is less than the supply. And this then leads to a tendency to decrease production even more.

If the government then adopts a program of deflation, it will tend to cut the deficit by cutting the state's expenditures, cutting prices and wages, restricting credit, and so forth and so on.

Lautenbach says that it is impossible to reduce taxes under these conditions, because the tax base is already reduced. And all such deflationary measures produce new and large losses of capital for the individual entrepreneur in commerce and industry. It makes them uncompetitive and insolvent, and it causes a reduction of production, and layoffs. It also leads to a deterioration of the banks.

Now, it is exactly this wrong approach which is presently taken by Maastricht, by the European Union, by the IMF, by the whole effort to package and solve this crisis, and not only in Southeast Asia, but in Russia, everywhere. This wrong idea.

The reduction of public expenditures is doubly counterproductive, since the public contracts and mass purchasing powers are further reduced. It leads to a collapse of production, and an increase of unemployment. And it is a downward spiral, which becomes worse and worse, and there is no bottom.

Therefore, Lautenbach says that the deflationary policy will inevitably lead to a complete economic and political catastrophe. But there is a paradox, because in a depression, you have unused productive capacities and unemployed labor. And therefore, the problem is very sim-

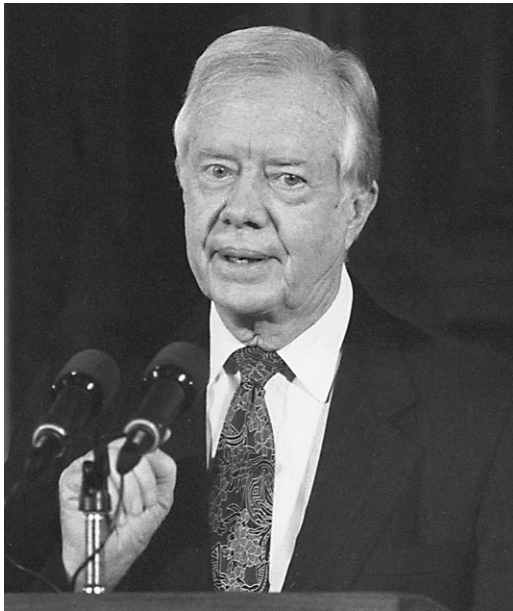
ple to solve: The state must intervene, and create new national economic demand. The only precondition is that it must be something necessary to the economy, which represents a value increase, and it must be something which would have been done anyway, if the crisis had not existed.

Now, Lautenbach says that since the long-term capital is available neither from foreign markets nor from the domestic market, how can you finance it, if the capital markets simply do not give you the ability to do this?

Well, then it has to occur through a national bank, because liquidity is just a technical question. It's just an organizational issue: Liquidity immediately exists, if it is backed up by the authority of the state. And again, these projects are not inflationary, because they represent real economic capital formation. They create real economic value. And, because they have a productive multiplier effect, the rate of production is growing at a faster rate than the rate of credit expansion.

So basically, by means of such an investment in credit policy, the disposition of supply and demand on the domestic market will be increased, and the total production, once again, has a direction and a goal. Lautenbach says, "If we neglect to undertake such a policy, we will inevitably be heading in the direction of continuing economic disintegration, and a complete disruption of our national economy, and come into a condition where, in order to avoid a catastrophe, one will be compelled to undertake a strong increase of new, short-term public debt, but that will then only be for consumptive purposes, while today we have the instruments, the means for utilizing this credit for productive tasks."

So, obviously, had the Lautenbach Plan been implemented, the economic conditions which enabled the Nazis to come to power two years later, would have been eliminated. . . .



The boundary conditions that had protected the U.S. economy were obliterated by fiscal-austerity fanatic President Jimmy Carter (left) and President Richard Nixon, the ill-fated dupe of the Mont Pelerin Society.



The essential calculation to be attempted, in any rational scheme of economic studies, is what is best identified as *the potential relative population-density of the population of the national economy as a whole. The measurement to be derived from this standard, is a measurement of the rate of increase, or decrease of that potential. That measurement defines what should be understood as expressing an underlying notion of economic growth.* The following steps are featured.

Competent study of economic processes begins, not with the production of commodities, but, rather, the production of people. That is to say, with the development of children into becoming, decades later, functioning adult members of the economy as a whole. Indeed, here lies the natural root of the formation of capital.

To structure calculations to this effect, we must define a minimal size of a typical family household, and its included birth and mortality rates. We do this, in order to estimate what is necessary to meet the standard for growth and self-sustained well-being of that population as a whole. One defines the level of technology — e.g., a set of technologies — which allows that population to generate a corresponding net rate of physical-economic growth. We define the relationship between the adult work-force and the total population, as organized in households — that is to say, organized in the way in which viable forms of households produce the emotional and intellectual development which is to be desired in the functioning adult member of society. This establishes a rough standard for purposes of comparison.

One then defines the corresponding structural characteristics of the division of labor in the society as a whole. The first objective, is to estimate the market-baskets of household consumption, infrastructural development (e.g., public works), industrial output, and agricultural output, and to measure these, also, both per capita and per square kilometer of

the total territory of the national economy. This defines sets of “market baskets” of the commodities, including professional economic services (e.g., health, education, science) required by each of these broad categories of market-baskets. These categories of consumption, plus waste, are compared with total output of the economy, as measured in the same terms. The obvious comparisons, of *better, less, or stagnant*, in rates of increase, follow.

Thus, by applying a *synthetically chosen price* to a household income measured in terms of per capita of labor-force, and also per unit of area, we have a convenient and reasonably reliable method for estimating monetary values. By adding the actual relative free energy generated by production, in addition to costs so determined, we are able to estimate both total output of the economy, and a corresponding, estimated rate of growth. *Insofar as this estimated rate of growth coincides with a corresponding rate of increase of the potential relative population-density, the estimate for rate of growth is sufficiently sound for purposes of accounting and other administrative functions respecting the economy at large.*

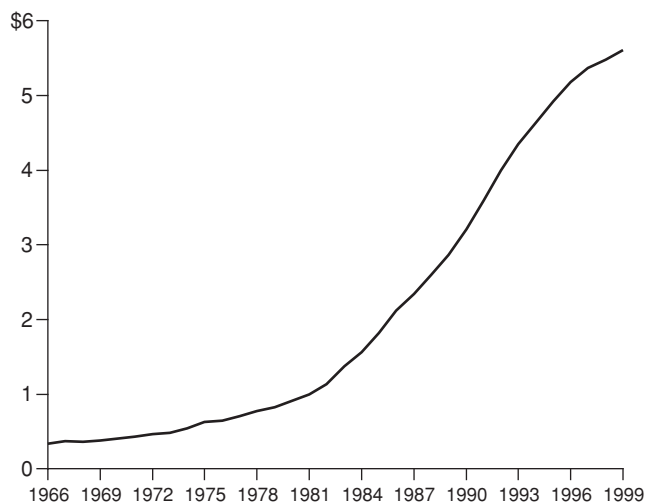
Notably, in a rational economy, prices are not set by anarchic free trade, but by human boundary conditions imposed upon the economic process as a whole. These boundaries, by their nature, must be set chiefly by governments.

Typical of such boundary conditions, are so-called “protectionist” measures, such as those former regulations of the economy which have been removed under the influence of the Mont Pelerin Society or kindred fanatics, especially since the January 1969 inauguration of the ill-fated dupe of the Mont Pelerin Society, President Richard Nixon. These protective boundaries were then assaulted, even more savagely, under the 1977-1981 reign of that free-trade and fiscal-austerity fanatic President Jimmy Carter who, with suitable historical

FIGURE 2A

U.S. Government Federal Debt Outstanding

(trillions \$)



Source: U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2001, Historical Tables*.

irony, launched the chronic indebtedness of the U.S. Government which has plagued the nation since (Figure 2). Similarly, the decline in the percentile of national-income of the lower eighty percentile of family-income brackets, since the 1977 inauguration of President Jimmy Carter, shows a decline in the U.S. popular conditions of life, which corresponds to both the cannibalistic looting of previous improvements in productive potential, and a corresponding general lowering of the per-capita physical productivity of the labor-force as a whole.

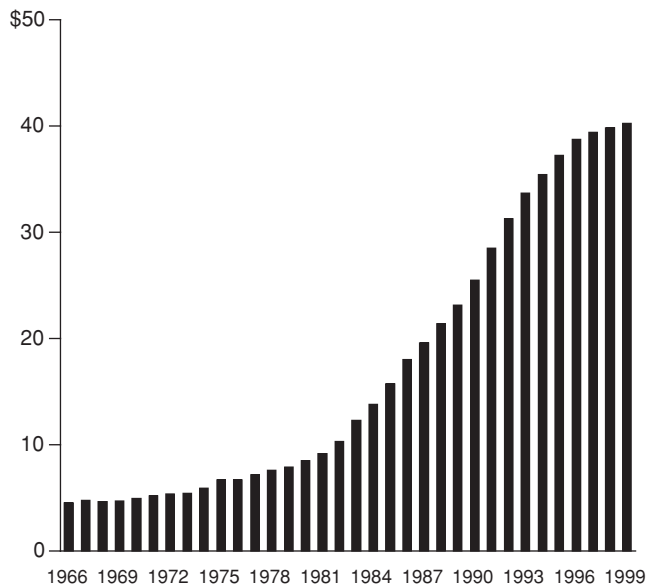
Protectionist measures do tend to increase prices, if only in the short to medium term, as the rabid monetarists never cease in whimpering about this effect. (In the medium to long term, the higher rates of increase of productivity made possible by higher rates of hard-commodity capital formation, result in a secular decline in prices of particular products, while generally improving the quality of those products.) Thus, that increase of prices may be viewed as a rise above a so-called “free trade” level, to a “fair trade” level.

These protectionist, regulatory measures have two indispensable benefits for any economy whose government is sane enough to impose them. First, they provide direct or indirect protection to the income-levels, and therefore to the potential productivity expressed by households of operatives; this, combined with rational taxation policies, ensures that the incurred price, by government and the private sector, of maintaining the desired level of potential relative population-density, is secured. Second, in so acting, governments create the market for those medium- to long-term public and private

FIGURE 2B

U.S. Government Federal Debt Outstanding, Per Capita of Adult Labor Force

(thousands \$)



Sources: U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2001, Historical Tables*; U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, June 2000.

capital investments, on which improvement in the potential relative population-density depends.

Promotion of the general welfare, which is an integral part of the fundamental constitutional law of the U.S.A.—if recently a flagrantly violated obligation—demands that those measures which are needed to ensure the improvement of the potential relative population-density of the nation, per capita, and per square kilometer, are taken. This includes public works which no private entrepreneur could undertake as a business proposition; clear, on this account, is the responsibility of the sovereign government for the conditions of life and work of *all of the people* and of *all of the territory of the nation*.

Thus, public policy, so shaped, creates what wild-eyed dupes of the Mont Pelerin Society denounce as a willful, arbitrary intervention by the state, into the affairs of trade. Without those measures which that Society abhors, no modern economy could survive for long. Indeed, three decades-odd of that Society’s ideological influence on leading governments, have created a wasteland of the once-successful economies which had grown up in the U.S. and western Europe during the 1945-1965 interval.⁵ In this process, the physical-

5. Typical of charlatans, those U.S. and other influentials who have made a wasteland of once powerful agro-industrial economies, say that this has occurred only because the “old economy” was doomed, anyway. Like the

economic values which have been destroyed, since the mid-1960s, include much of the entire net development of modern infrastructure, agriculture, and industry, in Europe and the Americas, during the preceding hundred years, since the middle of the 1860s. Even two World Wars of the Twentieth Century did less net damage to Europe and the Americas than has been done by the “globalizers” and “free trade” ideologues during the recent thirty-odd years, since the ruinous first Harold Wilson Labour government came to power in the United Kingdom.

The same question may be posed in a different way. During the recent thirty-odd years, a hitherto successful form of trans-Atlantic monetary system devolved into the present stage of bankruptcy. What were the measurements which were used by policy-shapers to bring about thirty-odd years of such folly? What was so fatally wrong in the assumptions of the institutions which have been most successful, since the mid-1960s, in bringing about this magnificent, global catastrophe?

Those institutions are well-known, readily identified: they are the Mont Pelerin Society and its co-thinkers. The result which that influence has produced, does not reflect merely the accidental result of a sometimes erroneous reading of the dials by the policy-makers and managers; the catastrophe which their influence has brought about, is *systemic* in nature. It is the very design of the instruments which have been used to misguide the preponderance of the world’s most influential policy-makers and managers, which has brought this epochal calamity upon the planet. It is, thus, the financial accountants and the preponderance of the economists, whose systemically aberrant standards of practice have brought this catastrophe upon us: systemically.

Granted, that the statistics lately reported and interpreted by the U.S. government and others, are, like the insane chatter about “information society” and an actually mythical “New Economy,” deliberately, and increasingly falsified, that with the same intensity of desperation otherwise found commonly among those attempting, through fraudulent lures to investors and creditors, to conceal a thoroughly ripened corporate bankruptcy. However, such currently popularized frauds by governments, central bankers, and relevant others, are a symptom of the underlying problem, not the root-cause.

From this standpoint, what has failed is the empiricist system of bookkeeping, often taught under the misleading name of “economics,” the system of bookkeeping which came to be associated with such names as Adam Smith, Jeremy Bentham, et al. Here, we go beyond the practical superficialities of a design of a basket of commodities, into the underlying principles, the theory, of the same matter.

The relevant theory is, in summary, as follows. I have

typical charlatan, they point to the vast speculative bubble in physically worthless “New Economy” fluff, as proof that the economy which can no longer afford to pay its social welfare and infrastructural bills, is “really” much a bigger and better “new suit of clothes” for our Emperor.

stated these points at length, repeatedly, during the five decades since my first consolidation of my original discoveries in the field of physical economy. These need to be said again, until the students have mastered these concepts to the point of knowing the ideas, rather than merely learning the words of the description.

1. In the science of physical economy, as first defined by the relevant 1671-1716 work of Gottfried Leibniz, the specific distinction of the human species from all others, is the fact that only mankind is able to increase its species’ potential relative population-density — its power — by an act of will.

In mankind’s increasing power within, and over the universe, the relevant act of will is expressed as the discovery of what is proven to be a universal physical principle. It is through man’s accumulation of that knowledge, and man’s development of the forms of cooperation through which that knowledge may be applied, that our species is permitted to choose willful changes in our species’ behavior, through which our species’ power in and over the universe is increased in clearly measurable forms. This measurement is expressed essentially in terms of man’s increased ability to exist, per capita and per square kilometer of the territory under control of a society.

2. Insofar as the term “physical science” is used to indicate what today’s classrooms accept as a notion of modern mathematical physics, both the existence of living processes and of human beings, are to be regarded as *systemically impossible mathematically*. Since the work of Clausius, Grassmann, Kelvin, Helmholtz, Maxwell, Rayleigh, and Boltzmann, among others, during the course of the Nineteenth Century, it had become conventional to say, that from the standpoint of mathematical physics so defined, the physical universe is governed by a universal law of entropy. The cause for perpetual embarrassment of the advocates of that statistical dogma was, that neither living processes, nor those processes which set mankind apart from other living processes, obey such a rule of universal entropy. Since living processes and persons are a highly efficient part of the universe, certain doubts respecting the honesty and sanity of the advocates of universal entropy had to be mentioned, even at the risk of seeming impolite, of even triggering the expectable explosion of freakishness from the pompous ass teaching the dogma to the class.

In economics, real profit of an economy as a whole, is expressed as a marginal increase of the potential relative population-density. This marginal gain corresponds to what is

usefully termed the *free energy* of the system. Thus, like the living, upward evolving biosphere, the process is characteristically *anti-entropic*. In real economies, the question whether a taken profit is actually a profit to that economy as a whole, finds its answer in comparing nominal profit-rates with the actual free-energy ratio expressed in terms of correlatives of increases of the potential relative population-density. Indeed, most of the profit attributed to the U.S. economy since August 1971, especially since January 1977, has been, in net effect, in the form of pseudo-growth: the burning-up, so to speak, of past investments in basic economic infrastructure, productive capital, and so on, as merely nominal, financial-accounting profit taken out of the real economy, rather than actual free energy added to it.

3. Therefore, chiefly in response to the popularization of the Kelvin-Clausius dogma of statistical thermodynamics, apologists for what is still considered today a conventional view of mathematical physics, adopted the term *negative entropy*, a term sometimes abbreviated as *negentropy*. According to the popularized, statistical approach to such subject-matters, the prevailing assumption is, that: a) universal negentropy does not exist; b) processes which appear, statistically, to exhibit negentropic behavior, are able to do so only by increasing the rate of entropy in the environment in which they operate. Ludwig Boltzmann's development of ideas in that direction, and the impact of Boltzmann's influence upon his students, notably Erwin Schrödinger's pathetic views on the principles of living organisms, are a notable illustration of the point.

4. Since the 1948-1952 interval, I have rejected these generally accepted mathematics classroom views on entropy and negative entropy, defining them as reflecting the influence of what is to be recognized, specifically, as the social disease of neo-Kantian Romanticism: the denial of the existence of those consciously apprehensible forms of cognitive synthesis, upon which discoveries of universal principles depend absolutely.⁶ The paradoxes which show

prevailing dogma on entropy/negentropy to be pathological, compel us to recognize that *the principle of life is a universal physical principle in and of itself*, in the sense that the revolutionary work of Carl Gauss's student and follower Riemann defines the notion of a multiply-connected manifold. I have added my own original contribution to the science of physical economy, that *the principle of cognition is also a universal physical principle*. Since, as Vernadsky has presented the case for the biosphere, the anti-entropic principle of living processes, is categorically superior to non-living, statistically entropic processes, and since, as the economic history of scientific discovery shows, characteristically anti-entropic cognitive processes are superior to otherwise merely living processes, these two, respectively distinct universal physical principles, of *life* and *cognition*, must be located in their corresponding place in the body of physical science as a whole.⁷

5. At first glance, the changes in behavior which enable society to increase its potential relative population-density, are a matter of observable changes in the relationship between the demographically defined individual person and nature. Thus, we measure matters in terms of changes in physical values per capita and per square kilometer of surface-area. From this vantage-point, we can estimate the increase in productive powers of labor, as having the form of a change in the characteristic curvature of that Riemannian physical-space-time geom-

later writings by Vernadsky, is an inadequate appreciation of the relevant implications of those discoveries of Bernhard Riemann which latter contributed greatly to all of my own work on related issues of the science of physical economy. All of my relevant work of the 1948-1953 interval, was principally a reflection of my earlier refutation of I. Kant's attacks on the work of Gottfried Leibniz; hence, my recognition of the popularized notion of universal entropy as the fruit of neo-Kantian Romanticism.

7. I use anti-entropic in the same sense as I define the physical geometry of Riemann as anti-Euclidean, rather than the customary and epistemologically clumsy "non-Euclidean." Such distinctions in terminology are not merely more precise choices than the conventional ones. The lunatic effort to replace living man by devices allegedly exhibiting "artificial intelligence," has no different basis than stubborn, blind faith in defining the physical universe as fully explainable in terms of the hereditary, aprioristic, axiomatic assumptions associated with today's generally accepted, reductionist-deductive schemes of classroom mathematics. It was the Leibnizian legacy of anti-Euclidean physical geometry, as transmitted from Kästner to his student Gauss, to Riemann, which permits us to recognize that it is physics which must govern mathematics, rather than the other way around. The banning, by Riemann, of all *a priori* notions, such as those of space and time, from geometry, and the replacement of such notions by experimentally validated discoveries of universal physical principles, such as life and cognition, has been the breakthrough which opened the door to a saner understanding of the meaning of "physical universe," one in which the existence of those living cognitive beings called people, need no longer be held in doubt.

6. My initial focus, from early 1948, was against the use of the term "negentropy" by Norbert Wiener. That same year, my attention broadened to include the problematical systemic features of Professor Nicholas Rashevsky's mathematical biophysics, and also that of Oparin. My views respecting the relevant systemic characteristics of living processes were, and remain in the vein of Louis Pasteur and Vladimir Vernadsky. My preference for Vernadsky's views on biogeochemistry, over the contrary view of Oparin, Rashevsky, Schrödinger, et al., does not represent the last word on Vernadsky's own development of this subject; my associate, Dr. Jonathan Tennenbaum, has been digging out, translating, and assessing some important later writings by Vernadsky on the principles of both living and cognitive processes. Notable is a September 1938 paper, whose title Tennenbaum has translated as *On the Fundamental Material-Energetic Difference Between Living and Nonliving Natural Bodies in the Biosphere*. So far, the principal defect in these

etry which represents the current state of scientific and technological development of practice. In this view, the addition of a valid new universal physical principle, changes the characteristic curvature of the physical-economic domain of action. The synthesis of a validated universal physical principle, which occurs only through the sovereign, hypothesis-generating processes of individual cognition, thus becomes the form of human action, by means of which mankind's power in and over the universe is increased.

6. However, closer examination of the matter shows, that we can not limit this function of cognition to the matter of validatable discoveries of universal physical principle. Since notions of universal principle can not be transmitted solely by means of sense-perception, *the ability of society to cooperate in the selection and use of discovered physical principles, depends upon replication of the cognitive act of discovery of a principle by one mind in the mind of another.* This replication, as it occurs in circumstances such as those of Classical humanist forms of education, is known to us as a body of experimentally validated universal principles of Classical artistic forms of composition. Through those forms of art which reference the cognitive processes of mind, rather than mere sense-perception (e.g., sensual forms of pleasure and pain), we foster the forms of insight needed for effective collaboration in producing and promoting the universal physical principles upon which the anti-entropic increase of mankind's potential relative population-density depends. These Classical forms include not only what are customarily regarded as the combined plastic and non-plastic art forms, but also the development of literate forms of language, the study of history, and of other matters of statecraft, as well.
7. Thus, the manifold of such universal physical and Classical-artistic principles represents the principled medium through which mankind acquires both the physical principles and principles of cooperation on which the increase of our species' potential relative population-density depends.
8. Three crucial points of economic policy are to be derived from the foregoing considerations. A) That the principal human source of economic growth is the education of the young, a span of development which, for the case of the most advanced economies of the mid-1960s, occupies approximately the first quarter-century of the life of increasing portions of the total population of new-born individuals. This

means not only a Classical humanist form of scientific and artistic education in schools and universities, but conditions of family and community life which are emotionally and otherwise suited to the promotion of the self-development of the cognitive powers of the young individual. B) Thus, the student's reliving the re-enactment of validated original discoveries of universal physical principle, and the related role of university-centered fundamental research programs as the principal driving force for proliferation of further scientific and technological progress of the economy as a whole. C) The crucial role of the individual private entrepreneur (as distinct from the often *Golem*-like, publicly held stock corporation and holding company), especially those occupied with the kinds of machine-tool practice related to design of proof-of-principle experiments, like the comparable case of the progressive individual farmer, in pushing forward *the suitably impassioned process of technological progress.* A sane form of modern economy demands that the state create the regulated environment and basic economic infrastructure in which the function of the sovereign cognitive powers of the individual, serves as the cutting edge of technology-driven, increasingly capital-intensive forms of economic progress at large.

Thus, this form of science-technology-education-driven economic growth, is, by its nature, Riemannian in form. The addition of validated new discoveries of universal physical principles, expands the multiply-connected manifold of universal physical principles being applied. That shift in the manifold is expressed, characteristically, by a change in the implied physical-space-time curvature of action within that economy. This shift, in turn, is reflected in the anti-entropic form of increase of the potential relative population-density. It is the rate of change, the rate of increase of productivity so defined, which is the substance of the anti-entropic "free energy" ratio upon which the continued generation of true, rather than fictitious profit depends.

Those eight points summarily identify the setting within which the discussion of real rates of economic growth is to be situated.

The Global Division of Labor

As the cases of China and India underscore the point, most of the world today is imperilled by a shortage of currently usable land-area relative to large concentrations of the world's existing population. The obvious present barriers to improvement of the condition of life of the majority of the world's population, are to increase the ratio of usable to total land-area, to increase the potential population-density of those land areas, and to accelerate the effective rate of scien-

tific and technological progress in the modes of production and household and community life.

To this end, we require the adoption of several rule-of-thumb policy agreements among nations. 1) That the number, scale, and intensity of “volcanoes” from which scientific and technological progress is erupting, must be greatly increased, and the fertility of those sites increased. 2) That, to make possible the assimilation of such scientific and technological progress, the required basic economic infrastructure (e.g., water management, power, transportation, education, health care) must be provided in all of the areas targetted for high rates of gain in productivity and living standard. 3) That the creation of long-term credit for relevant purchases of scientific and technological progress and build-up of needed infrastructure, must be greatly expanded, to enable flows from those places in which the relatively highest rates of technological progress are being generated, into the areas of greatest need and opportunity for such development of land-areas, populations, and productive economy.

This means that related policies must be crafted from the standpoint of looking approximately a quarter-century ahead. This forward span will come to be expressed in the terms of long-term credit advanced for relevant categories of capital improvements. This will represent a desperately needed new chance at life, for a shabby relic of a civilization now at the verge of destroying itself.

Such a program of global reconstruction, will echo the best features of economic cooperation between the U.S.A. and western Europe during the 1945-1965 interval. It must also represent an improved way of thinking about economy, including a sweeping, contemptuous rejection of everything associated with, or resembling the axiomatically irrationalist, *Conservative Revolution* dogma of existentialists such as Schopenhauer, Nietzsche, Martin Heidegger, Friedrich von Hayek, Ludwig von Mises, Norbert Wiener, John von Neumann, Maurice Strong, and the Mont Pelerin Society’s ideologues generally. That is to say, we must think of economy in terms of physical economy, rather than placing the emphasis on nominal financial assets, and must view economy as expressing mankind’s increasing power within and over the universe we inhabit. It must also express a recognition of the role of the forms of cooperation based upon the cultural principles of cognition, rather than the perverted notion of man as Hobbesian-like, of man as self-degraded into being a mere beast-like creature ruled by pleasure and pain.

There must be a new, deeper, richer conception of the notions of strategy, military and otherwise. The actual cause for warfare in the history of modern European civilization, has been nothing other than the struggle of modern oligarchies to subjugate either one another, or, more generally, to either keep populations in the condition of virtual human cattle, or, as today’s Mont Pelerin ideologues do, to return mankind to such a human-cattle-like political and social condition. The

insurgency of that treasonous asset of the British monarchy, the Confederacy, to destroy the U.S.A., and to ensure the perpetuation of chattel slavery, is typical of the causes for just wars, such as that led by President Abraham Lincoln, just as Europe’s belated agreement to the conditions of the 1648 Treaty of Westphalia, defined the premises in international law for as much civilized life as has actually existed within extended European civilization since that time.

Today, the principal danger to civilization is from that London-centered, global financier oligarchy, which has adopted the proliferating dupes of the Mont Pelerin Society’s “free trade” dogma as the instrument for destroying the existence of the sovereign nation-state, reducing the scale and life-expectancies of the majority of the human population, and degrading the survivors chiefly to the status of human cattle, of virtual Nintendo-addicted Yahoos. Those dupes, are in fact fascists, just as much as Adolf Hitler before them. If that oligarchy and its right-wing dupes, were to succeed in imposing their globalization, “free trade,” and shareholder-interest ideologies, civilization would soon cease to exist on this planet for a generation or more to come. To defeat that oligarchy in that, its evil, neo-imperial enterprise, would be the only just cause for warfare among nations at this historical juncture. Otherwise, the world has no further, justifiable need of warfare, except in necessary defense of a peaceful order among sovereign nation-states.

The time has come to bring forth on this planet, the rule of man’s affairs by a partnership among a community of perfectly sovereign nation-state republics, republics committed to that promotion of the general welfare which is outlined in the opening paragraphs of our 1776 Declaration of Independence, and the Preamble of our Federal Constitution. Among nations so united in a community of principle among perfectly sovereign nation-states, no justified war could occur. The principle, the general welfare of all of the people, and their posterity, of each nation, and the general welfare of each member of the community of such nations, is the only visible means by which a planet-wide state of affairs suitable for human beings can be brought into existence.

In such a community, the jewel of all civilization, is the development of the perfectly sovereign cognitive powers of the individual person. The promotion of the development of that individual, those powers, and the realization of the benefit each might contribute to present and future humanity, must be the conception which motivates all our shaping of economic policies. That must be the case in fact; that must be a shared understanding among the parties.

A basket of commodities, as I have outlined that case here, is thus to be understood as a shared commitment to do good. *The issue of economy is, therefore, not the exact price to be placed on any commodity, but the good will expressed in the way a reasonable estimate of a fair price is adopted.* On that basis, a reasonable price for a unit basket of commodities, will be the right price in practice.

Group of Eight Chooses Laptops, Ignores Reality

by Nancy Spannaus

Given the state of mind of the heads of state of the major industrialized nations, it were better if they had chosen not to meet at all at the scheduled Group of Eight (G-8) summit in Okinawa, Japan, on July 20-23. That was the evaluation of economist Lyndon LaRouche in the days leading up to the Okinawa summit, and the proceedings of that affair have more than confirmed its wisdom. It is already a scandal that the summit itself cost \$750 million, much more than the leaders agreed to write off in debt for the poorest nations. But the biggest scandal is far different.

First, the leaders of Great Britain, France, Italy, Germany, Japan, Canada, Russia, and the United States agreed among themselves that the world economy was doing fine, and recording “strong growth this year.” Second, after having put the crucial issues of crushing Third World debt and the scourge of infectious diseases on the table, the heads of state made little more than a verbal, or piddling financial commitment to act. Instead, the major accomplishment of the summit was pronounced to be the establishment of the Digital Opportunity Task Force (DOT Force), a public-private partnership aimed at giving the starving and disease-wracked nations of the world an entrée into the “Information Revolution.”

In a modern parody of Marie Antoinette, they told the Third World: Let them eat laptops.

The only consolation amid this travesty is that the actions of the G-8, like those of the French *ancien régime*, are increasingly irrelevant to serious political processes. Political leaders in Asia, the Middle East, and even Europe have not only taken notice of the inevitability of the collapse of the bankrupt monetary system, but they also have begun to put together fall-back options for defending themselves from that collapse. And it is increasingly clear that the ideas of LaRouche, who has had proposals for a new monetary system on the table for more than 25 years, are in the center of their discussions.

The Debt Issue

On the initiative of United Nations Secretary General Kofi Annan, the summit was scheduled to begin with a meeting between the G-7 leaders, and the heads of three organizations of poor nations: the Non-Aligned, the Group of 77, and the Organization of African Unity. The Non-Aligned’s Thabo Mbeki, President of South Africa; the G-77’s Olusegun Obasanjo, President of Nigeria; and the OAU’s Abdelaziz Bouteflika, President of Algeria, all showed up in Tokyo, for what was dubbed the “Debt Summit.”

On the table, according to reports from the Jubilee 2000 group which works closely with these leaders, was the lack of progress by the G-7 in fulfilling its promise to cancel \$100 billion in debt from the Highly Indebted Poor Countries (HIPC). The G-7 had promised to cancel this debt back in Cologne in 1999, but has only actually agreed to cancellation of \$15 billion, which itself has not yet been wiped off the books. The reason for the delay has been the series of *conditionalities* being applied to the 40 Third World nations which qualify as HIPC, but have not yet agreed to the measures of budget cuts, privatization, and “democratization” which were demanded of them, in order to have *some* of the debt cancelled. In fact, even after carrying out these measures, some of the HIPC still end up paying the same percentage of debt service, this time to private creditors.

True to form, the international media have not publicized the speeches of the Third World leaders. But, according to *China Daily*, Nigerian President Obasanjo blasted the policy of the West on debt. He pointed out that Nigeria, with a foreign debt of \$30 billion, has to pay \$1.5 billion a year in debt service, which is three times its education budget and nine times its health budget.

“I want to spend all that on health. But how can I, when even for \$1.5 billion I am being called names, I am being

chased, I am being parried and hurried and harried because they [the creditors] believe that they must get their money at all costs?" Obasanjo asked.

"And I say to them that as a democrat, how can I give Nigerians the fruits of democracy or what they call the democracy dividend, if I cannot give them potable water, I cannot pave their roads, I cannot give them shelter, I cannot even prevent malaria or take care of malaria, which is a killer disease?"

In response to speculation that the G-8 will do nothing on the debt issue, Obasanjo said, "I will feel very bad, extremely bad, I will feel disappointed, I will feel frustrated, I will feel that our so-called development partners are really not our partners. I believe that the issue of debt is no longer an economic issue, it's a moral-cum-political issue. We know what we should do. It's a question of do we have the political will, do we have the moral ability to do what should be done."

The G-8 did proceed to do nothing on the issue of HIPC's, from all indications.

Nigerian Foreign Affairs Minister Reuben Onyia told the Nigerian press on July 26 that "no affirmative action was taken on debt cancellation," and that "without stability, democracy is worthless. Our people can't get their democratic dividend with all these debts hanging. We want the G-8 to understand this."

The Digital Divide

But if the leaders of the G-8 understood, they didn't do anything. Instead, they established the "Digital Opportunity Task Force," and issued an "Okinawa Charter on Global Information Society." Both were based on the idea that the solution to the problems of the world's poor nations, including pandemic diseases, lies with access to modern computer technology, and with increasing the deregulation and open markets, which the New Economy's "information technology" considers so essential. In fact, that deregulation and elimination of protection is what leaves these poor nations defenseless against looting by the multinationals and other foreign companies.

And what of the fact that many of these nations do not have clean water, hospitals, reliable power supplies, or any electricity at all? This question was raised by some reporters of U.S. Deputy National Economic Adviser Lael Brainard, during the course of the summit.

Brainard responded that the G-8 would take the conditions of particular countries into account, in effect, figuring out how to get around the lack of infrastructure such as electricity, rather than working to solve that rather fundamental problem in the least-developed countries.

As for the resources involved, and relative priorities, that is indicated by the fact that Japan pledged \$15 billion for the DOT Force, but only \$3 billion for the fight against infectious diseases, which is reducing the populations of more than a half-dozen nations of Africa.

The Role of Jubilee 2000

The G-8 was challenged on its obsession with the Internet, on-site, by the Jubilee 2000 Coalition, a British-based international group devoted to debt reduction for the HIPC's. Jubilee 2000 organized a protest where its members burned a laptop computer outside the Okinawa summit. "We can't eat computers," said the group's Africa coordinator. "People are dying." The Jubilee 2000 U.K. director said: "After their complete failure on debt, the G-8 leaders have no credibility at all. If they are hungry, the poorest people in the world cannot eat laptops."

But, appropriate as the Jubilee 2000 comments are, the group's approach to the global debt crisis is dangerous. Although many honest people have joined up in the naive hope of freeing poor countries of their genocidal debt burdens, and although Jubilee 2000 criticizes the conditionalities which the multilateral financial organizations have put on the HIPC's who request debt cancellation, the Coalition's approach is fraudulent. It is attempting to use the debt relief issue as a demagogical weapon to push through neo-colonial, one-worldist free-trade reforms, and to *prevent* the kinds of investment in heavy infrastructure and full-scale development which is actually required to escape poverty.

The most flagrant evidence that Jubilee 2000 will not actually aid the Third World countries which it claims to advocate for, is the fact that its *official* economic adviser is none other than the founder of shock therapy, Jeffrey Sachs. Sachs, in his current phase, is a virulent opponent of the International Monetary Fund (IMF) and its conditionalities, of course. But, so are a good number of the free-trade ideologues who write for the *Wall Street Journal* and other such rags! The key question lies in what Sachs and the Jubilee 2000 group demand that the world's poorest countries do in order to get their debt relief, and with the monies that they "save."

In an article by Sachs which appears on the web page of Jubilee 2000, the butcher of Poland admits that cancelling debt is not sufficient. An alternative policy is needed, he says. But that policy, as he outlines it, is centered around free trade and "appropriate" technologies — i.e., not the heavy technologies which built the infrastructure of the developed world, but "ecologically specific" technologies for Third World countries. In effect, Sachs proposes the even more radical free-market approaches of the Meltzer Commission, as an alternative to the IMF.

(*EIR* will publish a fuller report on the Jubilee 2000 Coalition in an upcoming issue.)

Regional Defense and New Bretton Woods

While the world's poorest nations, particularly heavily centered in Africa, have not moved to organize an alternative to the globalizers of either the IMF or Jubilee 2000 Coalition stripe, there are groupings of nations coming together who are beginning to do so. The center of this activity is Asia, and particularly the Association of Southeast Asian Nations

(ASEAN), plus China, South Korea, and Japan. This group put together a currency defense arrangement at Chiang Mai, Thailand on May 6-8 of this year, in a way which came as close as they dared to establishing an Asian Monetary Fund. And the cooperation for not only joint defense, but also economic and trade cooperation, is systematically moving ahead.

Just in late July, the “ASEAN Plus Three” met in Thailand again, and addressed the question of expediting infrastructure development and regional integration, including moving ahead the Mekong River Basin development plans.

What led the Asian nations to take this step, which the United States, the IMF, and others had successfully opposed back during the hot phase of the Asian financial crisis in 1997, was the fact that absolutely nothing had been done to protect them from another speculative assault, in addition to the ongoing strangulation of their economies by the global austerity policies. These nations all realize that Malaysia’s Prime Minister Dr. Mahathir bin Mohamad was right when he implemented currency protection measures in 1998, and they are headed unmistakably in the same direction.

While this expanding arrangement is no substitute for a new global monetary system, as LaRouche’s article in this issue elaborates (see p. 4), it does represent the fact that some of the world’s most populous and powerful nations have understood that the current IMF system is finished, and that they have to move in a different direction.

Bergsten Sees the Reality

The fact that some members of the Western-centered financial elite see the significance of these Asian developments, was reflected in a three-page warning by C. Fred Bergsten on momentum toward an Asian Monetary Fund, which was published in the July 15 edition of the London *Economist* magazine. Bergsten, who heads the Institute for International Economics in Washington and who headed the Eminent Persons Group of the Asia Pacific Economic Cooperation Forum during 1993-95, warns that East Asia is ready to go it alone, and will no longer kow-tow to the “Washington consensus.”

Bergsten began, “When it comes to international finance, two bodies like to think they are in charge of the architecture: the G-7 group of industrialized countries (G-8, when Russia is included), and the International Monetary Fund. Not quite so. In the medium term, at least, the most important changes to the world’s financial architecture are likely to come from the new regional arrangements being fashioned in East Asia by Japan, China, South Korea, and the ten members of the Association of Southeast Asian Nations (ASEAN). In trade, the same is true. . . . Virtually unnoticed by the rest of the world, East Asian countries are getting together to make their own economic arrangements. As the result, for the first time in history, the world is becoming a three-block configuration.”

He continued: “Structurally, at least, the ASEAN+3 is starting to look like the G-7. . . . The ASEAN+3 have announced a region-wide system of currency swaps to help them deal with future Asian crises. . . . ASEAN has created a surveillance mechanism to try to anticipate and head off future crises, using sophisticated early-warning indicators, and the Northeast Asian countries are jointly keeping an eye on short-term capital movements in the vicinity. There is much talk of common currency baskets and joint intervention arrangements, to replace both the discredited dollar pegs of the past and the costly free floats imposed by the crisis.”

Bergsten concluded, “An Asian Monetary Fund (AMF) is thus beginning to evolve, only three years after the idea was rejected out of hand. China, which condemned the original Japanese proposal, supports the present initiatives.” He warns that the current financial institutions had better sit up and take notice, and action, if they want to prevent this potentially powerful Asian bloc, with hundreds of millions of dollars and vast resources, from simply going off on its own.

This reality, which the G-8 chose to ignore, is not going away, any more than is the epidemic of infectious diseases and biological holocaust now killing the continents of Africa, Ibero-America, and Russia. The handwriting is on the wall: It’s either a New Bretton Woods, or a genocidal collapse into a New Dark Age.

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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Peru's Economic Measures against Free Trade Panic Wall Street

by Luis Vásquez Medina

During the second week of July, the Peruvian Congress approved 11 “urgent” economic measures which, taken together, constitute a dramatic turn away from the free-trade economic policies followed by the government of President Alberto Fujimori during the last decade. In announcing the measures, President Fujimori declared that they would establish a model of an “economy of social impact,” although he was careful to clarify that this did not imply a move toward a “war economy.”

The Peruvian President appears to have come to understand that the country cannot advance, and its grave social problems will only worsen, under the free-trade policies which have been applied until now. At the same time, as he showed in a speech he delivered in Malaysia last year, Fujimori has lost confidence in globalization, and his excellent political nose surely has recognized that the international financial system is not as stable as media propaganda would have it.

One of the most important measures adopted, eliminates existing tax exemptions for the profits of the large mining cartels. This measure represents a direct hit against the usurious global speculator and drug legalization advocate George Soros, owner of important mining interests in Peru, the greatest of which is the Yanacocha gold mine. In an article last autumn (“If Peru’s Fujimori Is To Be Reelected, He Needs To Change His Economic Policy,” *EIR* Nov. 5, 1999), this author warned that “this return of the economy to a 19th-century mining enclave, has not been good for the country. The Fujimori government must end this situation, and begin to implement a serious tax regimen for the mining multitis” (see **Table 1**).

From the looks of it, this is exactly what the Peruvian President has done.

Another key measure puts the brakes on the privatization of the Mantaro Hydroelectric Plant, the country’s largest. The Mantaro plant is owned by the state electricity company, Electroperu. One of the 11 laws adopted transfers ownership of Electroperu to the state pension fund, the National Public Savings Fund (Fonahpu), which means that Electroperu’s profits will increase the now-depressed pensions of retired

Peruvians. Víctor Joy Way, president of the Economics Committee of Congress, described this decision as a kind of privatization with “citizens’ participation,” contrary to what foreign investors sought, and favorable to the pensioners, who are owed a lot of money.

Free-Market Colonialism

It was no longer possible to hide reality: The free-market economic model, aggressively promoted by the International Monetary Fund and Wall Street, has brought nothing but misery to the great majority of the Peruvian people. The raw materials export model, while it appeared to produce a certain growth in Gross National Product, did not entail an increase in the well-being of society; it did not bring any notable increase in employment, nor did it contribute to the country’s physical infrastructure. Based primarily on the export of minerals, this model had only benefitted usurers and speculators such as Soros, who have made fabulous profits under the protection of a very favorable tax scheme, which turned large-

TABLE 1
Peru: Mining Exports and Royalties
(millions \$)

	Royalty and mining rights payments	Exports
1992–94	59.8	5,263.2
1995	48.5	2,615.7
1996	53.9	2,654.4
1997	37.5	2,730.8
Total	199.7	13,264.1

Source: Ministry of Mines and Energy of Peru.

Between 1992 and 1997, total mineral exports surpassed \$13 billion, but what the multinationals paid for rights of exploitation in this period did not even reach \$200 million. This is the cold balance of nearly ten years of the export model promoted so heavily by Felipe Ortíz de Zevalos, disciple of Massachusetts Institute of Technology economist Rudiger Dornbusch and defender of Harvard “whiz kid” Jeffrey Sachs.

scale mining extraction into a tax haven. Soros owns Newmont Mining, which, together with the Benavides family interests, owns the enormous and very lucrative Yanacocha gold mine.

When the economic and political pressures against Peru worsened—in mid July, Prime Minister Alberto Bustamante accused the United States and other countries of having imposed an “economic boycott” and carrying out a “frankly colonial” intervention against Peru—President Fujimori decided to put an end to the mining cartel’s tax exemptions. As Minister of Economics and Finance Efraín Goldenberg Schreiber said, “Taxation is an instrument of the state, and must be used appropriately; conditions change, and we have to look for neutrality in our policies. We must not excessively reward some sectors, to the detriment of others.” Congressman Joy Way reported that, had the tax exemption on mining profits not been revoked, the losses would have been on the order of \$5.4 billion in tax revenue.

Monetarists, Speculators Howl

The reaction to these measures came swiftly. Soros himself, in a July 15 article in Spain’s *El País* daily, called for the overthrow of Fujimori, after comparing him with Malaysian Prime Minister Dr. Mahathir bin Mohamad (long a target of Soros’s wrath and financial warfare measures) and Zimbabwe’s President Robert Mugabe. The British news agency Reuters and the American Associated Press headlined their July 15 wire stories on the measures: “Is Fujimori Changing the Economic Rules in Peru?” Peruvian stocks traded on Wall Street have been put in the freezer, and the Lima stock exchange has almost disappeared, dropping to the lowest levels of the last five years.

On July 16, stepping off the plane which brought him from the United States, Soros’s buddy Pedro Pablo Kuczinski, formerly of First Boston bank and a former Finance Minister of Peru, gave interviews to Lima television, warning the government against any move to abandon the model of privatizations and looting of the mines which foreign financiers so love. In a threatening tone, he said that great catastrophes would befall Peru if it abandoned the free-market model which Kuczinski himself had promoted in the early 1990s, when he was in the Peruvian government.

The risk-rating agencies, always at the beck and call of the Wall Street speculators, have already begun dropping ratings for Peru’s companies, at the same time that they raise its “country risk” premium. The Goldman Sachs investment bank called the government’s change in mining legislation a “miscalculation,” threatening that “the damage which they are doing in the process of changing the law could bring very serious consequences. Wall Street investors see that the rules of the game for the country’s primary sectors, which are the backbone of the country’s economic development, are being changed.”

Spokesmen for the narco-terrorist São Paulo Forum in Peru have thrown their support behind Soros and Kuczinski’s threats. Mirko Lauer, from the pages of *La República* daily, has published three commentaries to date, complaining about the change in Fujimori’s economic policy. Describing the reforms as “hara-kiri,” Lauer asserted that he detected a certain “military” tenor to the measures, which, he said, “remind one greatly of the first phase of the Velasco Alvarado government,” a reference to the head of the military junta which seized power in Peru in 1968. Soros’s fears have been well stated by *La República*, which, in commenting on the measures which the Peruvian government might take against the Yanacocha mine, warns—half sardonically, half fearfully—that, so far, “there has been no announcement of troops being sent” to the Soros-owned mine.

No Looting, or Bailouts

In its effort to prove the supposed similarity between the Fujimori measures and those implemented during the “first phase” of the military government, *La República* argued that another measure proposed by the executive, new legislation governing forestry, has led to a direct confrontation with U.S. interests in Peru, of the kind that occurred when General Velasco nationalized International Petroleum Company. The new forestry law, which the Peruvian Congress has just approved, is designed to put an end to the indiscriminate exploitation of the forest reserves of the Peruvian Amazon region. Through this law, the government has prohibited, for a period of ten years, the exploitation of various kinds of fine lumber, which has directly affected the activities of some large U.S. companies which have been felling trees without any effort at reforestation. According to the Lima press, the Peruvian government recently sent troops to the jungles around Iñapari, in Madre de Dios state, near the border with Brazil and Bolivia, in order to seize lumber which had been illegally cut by the U.S. company Newman Lumber.

In a related development, the Peruvian government has announced that it will not bail out that part of the private banking sector, which has developed serious insolvency problems, as a result of the extremely high interest rates these banks have been charging, which today range from 30% to 60%. Kuczinski himself called on the government to bail out these banks, and J.P. Morgan bank spokesmen also called on the government to use the money left over from earlier privatizations, which amounts to about \$4 billion, for a “Mexican-style” or “Ecuadoran-style” bailout of the banks. In response, the general manager of the Central Reserve Bank of Peru, Javier de la Rocha, on July 12 publicly rejected this J.P. Morgan demand, saying that Peru’s foreign reserves would be used principally to give backing to the country’s currency, and would not be used to bail out banks that are on the brink of bankruptcy.

French Socialist Party: The Common Good as the State's Responsibility

by Elizabeth Hellenbroich

On July 18, a remarkable document appeared in the French daily *Libération* under the title "La nouvelle donne," or "The New Round." The document is a discussion paper prepared for the upcoming party convention of the French Socialist Party (PSF) in Grenoble. In view of the growing gap between rich and poor, according to the core thesis of the document, the task is to define anew the role of the state as the guarantor of the "common good" and protector of the poor.

Among other signators to the paper, there are five cabinet ministers of Prime Minister Lionel Jospin's government: Minister for Labor and Social Affairs Martine Aubry (daughter of former European Commission President Jacques Delors); Agriculture Minister Jean Glavany; Minister for European Affairs Pierre Moscovici; Defense Minister Alain Richard; and Justice Minister Elisabeth Guigou. Additional signators include the president of the French Parliament, Raymond Forni; former Finance Minister Dominique Strauss-Kahn; Daniel Vallant, who is responsible for relations with the parliament; and Marc Ayrault, chairman of the Socialist Party parliamentary group in the National Assembly.

Prime Minister Jospin had presented a similar, but more pointed document in November of last year, for discussion at the Nov. 8 conference of the Socialist International in Paris. That document was given prominent coverage at the time in the French press, and it was discussed in detail in the British daily the *Guardian*.

A Rejection of Blair's 'Third Way'

In his discussion paper, Jospin countered the policy of British Prime Minister Tony Blair's "Third Way" and neoliberal, free trade *laissez-faire*, with a concept of "voluntarism." The French state, deeply rooted in the tradition of Jean Baptiste Colbert, understands itself as the guarantor of the "common good," Jospin wrote. The notion of "*Etat providence*," he noted, has little in common with the British notion of "welfare." "*Etat providence*" traces back to a concept in which the state "makes special efforts to remove such differences in the distribution of income as are entailed

in social disadvantages in the areas of health care, housing, and education."

From a global strategic standpoint, the new document represents a sharp rejection of Blair's defunct policy of the "Third Way." At the same time, it is a rejection of the *laissez-faire* policies of U.S. Presidential pre-candidates Al Gore and George W. Bush.

The policy of globalization, deregulation, and curtailment of social services, which these politicians tout so much, and to which German politicians accord far too much acclaim, has led to a sharply demarcated two-class society in the United States, in which the richer get richer and the poor become poorer. Twenty percent of the American population, among them 7.9 million millionaires, account for more than two-thirds of total income, while the remaining 80% of the population has to be satisfied with whatever is left over.

"The New Round" asserts the following basic thesis: In view of new challenges and the growing gap between rich and poor, the "state" and "public services" must emerge as the "guarantors of the common good." It is the responsibility of the state to counter the laws of a free and unregulated market, which is oriented to short-term and speculative profit (which, in the process of globalization, leads to a situation in which some companies have more power than elected governments), and to protect the socially disadvantaged layers of the population. The state has to create the economic preconditions for the maximum possible development of the individual in the state.

In line with the proposal made by French Finance Minister Laurent Fabius on June 28 in the French Parliament, to introduce a "Tobin tax" on international financial transactions, the signators of the discussion paper demand that speculative capital flows and transactions be taxed in Europe as well as at the international level.

Free Market Accorded Too Much Weight

The cause of the growing gap between rich and poor, as the document states, is the fact that too much weight is accorded to the free market. "In no case can the market be

considered as the whole of the economy. It favors short-term profits . . . and engenders inequalities in the areas of health care, housing, and education, as well as other areas,” the statement says. In a society totally oriented to the market, the principle of the “right of the strongest,” i.e., survival of the fittest, is imposed on society, and the principle of solidarity is negated. “This is why we believe that the role of the state is fundamental. . . . It is not solely the role of the state to regulate or animate. It must assume its fundamental mission: to guarantee equality of opportunities of general interests, of social cohesion, of new securities and new rights. The state and the public services are producers of social cohesion and create a favorable environment for economic development. It is indispensable that the state offer services in certain sectors which cannot be subjugated to the rules of the market.” All citizens must have equal access to these services.

The signators demand a “political contract,” “which directs attention primarily to the needs of the general population. We do not forget that the gap between lower and higher income is steadily growing. It is up to us to bring about a balance into this development.”

As the document further says: “We have to take up the struggle against social disadvantage. . . . While for many growth means prosperity, the impatience of those is growing, who have the feeling of being closed off from these advantages.”

Support for the socially disadvantaged cannot be let up on, and such support belongs among the political priorities of the PSF.

Curb Speculation

In the view of the authors, measures must especially be taken against speculation: “The new economic situation makes improved control of financial capital flows necessary, the consequences of which will be a more just distribution of wealth. . . . For that reason, we must aim at the European and international level to quickly effect the taxation of financial transactions.”

While many areas of society need to be reformed in the future, and society has to react appropriately to new technological challenges, the universal values of the Republic have to be defended and be situated at the center of “general interests.” Among these are the protection of the family, adequate education and health care, as well as rejection of racial and social discrimination. The document closes with the remark that this economic political orientation proposed for France cannot take effect in France alone. “The new epoch of capitalism has generated new economic and financial inequalities internationally. . . . Europe cannot become a fortress, rather it should become the springboard from which to limit the perverse effects of globalization and to assure regulation of the market for lasting economic development.”

Free Traders Losing Friends in the East

by Rainer Apel

One of the most unpopular things for eastern or southeastern European politicians to do these days, is to endorse the policies of Western monetarists. The profound failure of the European Union (EU) to deliver on any of its numerous promises of real economic and financial assistance, and to transfer substantial state funds and private investments into the industry of the East, has done a lot to discredit the “friends of the West” in eastern Europe and in the Balkans in recent months. And many who are being discredited these days, have been longtime loyal friends of the West. In turn, national leaders are letting it be known that they will no longer accept the destruction of their economies by the fanatical backers of the “free market.”

Especially in southeastern Europe, signs that Western recommendations for free-market “reforms” are no longer welcome, can no longer be overlooked. For example, big political turbulence was caused by Hungary’s Prime Minister Viktor Orban, the showcase politician of the “young generation” of pro-free-trade views in Southeast Europe. On July 12, Orban delivered a surprise attack via Budapest media on the privatization carried out under the previous, Socialist-run cabinet, saying that it was a big fraud which robbed the state of revenue. Orban even threatened to re-nationalize vital sectors of the Hungarian economy, and he mentioned MOL, the giant natural gas and oil group, as one of the companies foremost on his mind. Orban’s remarks have “shaken investors” in the West, the European edition of the *Wall Street Journal* wrote on July 13, in an article dedicated to the Hungarian developments, which were appropriately characterized as indicative of the changing policy climate throughout southeast Europe.

And indeed, developments in Romania, a country bordering on Hungary, made that change clear: Romania’s President Emil Constantinescu caused even greater political turbulence than the Hungarian Prime Minister, when he took to national television and radio on July 17, to announce that he was dropping out of the Presidential elections in November. He said that he had decided to pull out because he saw no way to fight efficiently from inside the state’s institutions against the “mafiosi structures” of corruption and privatization, which reached into the “highest levels of the administration.” Constantinescu charged that these

mafiosi structures were involved in huge privatization scams, in close collaboration with interested foreign circles (mostly in the West), which have “destroyed our banks, the Navy, the farming sector,” and other sectors of the Romanian economy.

Constantinescu had been viewed as the foremost “beacon of the West” in the Balkans, after his landslide victory in the Romanian Presidential elections of 1996, in which his liberal-conservative alliance of five parties defeated the Socialist-run bloc of former President Ion Iliescu. His remarks, which insiders know are not only addressed to leading circles of the Socialist government that was in power before 1996, but also to members of the non-socialist present government, have therefore delivered a great shock to the Western supporters of the International Monetary Fund’s austerity policies.

Strengthening Government Authority

The situation in Central Europe, notably in the Czech Republic, is also developing in a way that runs into open conflict with free-trade, monetarist policies. In July, in an initiative that cut across party lines, the Parliament voted for a change in the statute of the central bank, that would put it under stricter political control by the government. The new statute, if it receives final approval, would give the government power to appoint the members of the bank’s board, and would oblige the bank to coordinate its policies with the government, including on currency interventions, inflation targets, changing interest rates and money-supply policies, and other aspects of national economic policy.

The plan to give the central bank a new statute is interpreted as an act of war in the EU bureaucracy in Brussels, which sees its ideology of “independent” (i.e., independent of the governments, but dependent on the markets) central banking being undermined by Prague. Political sanctions—for example, a postponement of the envisioned Czech membership in the European Union by several years—have already been threatened by Brussels.

But this EU approach will prove counterproductive. And so will the fact that Britain’s Foreign Secretary Robin Cook offered the Czechs his government’s “expertise” in the deregulation of state-run railways, during his visit to Prague at the end of July. The disaster into which British Rail has been thrown, after deregulation during the mid-1990s, is unmatched anywhere else in Europe. The Czechs would be insane, to adopt this kind of policy.

In the Baltics, the parliamentary opposition parties in Estonia and Latvia have joined forces against privatization. At an ad hoc meeting in the city of Parnu in July, they announced the formation of a joint working group that will oppose the privatization of both countries’ power sectors. The *casus belli* that triggered the decision was the announcement by the Estonian government that it would sell the country’s Narva power plants to the U.S. company NRG Energy. A letter signed by the Estonian opposition accused U.S. officials of heavy-

handedness, stressing that “the initiative of those officials has in our opinion gone far beyond their official duties.” At the meeting in Parnu, the head of Estonia’s Center Party, Edgar Savisaar, said, “It was a surprise to me that the U.S. interests are coming to the fore not only in the privatization of Narva power plants, but strongly in Latvia as well.”

At the same time, in Latvia, the Central Election Commission announced on July 24, that a petition for a referendum against the privatization of the country’s power company, Latvenergo, had collected more than double the signatures needed to force the parliament either to adopt the anti-privatization bill or to face a referendum. The petition collected 307,330 signatures, or 22.9% of the electorate. Now, if the Latvian parliament rejects or amends the anti-privatization bill, the issue will go automatically to a referendum. Even the People’s Party, a member of the government coalition, has called for legislation that would continue the so-called restructuring of Latvenergo, but would stop the privatization.

Growing Resentment

The deepening frustration among people in eastern and southeastern Europe means that the integration of the European continent on Western terms is losing its attractiveness. In speeches on July 20 in Berlin and Munich, respectively, the Foreign Ministers of Slovenia and Hungary, Lojze Peterle and Janos Martonyi, warned that while a majority of their populations are still in favor of EU membership now, a backlash in popular opinion can be expected. They warned that if by the time of its summit in Nice, France in December, the EU has given no clear indication that Slovenia and Hungary and seven other eastern and southeast European nations would be admitted to the EU in the near future, pro-Western politicians in these countries would be swept out of power.

The growing sentiments against monetarist policy recommendations have also become apparent on the nuclear power issue: The governments of the Czech and the Slovak republics have recently let the West know, that they do not intend to adopt the EU’s anti-nuclear guidelines and sacrifice their nuclear sectors. The Czechs even were so provocative as to announce a massive expansion of their national nuclear power program.

Similarly, President of Ukraine Leonid Kuchma embarrassed his German hosts at the German-Ukrainian Consultations in Leipzig on July 12-13, when declaring that, because of threatened shortages in the future energy supply, Ukraine is not in a position to sacrifice plans for the completion of two nuclear power reactors. When German Chancellor Gerhard Schröder told him that Ukraine could not expect money from Germany if Ukraine adopts this policy, Kuchma said that he was aware of that, and that if the other Western countries would not support Ukraine, the Ukrainians would attempt to complete the two plants, at Khmel’nitski and Rovno, with loans from private banks.

Egypt and the New Silk Road

by Professor Dr. Mohammed Al-Sayid Selim

This is a translation from Arabic of the speech presented by Dr. Selim to a conference in Port Said, Egypt on April 13-15, entitled "The New Silk Road and Its Impact on Egyptian Interests." The conference was organized by the Asian Studies Center in the Faculty of Economics of the University of Cairo. The title of his speech, our guest column here, was "Egypt and the New Silk Road: The Potentials for Amplifying Egyptian Interests." (See Hussein al Nadeem and Muriel Mirak-Weissbach, "Egypt Seminar Takes Up LaRouche, Silk Road," EIR, May 26, 2000.)

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Railways have played a key role in economic development processes, either as a prelude to this development or as part of it. It is acknowledged that the construction of the transcontinental railways in the United States and Canada, whose aim was to connect their east coasts to their west coasts, greatly contributed to the emergence of the economic power of these two states. In the late 19th century, the Ottoman Sultan Abdul-Hamid II started work on strengthening the Ottoman state by connecting the wide territories of the periphery to the center with the Baghdad Railway. The problem was, that the project turned into a field of imperial competition among the European companies within the Ottoman Empire. Moreover, the political turmoil, which characterized the Ottoman state, especially after Abdul-Hamid was deposed in 1909, and Turkey's involvement in World War I in 1914, prevented the state from harvesting the fruits of this project.

Currently, there are two rail projects under construction in Asia. The first one is the Trans-Asian Railway, a project which was started in the 1970s. This project is limited to Asia and is intended to link Istanbul to Singapore. The second project is the Eurasian Land-Bridge, or what is called "the New Silk Road." This is a project which was started in the beginning of the 1990s, to connect Asia with Europe.¹

The New Silk Road is regarded as one of the major results of the end of the "Cold War." That end led certain Asian forces to expand their foreign economic spheres, and to link themselves to the process of economic globalization. In this respect, China, Turkey, and Iran played important roles in

developing and implementing the idea of this project. Parts of this project have already been built, and that, for the greater part, took place inside China. On June 3, 1992, China officially announced that it was about to operate the Eurasian Rail-Bridge, which is a high-speed rail line linking the Chinese East Coast to Central Asia. In September of that year, the line was extended from the port of Liangyungang in Jiangsu province north of Shanghai, to the Alataw pass to Kazakstan through Urumqi, the capital of Xinjiang province. China explained that the line shortens the distance to the Middle East and Egypt by 3,000 kilometers in comparison with the southern Eurasian route.

In its turn, Egypt started building what is called "the Orient Express," a rail line starting from the Nile Delta through Al-Ismailia [on the Suez Canal] and Al-Fardan [on the eastern bank of the Suez opposite Al-Ismailia] to Rafah on the Egyptian border [with the Gaza Strip (Palestine) and Israel]. It is calculated that this line will extend throughout the Arabian Al-Mashriq [or geographical east of the Arab world, including Syria, Lebanon, Jordan, and Iraq] to connect with the New Silk Road.

Here we assess the impact of this giant Eurasian project on Egyptian interests, both from the profitable opportunities it provides, as well as the dangers it poses to the Egyptian economy.

This article is divided into three sections. The first deals with the probable impact of the New Silk Road on Egyptian interests. Second, what has been achieved up till the year 2000. And, the third deals with the opportunities that are open for Egypt to be connected to this project, in light of the Middle East peace process, and what policies could be followed to amplify the chances of Egypt becoming part of this project and how to benefit from it.

I. The Impact of the New Silk Road on Egyptian Interests

We can outline four key aspects through which the New Silk Road will affect Egyptian Interests:

1. The impact of the New Silk Road on international trade overall:

Some experts assume that the building of the Eurasian Land-Bridge will lead to the flourishing of the world economy as a whole, and therefore, will increase the amount of commercial exchange among nations. And this development will benefit the Egyptian economy through the increasing amount

1. Mary Burdman and Konstantin George, "Eurasian Rail Project: Building the World's Greatest Rail Network," *EIR*, July 17, 1992, pp. 28-32.



Professor Dr. Mohammed Al-Sayid Selim (right), with EIR's Muriel Mirak-Weissbach, at a seminar organized by the Center for Asian Studies at the University of Cairo, in 1998. The seminar was on the coming financial crisis and the perspective for extending the Eurasian Land-Bridge into Africa.

of trade passing through Egypt in general and the Suez Canal in particular. Thus, the Eurasian Land-Bridge will have a positive effect on world trade, with Egypt partially benefitting from that.²

2. The impact of the New Silk Road on Egypt's strategic location:

A state's geographic location had great significance in determining its strategic position prior to the age of development of communications technology in the second half of the 20th century. The Eurasian Land-Bridge has the potential of rebuilding transportation routes among Asia, Europe, and Africa. Because Egypt is planning to connect itself to this road, it could extend to North Africa, in the case that the Libya-Egypt rail line is built. Therefore, the Eurasian Land-Bridge will lead to Egypt regaining its strategic position as a nodal point between Asia, Europe, and Africa, in addition to opening new horizons for the speedy transport of commodities to the nations to which the New Silk Road will extend.

3. The impact of the New Silk Road on Egypt's relationship with the Central Asian nations:

2. Muriel Mirak-Weissbach, "How Egypt Could Link Africa to the Eurasian Land-Bridge," *EIR*, Jan. 22, 1999, pp. 18-22.

Egypt has no direct geographical connection with the Central Asian States, either by sea or by land. This constitutes one of the obstacles in the way of trade between Egypt and these states. The New Silk Road has the potential of providing a means of land communications with the Central Asian states through two alternatives: One, is the transport of goods by sea to Iranian ports, and from there through the Iranian rail network to Central Asia. The other, is to transport goods on the New Silk Road when it is completed.

4. The impact of the New Silk Road on navigation in the Suez Canal:

It is not definitively clear to what extent the building of the New Silk Road will affect navigation through the Suez Canal.

The construction of the New Silk Road will probably attract a share of the commodities that are transported from East and Southeast Asia to Europe, as they will be transported by rail on this line. The statistics of the Suez Canal Authority indicate that, in 1999, the commodities transported via the Suez Canal from East and Southeast Asia on their way north, amounted to 41.9% of the total quantity of goods transported through the canal (128,623 tons out of 306,670 tons). It is possible that a portion of this volume will be diverted to the Eurasian Land-Bridge. However, this possibility is still small, due to the fact that the commodities transported via the New Silk Road would have to pass through a number of states, which would mean increased transit tariffs, checking operations, and reshipment, with costs far higher than that of passage through the Suez Canal. Higher costs will lead governments to be careful about routing great portions of their commodities for long-haul transport on this road. Therefore, it is to be expected that this road will be used primarily for short-haul transport of goods, or in areas that do not have access to navigable sea routes, such as transportation between China and Central Asia.

5. The impact of building the New Silk Road on the development in East Port Said:

Egypt is currently building the East Port Said project, which includes construction of a port to the east of the mouth of the Suez Canal and an industrial zone to the south of that port. This project will be connected to the "Orient Express" railway, which extends from Al-Fardan to Rafah. There are also plans to link it to the Eastern Arabia railway network, and Anatolia, to Europe. There will be a short, 35 km line emerging from the Orient Express Rafah-Al Fardan line at Baluza. The fact is, that when the New Silk Road is connected to this line, it will have positive effects on the East Port Said project, because it will be possible to transport the products from this industrial project to the Arab east and to Central Asia.

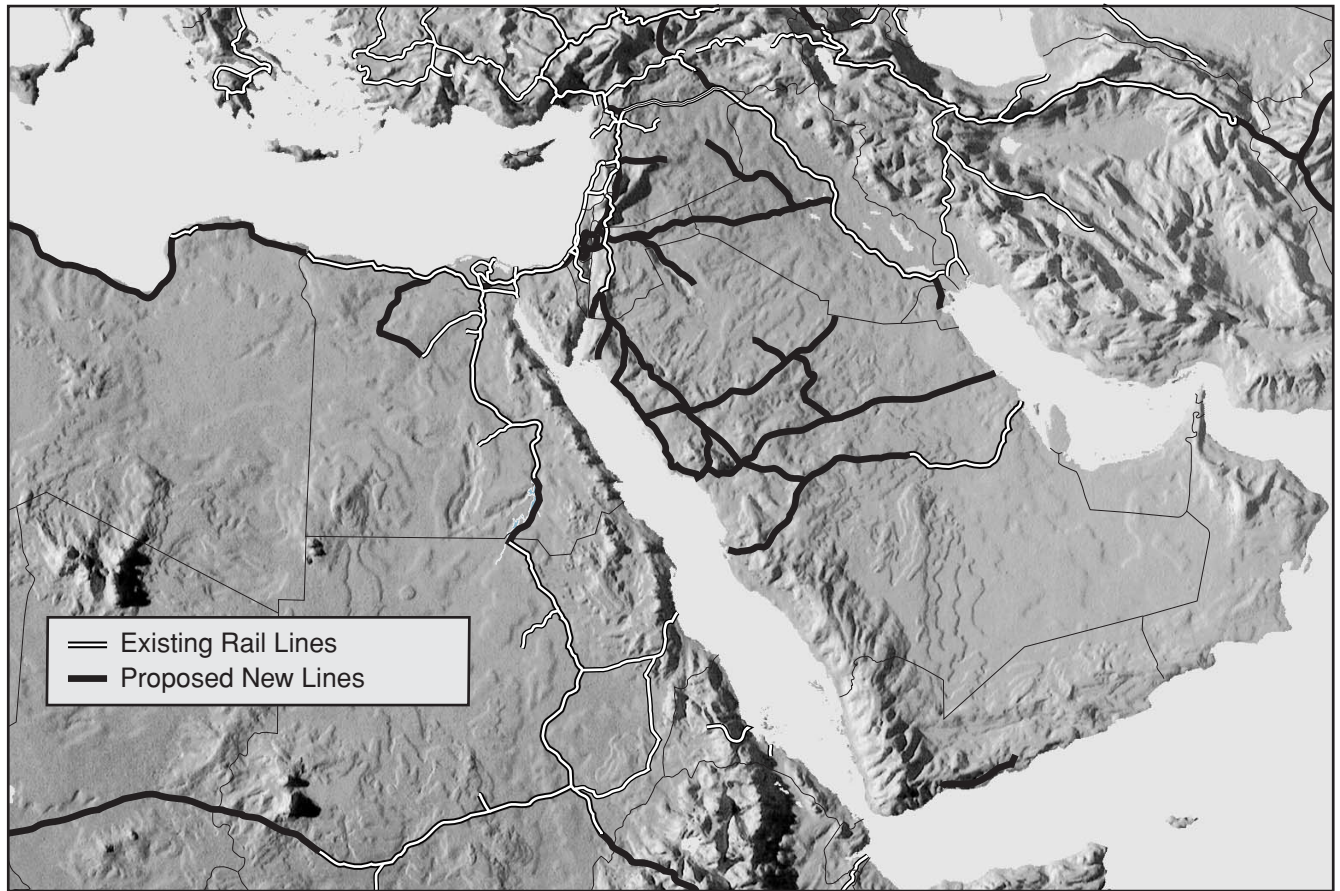
In general, it can be assumed that the effects of the New Silk Road on Egyptian interests will be mostly positive. But, these effects can be achieved to the extent Egypt would endeavor to draw the maximum benefit from the revenues to be expected from building this road. This leads us to the Egyptian project for linking up with the New Silk Road.

FIGURE 1
Central Asia: Existing and Newly Constructed Railways



FIGURE 2

Greater Middle East, Existing and Proposed Rail Development (Arab League)



II. What Has Been Achieved So Far

Egypt is currently building the Orient Express rail line, which extends from Al-Fardan to the west [of the Suez Canal], then crosses the canal over a bridge, and goes northward for 50 km; it then goes east in a line parallel with the Mediterranean coast [north of Sinai], passing by Lake Bardawil, and later to Rafah. The total length of the line is 225 km. The rails have already been constructed, and station platforms have been built for 56 km of the line. The project’s cost amounts to 1,575 million Egyptian pounds, including an extra line that extends to Port Said to service the port and the Sharq Al-Tafria zone. The first stage of the project will be inaugurated by the end of year 2000.³

This rail line has been called the “Orient Express Train,” because it is expected to extend through the Arab Al-Mashriq to connect with the rail network there and to Anatolia, and from there to Europe. These lines were traditionally known as “The Orient Express.”⁴ Egyptian Transport Minister Dr.

Al-Demeri has stated that “the rail-bridge and the railway across the Egyptian territories will become a decisive element in the return of the Orient Express Train, when the other Arab countries fulfill their commitments to complete this line.”⁵ This reflects the Egyptian intention to become part of the rail network in the Arabian east and Turkey, to Europe. However, this connection should include the New Silk Road coming from the east and going west.

1883. One end used to start in London, and in the port of Dover, passengers boarded ferries to cross the English Channel to Calais, France. From France, trains would run through Paris, Milan, Belgrade, Sofia, and Istanbul. From Istanbul, passengers would cross the Bosphorus by ferry to the Asian side. From there, passenger trains ran on the “Baghdad Railway” from Haidar Pasha Station. This train would go to the center of Anatolia, to Aleppo and Tripoli, Lebanon, where the line ends. Passengers then would take cars to Haifa and then trains to Al-Qantara [west of the Suez Canal] and then to Cairo. Egypt became a member of the international committee supervising the Orient Express in 1938. However, the line was destroyed during World War II. As for Egypt, the end of the line became the Gaza Strip in the aftermath of the 1948 war. The line was put completely out of commission with the Israeli attack in 1967.

5. Statements by the Egyptian Transport Minister to *Al-Ahram*, Dec. 9, 1999.

3. Suez Canal Authority, *Yearly Report*, 1999, p. 64.

4. “The Return of the Orient Express,” Arabic daily *Al-Ahram*, Nov. 21, 1997; “The Orient Express,” *Al-Ahram*, Jan. 21, 2000. This line was built in

III. The Egyptian Project for Linking with the New Silk Road

Egypt can link the Rafah rail project with the Orient Express and the New Silk Road in two ways. First, is the land route across Israel through the Israeli-Syrian-Iranian rail networks. The second, is the sea route through Nuweiba el Muzein-Aqaba, because the Rafah rail line can be extended [to the south of Sinai] to Nuweiba el Muzein, where ferries could be used to transport the rail cars to Aqaba and to the Arabian Mashriq. The first route has a historical precedent associated with the previous existence of the Orient Express, which was functional from the beginning of the early 20th century from Aleppo to Haifa and Gaza, and from there to north Sinai and Al-Ismailia. This line was closed when the first Arab-Israeli war [1948] broke out. The reopening of this line implies the end of the Arab-Israeli conflict and the establishment of peace in the Middle East. In light of the current regional and international paradigm shifts, this issue is possible to solve, despite

the balance of the peace that will be achieved. In our assessment, we believe that the goal of Egyptian policy is to reopen this route, because it has already started building the rail line to Rafah in northern Sinai, and especially because there are projects for building a Middle Eastern rail network, as was announced in 1999.

Currently, there is a Turkish-Syrian initiative to revive the Hijaz Railway [see box]. On April 29, 1999, Syria and Turkey signed an agreement in Damascus, Syria to build joint transport networks. The agreement explicitly referred to the concept of “the Eurasian Land-Bridge,” as it stated that Damascus would become the center for a number of rail lines connecting to Europe, Central Asia, and Iran in the north, and to Jordan and Saudi Arabia in the south. The two sides agreed to revive the Hijaz Railway, which was built by the Germans for the Ottoman state in parallel with the Baghdad Railway. The 2,000 km Hijaz Railway went from Istanbul to Damascus and Al-Madinah, Saudi Arabia. In the current agreement, Tur-

Iran, Iraq, and Syria To Connect Their Rail Networks

In a breakthrough for relations among Iraq, Iran, and Syria, in line with the New Silk Road diplomacy, Syrian Railroad Organization Managing Director Mohammad Ayad Qazal said in Tehran on July 20 that Syria and Iran have agreed to link their railroad network across Iraq, and that Syria will soon start negotiations with Iraq on the matter.

At the signing ceremonies of a Memorandum of Understanding (MOU) with Iranian Railway Organization Chairman Rahman Dadman, Ayad Qazal said that the design and construction of the 150 kilometer Syria-Iraq rail link had been contracted out to an Iranian company. He also expressed hope that with the 30 km rail link between the southern Iranian city of Khorramshahr and the Iraqi city of Basrah, the two countries would be linked by rail.

Dadman also welcomed the projected link among Iran, Iraq, and Syria, adding that the line would be an important transportation link to the Mediterranean Sea, the Persian Gulf, and Central Asia. He said that once complete, the Iran-Iraq-Syria rail line would be the most important surface transportation route in the region.

Connections to Turkey

The Iranian-Syrian MOU is related to the construction of rail lines and the launch of a Tehran-Damascus passenger train via Turkey. According to the agreement, a number of Iranian experts will design and construct three rail lines

in Syria, as well as a new underground train in the Syrian city of Halab (Aleppo). The Iranian Railway Organization agreed to dispatch experts for welding track-joints, and to help repair locomotives in Syria while providing them with spare parts and services.

Representatives of Iran, Syria, and Turkey are to meet in Aleppo to agree on target dates for the project. In the beginning, the passenger trains will operate between Tehran and Damascus once a week, but their schedule will be upgraded depending on the number of regular passengers between the two cities.

On July 5, Turkey and Syria inaugurated the Istanbul-Damascus rail line. The Istanbul-Damascus train service was also reopened to Aleppo, signalling the start of operations for passenger and goods transport between the two countries. Turkey and Syria agreed last year to renovate and reopen the Hijaz Railway, which extends through Syria to Lebanon, Jordan, and Saudi Arabia. On the Turkish side, this new line will extend to Iran and Central Asia.

Turkey has also agreed to reopen the Nusaybin-Qamishly line in northeastern Syria, which also links the two countries with the city of Mosul (northwestern Iraq).

Reopening the railways inaugurates a new era in relations among these central nations in the Eastern Mediterranean region and the rest of the Middle East. These kinds of projects upend many Anglo-American geopolitical manipulations and schemes, which say that any regional economic or political development, especially infrastructure projects, should be stopped until the present Iraqi government is overthrown (see “State Department Joins Britain and Kuwait in Plot To Oust Saddam Hussein,” *EIR*, June 2, 2000). — *Hussein Al-Nadeem*

key offered to provide 100 locomotives and rail cars to Syria to enable them to operate the railway. Also in June 1999, Syria and Jordan agreed to reopen their portion of the Hijaz Railway, and to connect the Syrian and Lebanese ports with Jordan and Saudi Arabia.⁶

The second route, a sea route, is similar to the existing agreement between Iran and the authorities in Dubai, in the United Arab Emirates, to connect the two countries by ferry-borne trains. The problem with this project is its high cost. If this route is chosen to connect Egypt with the New Silk Road, Egypt must extend the rail line from Rafah to Nuweiba el Muzein, and build the technology for sea-borne trains. This implies a cost which Egypt cannot afford alone under present circumstances. The same applies to the idea of building a rail tunnel under the Tiran Strait south of the Aqaba Gulf, through which the Orient Express could pass to the Arabian Mashriq. In both cases, there is the hard task of expanding the rail line from Rafah to the Gulf of Sinai throughout the Sinai Peninsula.

6. The London-based Arabic daily *Al-Hayat*, April 30, 1999; Hussein Al-Nadeem, "Mideast Projects Boost Eurasian Land-Bridge," *EIR*, July 23, 1999, p. 7; "Turkey, Syria Set To Revive Hijaz Railway," *EIR*, May 21, 1999, p. 21.

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German Pension Reform

From Social Security to Casino Economy

by William Engdahl

Pension Reform-2000, the latest proposal by Germany's Labor Minister Walter Riester, dramatically changes the German state pension system. It is intended to be the first step in de facto privatization of the state social security program, one of the underpinnings of the postwar German "social market" economic model.

The approval on July 3 by the Social Democratic Party (SPD) Executive of the controversial Riester Plan, and by the Green Party-SPD parliament members on July 4, was greeted in the boardrooms of Deutsche Bank, Allianz Insurance, and similar financial centers, with the sound of champagne corks popping. In the next session of the German Bundestag (parliament) this fall, the plan is expected to win approval, despite growing opposition by the once-powerful SPD trade unions.

Pensions To Be Cut

The Riester plan calls for cutting the percent of a person's publicly funded pension from the present level of 69% of his wage before retirement, down to 64% by 2030. As well, employee tax payments into the State Pension Fund will rise from 20% of gross wages to, "if possible," not more than 22%. This compares with the present U.S. Social Security payroll tax of 12.4%.

It is notable that of 45 people in the SPD Executive eligible to vote, only 19 voted for the plan, 9 voted against, and the rest abstained. Every SPD social policy expert either voted against, or expressed strong reservations, including SPD social security expert Rudolf Dressler and German Trade Union Federation Deputy Chairman Ursula Engelen-Kefer.

The plan was pushed on the party by Social Democratic Chancellor Gerhard Schröder, on the argument that drastic overhaul of the federal government pension structure is needed now, to avoid a collapse of the entire system in the next decades, owing to the rapid aging of Germany's population. Other than Japan and Italy, Germany has the most rapidly aging population of the major industrial nations.

It is not surprising that younger Germans, as well as those at or nearing retirement age, are anxious about the stability of their pensions. For the past several years, in an effort to build popular acceptance for a radical pension privatization

scheme, Deutsche Bank, led by its Malthusian chief economist, Dr. Norbert Walter, has run a media campaign on the issue. Endless articles and TV interviews from such financially self-interested circles as insurance companies and banks, have stressed that younger workers can no longer be assured of receiving full public pension benefits upon retirement.

Since the beginning of the 1980s, if the rise in the cost of living is taken into account, the real pension a worker receives has dropped fully one-third, in terms of actual purchasing power. That, because price inflation has risen far faster than nominal pension payments. In short, Germans are having to pay more and more, to get less and less.

Private Plans

The heart of the controversy over Pension Reform-2000 is its provision to add a tax which will reach 4% of gross wages by 2008, to be invested into private pension plans, on the argument that this would fill the hole left by cutting pensions to 64% of wages prior to retirement. The president of the German War Disabled and Handicapped Union, Walter Hirrlinger, has attacked this 4% private tax as “signifying the end of solidarist pension financing,” whereby the employer and employee each make half the regular payment to the pension fund.

By initiating a private “supplemental” pension plan as mandatory, the German government is trying to impose an idea which is now in the center of the U.S. election debate. George W. Bush and Al Gore, Jr. have both proposed radical schemes to increase Social Security retirement funds via private investment in financial assets.

The Riester plan is the first phase of the scheme promoted by the large German banks and insurance giants—Deutsche Bank, Dresdner-Commerzbank, Allianz—and their investment funds such as DWS, DIT, or ADIG. The real purpose is not to provide for the social security and well-being of Germany’s aging population well into the mid-century, but to force German working people to help prop up the bankrupt global financial system.

Instead of receiving a guaranteed public pension at 70% of a person’s last wage level before retiring, now he must “contribute” 4% of his wages to a private investment fund.

Shareholder Society?

While details of the fund are yet to be made public—a curious “omission” of the Riester reform—it is expected that it will mainly be directed to some form of investment in stocks or mutual funds. The argument is, only this will allow a working person to earn enough to make up for the falling level of his state pension by the time he retires, or at least to prevent a far higher pension tax deduction from his working wage for his public pension. Both are built on false assumptions.

The core of the argument for investing in stocks for

retirement is one advanced several years ago in the United States by Wharton School economist Jeremy Siegel, in a popular book, *Stocks for the Long Run*. Siegel argued that investing in stocks, if viewed over time, was far the most profitable form of investment, far more rewarding than had a person invested conservatively in government bonds or property. His argument was promoted widely by Wall Street financial houses and mutual funds seeking to attract new money into their stock funds, a factor helping drive the U.S. stock market in recent years to its phenomenally high levels.

What Siegel conveniently leaves out of his argument, however, in comparing the growth of the Dow Jones Industrial Average of 30 leading American companies, is that the companies making up the index of 30 change regularly. Had a person bought a particular Dow stock, say Bendix Corp., in 1950, it could well have gone bankrupt in the meantime, but the Dow index would rise, because a new company, Disney or McDonalds, was added in its place. The Dow Index has risen, but you may have lost your savings with the bankruptcy of Bendix.

Another fallacy glossed over in the conveniently chosen years of comparison used by Siegel, is the fact that, historically, U.S. stock markets have undergone extremely long periods of depressed prices. The 1929 market crash brought stock prices down to new lows. The Dow Industrials, for the companies that survived, and other key stock prices, did not recover their pre-crash levels in many cases until the early 1950s. That is, almost a quarter-century. Or, the stock crash of 1973, which took until well into 1984 to regain its losses.

In effect, Riester is proposing for working people to make forced investment in a speculative casino of stocks, in the hope that, in 10 or 20 or 30 years, there will be something left for them to live on in old age, by selling the stocks. The argument clearly appeals to naive younger voters, who look at the German DAX stock index rise of nearly 40% last year, and imagine that this is “normal.”

Aversion To Investing in Stocks

Historically, ever since a stock market crash wiped out millions of persons’ savings in the early 1890s, Germans have been averse to investing their savings into stocks. The preferred form of investment has been savings bank accounts, home savings accounts, or private insurance policies which pay a guaranteed fixed annual or monthly annuity after a person reaches a specified age.

However, partly because of the intensive media campaign, begun in 1996 by Deutsche Bank’s chief economist and head of Deutsche Bank Research, Norbert Walter, younger Germans have become convinced that they are likely to get far less than promised by the time their state pension comes due.

The consequence, according to a study released in June by the German central bank, has been a sharp drop in the

traditionally high level of German private household income put into savings accounts. In 1992, before the banks' campaign about the security of public pensions began, German households saved an impressive 13% of their disposable income in savings accounts or similar safe vehicles. By the beginning of this year, that ratio had fallen to 7.9%.

Pointing to last year's gain of 40% in the DAX, the banks and insurance companies are urging customers to "get modern" and shift out of savings accounts which pay some 1.2% to perhaps 2%. The campaign is having significant effect.

According to the central bank study, "For some time the debate over the public pensions has made clear the need for a personal supplemental old age reserve, in the view of private households."

The study adds that the amount of stock held by private households in Germany has increased by 300% since the beginning of the 1990s. The revolution in attitude toward owning stocks was created by the government in a carefully orchestrated privatization of the state-owned Deutsche Telekom, the state telecommunications monopoly, in 1996. That was also the year the banks began their campaign for private stock-based supplemental pension funds.

A record sum of some \$25 million was spent by Telekom to create an appetite for buying the stock. It worked to lure people to take the plunge, and become first-time shareholders. The stock of Telekom was preordained to rise, as the size of the company was so large that all international stock funds needed to hold it as part of their German stock portfolio. The sucker game was off to a good start in Germany. Needless to say, Deutsche Bank was the lead adviser on the privatization of Deutsche Telekom at the time.

Today, some 13% of German families own some stocks. This, of course, is a drop in the bucket compared with the United States, where now nearly 60% of households own stocks.

This relatively low level of family stock ownership by Germans is precisely the reason that the banks, private insurers, and their in-house stock mutual funds have pressured the Schröder government to implement the Riester Reform. A 4% wage diversion into private pension funds, based on today's gross private wage income, would inject another \$66 billion into the German stock market, sending prices of shares into the stratosphere—until, that is, they crash into oblivion, an event becoming more likely by the day.

Already in June 1996, Deutsche Bank Research, in a client letter, complained, "Germany's financial markets suffer on the equity side from . . . the limited role played by institutional investors. This could be changed by, among other things, a growing importance given to pension funds." Indicating precisely what they had in mind, the memo added, "Legal and tax obstacles stand in the way of a stronger role for [private] pension funds in Germany. That is why fundamental change needs to be made to the regulatory framework, with radical

reform of the pension system."

The Riester Reform is the first step in the Deutsche Bank-led plan to create what Deutsche Bank calls a "huge capital market potential."

A Giant Fraud

In order to realize this "huge capital market potential," the banks and insurance giants have had to engineer a phony debate, and manufacture anxiety about the very existence of the German state pension system itself. The German demographic problem is well known, and exists in other European and North American economies to one degree or another.

But the demographic crisis is not what is behind the Riester Reform. According to a 1995 study released by the Association of German Pension Insurers, reforms to the pension law made in 1992 had put the system on a solvent footing, and no major changes were needed into the foreseeable future. It stated that the demographic problem was solvable within the present system.

The report went on to note that state-mandated expenditures, so-called "non-pension burdens," paid out of the public pension fund, to an amount already in 1995 of an estimated \$50 billion per year, almost one-third of total annual public pension tax income, were the real reason for the pension fund "cost explosion," and not the aging of the population. German governments for the past years, especially since 1990, and because of the high costs of a mismanaged German unification, have found it convenient to hide new state costs from voters by quietly adding them to the public pension fund expenditures, even though they have no relation to payments of pensioners.

Most of the non-pension burdens are legitimate state expenses which government ought to be paying, such as compensation for early retirement (the worker stops paying in and begins to draw out several years early), or payment for schooling or job training after age 16. But these payments ought to be dealt with in the regular federal budget, paid out of normal tax revenues, and not dumped onto the public pension system, where a small portion of the population—employees and employers, 50-50—carry the burden.

One of the most vocal critics of the political manipulations of this non-pension burden, has been SPD social expert Rudolf Dressler. Not surprisingly, Dressler voted against the Riester Reform on July 3. His voice won't be heard on this vital issue for long, however. He will become Ambassador to Tel Aviv, far from the pension debates of the Bundestag. As all sides prepare for the opening of the parliament in September, the German Federation of Trade Unions (DGB) has launched a national campaign in opposition to the Riester scheme. It will be a telling test of strength, as they go against the combined muscle of German and international financial powers.

Business Briefs

Transportation

Russia, Iran To Create a North-South Corridor

Russia and Iran intend to jointly create a north-south transport corridor, which will extend the Helsinki-St. Petersburg-Moscow pan-European corridor No. 9 to Astrakhan, and then to India and the countries of the Persian Gulf through Iran, Interfax news agency reported on July 18.

Representatives of the Transport and Railways Ministries and the shipping and forwarding companies taking part in the project, met in Moscow in July, a Russian Transport Ministry spokesman said.

The corridor will be used for transporting cargo to central and north European countries and to Russia from the Persian Gulf, India, and Pakistan, the spokesman said. The cargo will be shipped by sea and then transported to the Iranian Caspian Sea ports through Iranian territory. It will then either be transported by ferry and Russian railways or by "river-sea" ships to eastern and central Europe and Scandinavia.

The feasibility of the project has been confirmed by the experimental transport of containers from India to Russia via Iran. It took 20 days to deliver the cargo, whereas shipping cargo through the Suez Canal takes 45 days.

Inflation

'Official' U.S. Consumer Prices Show Steep Rise

On July 18, the U.S. Labor Department released a monthly composite figure of an 0.6% price rise for June. This follows five monthly rises for the first half of the year (March was higher, at 0.7%; April was the only month considered flat), pre-figuring a potential annualized rate of 7.2%. The second half of the year, in which the high gas, electric, and other energy prices will have an impact, could see consumer prices escalate even faster, easily up to double-digit levels.

The 7.2% annualized rate is being kept out of press headlines, in a way similar to the blackout accorded the June 5 Bank for

International Settlements report that the U.S. economy is headed for a "hard landing." The ruse used, is to exclude the prices of energy and food from the "core" rate of inflation, because such prices are "too volatile."

The Bureau of Labor Statistics (BLS) insists that "core" inflation is "moderate." It maintains that for the 12 months ending in June 2000, "core" inflation rose only 2.4%, up from 1.9% for the 12 months ending in June 1999. In fact, prices for energy, food, housing, and so on are all rising.

Natural gas prices rose 7.8% in June, the biggest one-month jump since the BLS began tracking the figures in 1952. Airline fares rose 1.5% in June, with higher fuel costs a big factor. Housing costs rose 0.5% in June. (In New York City, the average rental increased 42% from 1999 to 2000.) Hospital charges went up 4.1% for the 12 months ending in June. A services sector index of prices, published by the BLS and also excluding energy prices, rose at an annual rate of 3.7% the first six months of this year, up from 2.7% in 1999.

Dominican Republic

LaRouche's 1974 Warning on Pandemics Is Featured

The publication of an article by journalist Orlando Martinez, reporting on U.S. Democratic Presidential pre-candidate Lyndon LaRouche's 1974 forecast of a biological holocaust, has caused pandemonium in the Dominican Republic. The article, in the July 19 daily *La Nación*, reported that after Africa, the Caribbean has the highest prevalence rate of AIDS cases in the world, and that 85% of those cases are in the Dominican Republic and Haiti. "In 1974," Martinez wrote, "economist Lyndon LaRouche had forecast that if living conditions in the poorest countries began to decline still further, thanks to IMF and World Bank 'aid' programs, which increase malnutrition and conditions of poverty, it would create the ideal conditions for the emergence of pandemics, and we could even face a repetition of the Black Death that hit Europe from 1347 to 1351, and which produced the deaths of 20% of Europe's population—25 million peo-

ple!" LaRouche's forecast was ridiculed at the time, Martinez said, but "today, things have changed."

Martinez was referring to data presented at the July 9-14 International Conference on AIDS, in Durban, South Africa: "Today, it appears that the illness is spreading at a rate unimaginable five years ago. The figures are scandalous: 18 million people have already died, and 34 million are suffering from the illness. In Botswana, Lesotho, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe, 20% or more of the adult population is infected with the virus." In some places, 60% of pregnant women have AIDS. The article suggests that the disease may have been allowed to propagate, to carry out the genocidal mission of U.S. National Security Study Memorandum 200, written under the direction of U.S. Secretary of State Henry Kissinger.

The next day, Health Minister Dr. José Rodríguez Soldevilla, in an interview with *La Nación*, confirmed that what Martinez had written was true, that the island of Hispaniola (Dominican Republic and Haiti) "is second in the world in number of AIDS cases," and that tuberculosis and dengue fever are also on the rise. He said that of every ten AIDS cases in the Caribbean, six are in Haiti and three in the Dominican Republic.

In an editorial, *La Nación* called on the government of Hipolito Mejia to "undertake a crusade" to end what it called "the plague of the century," which will otherwise "end up doing away with the population."

Environmentalism

Mining Opponents Said To Be British Agents

Tiomin Resources, Inc., of Ontario, Canada, has charged that environmentalist opponents of its operations are British agents, Agence France Presse reported on July 17.

Tiomin is planning to mine sands for titanium in Kenya, inland from the coast, and to construct a port. ActionAid, a British-based international "appropriate technology" outfit, together with operatives of the Kenya Wildlife Service, are seeking to block the \$120 million project. The mining company

THE MAY U.S. TRADE deficit of \$31 billion, after a \$30.5 billion April deficit, “was very bad news,” a senior City of London source commented. “Even worse, because May was when oil prices fell to near \$24 per barrel. June and July oil import costs will be significantly worse for the next two trade deficit figures.”

INDIA AND CHINA signed their first memorandum of understanding to strengthen bilateral cooperation in Information Technology and to boost their strategic business partnership. “Under the MOU, the two Ministries would exchange policies and strategies on IT industry, encourage mutual investment, establish joint ventures and transfer technologies,” visiting Indian Information Technology Minister Pramod Mahajan said.

THE GOVERNOR of Kandahar province in Afghanistan, Mullah Mohammad Hasan Rahmani, says that water shortages have reached alarming dimensions and an emergency-like situation prevails because of one of the worst droughts in three decades. A UN team reported that the province is threatened by an imminent disaster if measures are not taken to assist drought-stricken areas.

POLISH Education Minister Miroslaw Handke resigned on July 18, after failing to get \$200 million in funding for salary increases for teachers and to upgrade school infrastructure—a promise given by the previous Solidarity-led government to end a national teachers strike. Prime Minister Jerzy Buzek appointed a new minister, Edmund Wittbrodt, but his minority government may not last long.

AGRICULTURAL specialists of Kazakstan, Mongolia, and Russian Siberia met in Kazakstan’s former capital, Almaty, in July, to exchange views on how to improve the agriculture sectors of these countries, especially to solve problems involving livestock. All three countries have very similar weather, soil, and flora conditions for livestock breeding.

has now come out swinging. Tiomin’s Kenyan representative, Françoise Goutier, has charged that ActionAid is conducting a “smear campaign.” She said, “I do not believe that they are acting on corporate social responsibility as they claim,” and they “do not have any obvious concern about this project, maybe apart from the fact that ActionAid might be acting in vested British interests.”

The region of Kenya where the project is under way, holds 12% of the world’s titanium. Tiomin plans to use what it mines for pigments in the production of paint.

China

Foreign Trade, Economy Show Big Growth in 2000

In the first six months of 2000, the total value of Chinese imports and exports was \$216.6 billion, a 37.3% rise over the same period in 1999. Following the global financial crisis which broke out in Asia in summer 1997, China’s exports stopped declining in July 1999, and since January 2000, trade has grown rapidly: The total value of imports and exports during the first quarter increased 40% compared to the same period of 1999. On July 18, the National Bureau of Statistics reported 8.2% growth of Gross Domestic Product, year-on-year, in the first six months of 2000.

The value of the economy was put at 3,949.1 billion yuan (about \$500 billion). Industrial output was 1,900.5 billion yuan, up 9.9%; secondary industrial output was 2,136.5 billion yuan, up 9.7%; and service sector output was 1,362 billion yuan, up 8.1% from the same period last year. The first half 2000 saw an especially quick growth of mechanical and electrical products and high-tech products, which have been the focus of China’s “promoting trade through technology” strategy. Exports make up about 20% of China’s GDP.

The Private Economy Research Center, under the Chinese Academy of Social Sciences, has documented in a report that 44% of China’s exports are from overseas-funded enterprises, up from 31% in 1991, and comprise 15% of China’s gross industrial prod-

uct, *China Daily* reported on July 21. The degree of dependence is identified as a potential problem. The report states: “It is hard to imagine China keeping its annual economic growth rate of 10% without contributions from overseas-funded enterprises.” Foreign-funded enterprises contribute about 14% to China’s annual revenues, which is less than state- and collective-owned enterprises, but more than China’s private and self-employed sectors. According to the report, 230,000 overseas-funded enterprises employ 5.8 million people, accounting for 3% of the country’s total.

Health

Creutzfeldt-Jakob Disease Epidemic in Britain

Over the past two years, four people in one British town have died of the human variant of bovine spongiform encephalopathy (Mad Cow disease), known as Creutzfeldt-Jakob disease, according to French press reports on July 17. On July 14, British health authorities put out a full alert in Queensborough (population 1,800), where the density of CJD cases is particularly high. Three people between the ages of 18 and 35 died in 1998. A 19-year-old died last May, and an 84-year-old resident is currently listed in critical condition.

Since 1995, when this form of the disease was discovered, 75 such cases have been identified in Britain. (CJD was known much earlier, but those rare cases almost always struck the elderly, and were not geographically concentrated.) BBC interviewed a medical expert, Professor Anderson, on July 14, who said that, with that number of CJD cases in such a small area, one can talk about the beginnings of an epidemic. Three cases had been identified in Britain in 1995, followed by 10 each in 1996 and 1997, and 18 cases in 1998, he said. While in 1999, the number fell to 14, “this year . . . we have already 12 cases, and the total will be probably greater than all the preceding years. . . . This might be a small epidemic, as we all hope, but the incubation time is so long, that it is too early to say if it is a small, medium, or large epidemic.”

Revive Mideast Peace Process with Water, Economic Growth

by Muriel Mirak-Weissbach and Paolo Raimondi

The collapse of the Camp David talks between Israeli Prime Minister Ehud Barak and Palestinian President Yasser Arafat, should not come as a surprise. Anyone who knows anything about the stumbling-block issues—the status of Jerusalem and the right of Palestinian refugees to return there—knows that the alternatives as presented through the mediation of President Bill Clinton, were unacceptable as well as unworkable. It was a classic case of fallacy of composition, whereby the very nature of the “solutions” presented, doomed the process of negotiations. Indeed, had Arafat buckled under pressures to accept Israeli sovereignty over East Jerusalem, the slated Palestinian capital, this would have led not to peace, but to war, and rather quickly. At the same time, had Barak agreed to full Palestinian sovereignty over East Jerusalem, and the right of all Palestinian refugees to return, as prescribed by international law, he would have been welcomed on return to Israel by an assassin’s bullet, perhaps, or at least, the end of his minority government.

Thus, with the breakdown of the talks, at least this round, the worst-case scenario has been avoided. The best one can say, is that the process is still open. It was reported by both sides that they would continue talks, on a lower level, as of July 30. Arafat’s credibility has been maintained, indeed his stature has been enhanced, by his refusal to sell out Palestinian interests, and he enjoys complete support from the leadership of the Arab and Islamic world. Barak, for his part, faces a polarized situation inside Israel: The majority of the population supports peace, while the political parties are split, leaving Barak with a minority government, and facing no-confidence votes, and perhaps the perspective of early elections. Without a broad mandate for pursuing peace talks further, there is no way the Israeli Prime Minister can take the steps,

such as giving up claims on East Jerusalem, which will be necessary. The Israeli right wing, which is ideologically committed to Jerusalem as the “undivided, eternal capital of Israel,” issued death threats against Barak, should he make such “concessions,” and their co-thinkers inside the United States exerted massive pressure on Barak as well as Clinton, a factor which contributed to torpedoing the talks.

Change the Parameters

The point is, that the talks were vitiated from the start. As *EIR* has stressed, since the 1993 Oslo Accords were signed, there is no way that the legitimate rights of the Palestinian people, and those of Israel, can be satisfied, unless the parameters of the peace talks are radically changed. As the Oslo treaty specified in its annexes, peace can be achieved to the extent that massive economic development takes place, through great infrastructure projects, undertaken as a cooperative effort. Such a development program must be geared to solving the single most important economic problem—the scarcity of water—by mass application of desalination. The most efficient means for powering desalination plants, is nuclear energy; the introduction of nuclear technology would at the same time revolutionize the economies.

Such an economic approach, which was in part contemplated in the 1993 Oslo annexes, would create the conditions for a growing economy, which is a precondition for the viability of a Palestinian state: How can a state function, if it does not have the economic means to provide for the general welfare of its population? Right now, the West Bank, which should be returned to Palestinian sovereignty, and Gaza, are threatened by the lack of water, as underground aquifers have been used up. The sovereignty of the Palestinian state depends, as well,



President Clinton meets with Prime Minister Barak (left) and Palestinian Chairman Arafat on July 25, just before the Camp David talks collapsed.

on a viable economy, whose policy reins are firmly in the hands of the state authorities. Most important, for hundreds of thousands—or millions—of Palestinian refugees, currently in camps in Lebanon, Syria, and Jordan, to exercise their right to return to their homeland, there must be basic economic infrastructure. The case of Bosnia-Herzegovina is relevant, as refugees returned to a situation of utter lack of infrastructure, and experienced poverty, alleviated only partially by the contributions of humanitarian aid organizations. To allow up to 4 million Palestinian refugees to return, massive developments of basic infrastructure—homes, schools, transportation, water, and energy—must be provided. Even the thorniest question, that of Jerusalem, has an economic dimension.

Had President Clinton, therefore, opened the Camp David talks with a proposal for such development, emphatically including desalination on a mass scale, he would have created the economic context within which the issues of Jerusalem and the right to return, could be faced. This is *not to say that the solutions would have followed automatically*; but, without such an approach, any formal solution would have been undetermined.

Instead, the economic issues, including water, were relegated to parallel discussions in working groups. Reportedly, progress was made, including on plans to build three desalination plants; if true, all the better. However, the high-level discussions focussed exclusively on Jerusalem and the right to return, as if they were isolated issues. The failure was pre-programmed.

One positive by-product of the talks, is that, despite the loudly proclaimed press blackout, various compromise formulas, all unacceptable, were floated, as if trial balloons, and the response from both the Arab and Israeli side, was unambiguous, though differentiated. It was clear for the entire world to see, that Arafat could not give up East Jerusalem,

nor the right to return, and that a serious political fight must be conducted and won in Israel, for any government to relinquish its claim on East Jerusalem and be content with West Jerusalem. Once the idea had surfaced in the talks, a debate broke out in Israel, in which, for the first time, the “taboo” topic was openly debated, and personalities close to Barak, such as Jossi Beilin, openly discussed certain options.

The Jerusalem Issue

Jerusalem is a most complex issue, which has to be approached from three sides, to consider the political events which have led to the current situation: the religious dimension, and its international, strategic implications; and the historical background.

The current status of Jerusalem, is illegal. In the 1967 Arab-Israeli war, Israel occupied the West Bank and East Jerusalem. In 1980, Israel moved unilaterally to annex Arab East Jerusalem. This move was condemned at the time by the international community, and every administrative, juridical, and legal measure imposed by Israel on the city, was declared null and void, in several United Nations meetings. Two Security Council resolutions, 242 (1967) and 338 (1973) laid the basis for reestablishing legality. In the Oslo peace agreement of 1993, it was explicitly stated, that the aim of the negotiations was to establish interim Palestinian bodies for a five-year transitional period, “leading to a permanent settlement based on Security Council Resolutions 242 and 338.” The former demanded “withdrawal of Israeli armed forces from territories occupied in the recent conflict,” as well as “termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity, and political independence of every state in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force.” It also affirmed the need “for achieving a just settlement of the refugee problem.” Res-

Rothschild Calls for Mideast Desalination

In a letter to the editor of the London *Times* published on July 19, French banker Edmond de Rothschild calls for water desalination as crucial for a Middle East settlement. (He does not mention the nuclear desalination aspect, which is a vital component of Lyndon LaRouche's "Oasis Plan.")

Rothschild writes: "None of us can predict the outcome of the current Camp David negotiations but one thing is certain: The water problem in the Middle East can only get worse. . . . The time is now opportune for a major feasibility study . . . to pipe Mediterranean water to the Qattara depression in Egypt to generate power and provide desalinated water from underground aquifers for agriculture."

Rothschild writes that he had advanced such a proposal in 1967, and subsequently had had approval from "the late prime minister of Israel, Yitzhak Rabin, Mr. Shimon Peres, Baroness Thatcher, and Tony Blair, among others, under which a pipeline might be run from Aqaba and Eilat on the Red Sea to the Dead Sea, to generate power. It would supply all Jordan's electricity needs, as well as the energy required for a desalination plant on the Dead Sea and three others at Eilat, Aqaba, and in the Gaza Strip. This would provide water to the whole region."

Rothschild proposes that the Qattara project could be financed along with the yearly overhaul of the Aswan Dam, as a quid pro quo for Egypt, if the latter allowed a portion of the area around El Arish to be leased for the resettlement of Palestinian refugees.

olution 338 called for cease-fire negotiations, aimed at "establishing a just and durable peace in the Middle East."

At the time of Resolution 242 and 338, the power which had lost the West Bank and East Jerusalem was the Hashemite Kingdom of Jordan, which had controlled both since the 1948 war. In 1947, the United Nations had approved the partition of Palestine into an Arab and a Jewish state, and declared a special status for Jerusalem, as a *corpus separatum*, or an international city. After the 1948 war, Jordan had control over East Jerusalem, and maintained it until 1967.

In July 1988, Jordanian King Hussein declared that Jordan would disengage from the West Bank legally and administratively in order to "help liberate the occupied Palestinian land," turning over responsibility to the Palestine Liberation Organization. Following the Palestinian uprisings, known as the Inti-

fada, of the late 1980s, Israel acquiesced to negotiations. In the Madrid 1991 peace conference, the PLO participated as part of a joint Palestinian-Jordanian delegation. The Madrid conference was conducted on the basis of the "land-for-peace" formula, whereby Israel would give back occupied lands, in exchange for a peace agreement. In 1993, following secret, direct bilateral negotiations in Oslo, an agreement was struck between Israel and the PLO, which laid out the parameters for peace, including the economic annexes.

The problem lay not in the text of the treaty, but in implementation. While enemies of the peace process mobilized terrorist capabilities against it, the World Bank moved in to take over control of the economic policy, thus dashing any promise of development. At the same time, the Israeli government moved to change the situation on the ground, by massively expanding Israeli settlements on the West Bank and in and around Jerusalem. Despite repeated UN sessions which protested the process, Israel persevered in building settlements even in East Jerusalem, the part slated to be given back to Palestinian sovereignty. This altered the demographic composition of the city significantly.

In March 1999, Ariel Sharon, who was then Israeli Foreign Minister, convoked the ambassadors to Israel, to announce to them that Israel considered the 1947 UN resolution on the status of Jerusalem as an international city to be "null and void." "Resolution 181 on Jerusalem not being a part of Israel," he said, "is null and void. Jerusalem will stay forever the capital of the Jewish people and of the state of Israel." Sharon reiterated that Jerusalem had been "the capital of the Jewish people for 3,000 years, and of the Jewish state for 51 years."

At the current juncture, it is not only a question of forcing through implementation of total Israeli withdrawal from occupied East Jerusalem, but it is also a question of dealing with the Jewish settlements there (and elsewhere) which have been built up in the interim, in defiance of all agreements struck.

The Old City

The most difficult question to solve regarding East Jerusalem, is the Old City. The Old City is made up of four parts: the Christian quarter in the northeastern district, the Armenian quarter in the southwestern part, the Jewish quarter in the southeastern part, and the Muslim quarter in the eastern part. In each quarter, there are numerous sites revered as holy by the Jewish, Christian, and Muslim religions. The Christian quarter hosts the Via Dolorosa, and the Church of the Holy Sepulchre, which houses the sites of Golgatha, the Tomb, the Basilica, the corridor between Basilica and the Tomb, and the Crypt of the Cross. This church, and the holy places generally, are under the responsibility of the patriarchs of the Armenian, Latin, and Greek Orthodox churches. In the Christian quarter, there are a very large number of churches of all denominations, including the Russian (and other) orthodox churches, Protestant churches (Anglican, Presbyterian, Baptist, Lu-



Burning the midnight oil at Camp David, July 19: President Clinton and Prime Minister Barak.

theran), and Monophysites (the Copts, Syrians, and Ethiopians). In addition, are monasteries, schools, and orders, founded at the time of the Crusades.

The Armenian quarter contains the Saint James church and the site of the Armenian Patriarchate; the Armenian Patriarch of Jerusalem is considered the successor to St. James, who was the brother of Christ, who founded the church and is buried there.

The most important shrine in the Jewish quarter, which also houses numerous synagogues and schools, is the Wailing Wall, the major place of prayer, since the destruction of the Second Temple. The wall on the other side, is the Western Wall of the Al-Haram e-Sharif (the Noble Sanctuary, also known as the Temple Mount), which is in the Muslim quarter.

The Temple Mount is a huge rectangular complex, which includes Al Qubbat al-Sakhra (the Dome of the Rock), built in the 7th century, and containing the Holy Rock, or Rock of the Foundation. According to Jewish belief, the rock is the place where Abraham offered to sacrifice Isaac, and also the site of Solomon's temple. For the Muslims, the rock is the place from which the prophet Mohammad ascended to heaven. Also in the compound is the Al Masjid Al-Aqsa Al Mubarak (The "Furthermost" Blessed Mosque), capable of accommodating 5,000 worshippers. There are numerous domes, fountains, and minarets inside the enclosure, as well as other mosques.

Finally, outside the Old City, are several sites, including Mount Zion, sacred to Jews, Christians, and Muslims. For the Jews, it is the site of David's Tomb, as well as the location of the Ark of the Covenant, before the first temple was built. For the Christians, it is the site of the Last Supper, and the location of the tomb of St. Stephen.

Without further detail, it is clear, that East Jerusalem is absolutely unique in character, as throughout history the three Abrahamic religions have traced their development, and constructed holy sites. Thus, while East Jerusalem should become the capital of a Palestinian state, there must be measures taken, to guarantee the right to worship for all. The fact that the Wailing Wall is the same as the Western Wall of the Temple Mount, is what the most extremist Israelis have seized upon, to insist on keeping control over the city.

Significantly, the leaders of the Christian community made clear during the Camp David talks, that they supported the Palestinian claim. On July 24, representatives of the Catholic, Greek Orthodox, and Armenian Orthodox churches met at the Greek Orthodox Patriarchate with members of the Palestin-

ian Authority to say they wanted international guarantees on the future of Jerusalem. The delegation, headed by the Latin Patriarch, Michael Sabah, met with Faisal Husseini, who holds the Jerusalem portfolio for the Palestine Liberation Organization; Ziyad Abu Zayad, who is minister for Jerusalem for the Palestinian Authority; Ahmed Hashem Zraiyer, chairman of the Jerusalem committee in the Palestinian Legislative Council; and Dr. Hanan Ashrawi, spokeswoman for the Palestinian Authority.

The Patriarchs declared that they opposed the division of the Old City, and reiterated their proposal that the city be given a special status, backed by international guarantees, that would ensure access to the holy places of all three monotheistic religions. Later, the same leaders declared that they wanted to be represented at the Camp David talks.

On July 23, Pope John Paul II had called for the internationalization of the Old City, urging the leaders at the Washington summit "not to overlook the importance of the spiritual dimension of the city of Jerusalem." Speaking from the window of his summer villa outside of Rome, the Pope said, "The Holy See continues to maintain that only a special statute, internationally guaranteed, can effectively preserve the most sacred areas of the Holy city." He said that he hoped that the leaders at the summit "are always driven by a desire for respect and for justice for all and for reaching a just and lasting peace."

In response, Hassan Abdel Rahman, Palestine Liberation Organization representative in Washington, said, "This is a sign from the Pope, which is the highest Christian authority in this world, that he is denying the claim of Israeli sovereignty over Jerusalem."

The Vatican on Jerusalem

The approach presented by the Holy See, which has gained international support, is crucial to determining the future of peace, or war, for the entire region. The Vatican position can be summarized, with reference to a speech delivered in Washington, D.C., on March 10, 1999, by His Excellency Monsignor Jean-Louis Tauran, Secretary for the relations with states in the Secretariat of State, who reiterated in detail the Vatican position.

“The Holy land, as the Popes love to call the Middle East, should be a sort of workshop for inter-religious dialogue, with Jerusalem, the Holy City par excellence, as its symbol. This explains why, and with what perseverance and intensity, since 1947, the Popes have made themselves the defenders of the preservation of the unique and sacred character of that city. Still today two peoples claim sovereignty over Jerusalem, and the faithful of three religions, both on the spot and throughout the world, look to it as their spiritual home. A political solution has certainly to be found within the framework of bilateral negotiations, but without forgetting, for all that, the sacred reality which the city enshrines. So it is that the Holy See, which has no direct technical competence or ambition whatsoever to intervene in the territorial dispute dividing the two peoples, certainly cannot fail to concern itself with the safeguarding of the sacred and cultural dimension of the Holy Places of the three religions. In its view, this is a universal cause which therefore requires that the entire international community should act as guarantor. The Holy See therefore strictly favors ‘a special internationally guaranteed statute’ for the most sacred areas on the city, in order in the future to preserve and protect the identity of the Holy City in its entirety and in every aspect:

- the historical, material, religious, and cultural characteristics;

- the equality of rights and treatment for those belonging to the three religious communities, in the context of the freedom of their spiritual, cultural, civic, and economic activities;

- the rights of freedom of religion and worship for all, and of access to the shrines for residents and pilgrims alike, whether from the Holy Land itself or from other parts of the world;

“All this supposes also that these shrines might always remain at the center of living and active religious communities, where these communities and their individual members have the possibility of fully enjoying their basic human rights and of maintaining their cultural identity.

“The request of the Holy See regards, first and foremost, the most religiously significant part of the city, namely the Old City. But such a formula would have to be extended to other shrines outside the Old City and beyond Greater Jerusalem, in Israel and as well as in the West Bank.”

More broadly, Monsignor Tauran, who after the Pope and the Secretary of State represents the highest position authorized to speak on these matters, summarized the viewpoint of the Holy See on the Middle East. First, he said, the model

which the Popes sought to safeguard and to promote at the time was that of Lebanon. “The National Pact of 1943 established that from then onwards Christians, Jews, and Muslims would enjoy the same rights and without any discrimination be able to assume public office within a democracy, where the most differing cultures come together into a melting-pot of East and West and where the monotheistic religions meet each other in harmony, making of that land more than a mere country, but rather a ‘message,’ to use an expression so dear to Pope John Paul II. . . . The second approach of the action of the Holy See has been constantly to assert the principles of international law, which is applicable in all circumstances and to which all are subject. This proclamation of the law has been strictly maintained by the Holy See, which frequently found itself alone, but because of his quality as a ‘moral power’ certainly could not be dispensed from proclaiming:

- respect for persons whatsoever their beliefs;
- freedom of conscience and religion;
- the right of people to self-determination;
- rejection of war and terrorism as the solution to differences between the states.

“. . . The Holy See’s third choice in contributing to the stability of the Middle East is nothing less than the promotion of inter-religious dialogue with the Jews and Muslims.”

In this context, it is relevant to note that the Holy See never accepted the military occupations as a *fait accompli*, in the Middle East or elsewhere in the world. On May 1996, for example, the Secretariat of State, reiterated this principle. “The part of the City (Jerusalem) militarily occupied in 1967 and subsequently annexed and declared the capital of the State of Israel, is occupied territories, and all Israeli measures which [express] the power of a belligerent occupant under international law are therefore null and void. In particular the same position was expressed, and is still expressed, by Resolution 478 of the United Nations Security Council, adopted on Aug. 20, 1980, which declared the Israeli ‘basic law’ concerning Jerusalem to be ‘null and void.’ . . .”

The approach elaborated by the Holy See provides the guidelines for solving the critical question of the status of Jerusalem. International law must be reestablished, through the return of East Jerusalem to the Palestinians, and a “special internationally guaranteed status” could be articulated, to protect the religious shrines in the Old City and more generally. Beyond the legal mechanisms which will be forged, however, the underlying guarantee for durable peace, must spring from a new mutual respect between Palestinians and Israelis, which can grow through cooperative efforts to generate economic and social progress.

As for the presumed difficulties in having Israel and the new Palestinian state with their capitals in West and East Jerusalem, respectively, one should reflect on the historic example of the Vatican state, which coexists in the capital of Italy, Rome. To be sure, the case of Jerusalem is different, but if one conceptualizes it as a “workshop for inter-religious dialogue,” it is not insoluble.

Create New Water Resources, Which Will Create the Basis for Peace

by Marcia Merry Baker

The map on the next page is reproduced from the November 1999 document, “Solving the Problem of Fresh Water Scarcity in Israel, Jordan, Gaza and the West Bank,” a White Paper prepared by the Center for Middle East Peace and Economic Cooperation.¹ The paper calls for large-scale desalination of seawater and brackish water, and the Center has been running full-page advertisements in major Hebrew and Arabic newspaper throughout the Middle East.

On the scope of the crisis, the report states that as of last fall, “Fresh-water supplies in the Jordan River Basin are at an all-time low in terms of availability per capita. Water quality and environmental problems are serious. And a fresh water shortfall of at least 20% by 2010 is forecast by almost all credible experts when the current population of 13 million people will have increased to as much as 20 million.

“Complicated by disparity of usage patterns (Israelis use about 100 cubic meters per year for domestic purposes, Jordanians about 50 and Palestinians about 30) water rights issues promise to be very difficult to resolve between Israelis and Palestinians and also between Israel and Syria, but would be much easier if there were large, new amounts of fresh water available.”

Kensley Brunsdale, the Center’s Counsel for Energy and Water, points out that to the average person and household in the region, faced with expensive, bad water, and scarce supplies, there is no question of the desirability of large-scale water desalination. In Section III of the White Paper, titled “Begin Large-Scale Desalination of Sea Water,” the report notes, “Due to major advances in technology, the cost to desalinate a cubic meter of sea water is roughly half the retail cost of tap water paid by an Israeli household in Tel Aviv. *It is hard to believe that desalinated water is cleaner, tastes better, and costs only 1/1000 of what people are paying on both sides of the Jordan for bottled water!*” (emphasis in original).

At three of the sites shown—Gaza, Ashkelon in Israel, and at Wadis Hisban in Jordan—projects are already approved and under way for multimillion-cubic-meter desalination facilities. Reportedly, at the July Camp David “working group” talks on water (one of the five “final status issues”) in Emmitsburg, Maryland, there was basically no dispute over

the need to collaborate to “make” and distribute new water resources in the region. The details shown here are familiar to any concerned policymaker.

However, to the average American, or even to otherwise well-informed citizens in other countries, the knowledge of the technologies and efficacy of the process of desalinating water, is lacking. Thus, the pro-development, pro-peace constituency of citizenry is deprived of basic need-to-know facts, to force through *the policy of economic development as the basis for peace*.

Moreover, although the focus of world concern is on the Middle East peace process, the need for large-scale water desalination is made obvious by the current drought in the mid-latitudes stretching from northeastern Africa, through the Indian subcontinent, through to eastern China. At present, more than 100 cities in China are suffering water shortages. A seawater desalination research center has been set up at Tianjin University on the North China Coast, and coastal cities are putting special effort into research and projects.

One Billion Cubic Meters

The “factory” symbols on Figure 1 denote favored sites for coastal and inland desalination facilities, which the Center for Middle East Peace and Economic Cooperation regards as “Phase I.” The inland sites are at Bet Shean, Israel, and at Wadis Hisban, Jordan—a project already approved. If all these facilities were built, including several with adjacent power plants, a total output of 1 billion cubic meters of fresh water a year could be created. (One cubic meter is about 264 gallons.) This volume would equal half of the annual output of desalinated water in Saudi Arabia, where more than 21 million people rely on such water for 70% of the country’s annual consumption!


The various symbols indicate how the new water supplies can be distributed. Two pre-existing channels of distribution are the National Water Carrier in Israel, shown by the dot-and-dash line, and the King Abdullah Canal, shown by the hatched line. Also, the report notes, “the region’s natural mechanisms for distributing water (the common aquifers and Sea of Galilee) already provide tremendous flexibility for distributing much of the new water supply envisioned.”

New lines of water distribution are shown by heavy black lines, especially to supply Amman, with the “Enlarged Conveyance System” from the Canal, plus the Hisban carrier,





1. Permission to re-print Figure 1 has been granted by the Center for Middle East Peace and Economic Development, 633 Pennsylvania Avenue, Washington, D.C. 20004. See www.centerpeace.org.

Desalination: The New Regional Water Supply Alternative for Israel, Jordan, Gaza, and the West Bank


Key

-  Existing Israeli National Water Carrier
-  Existing King Abdul'ah Canal



New supplies from desalination could easily reach 1 Bcm per year

-  Israel sea water desalination facilities (developed in stages dictated by demand) adjacent to existing power plants
-  Gaza sea water desalination facility adjacent to proposed power plant
-  Bet Shean possible brackish water desalination plant (50 Mcm p/yr.)- could serve Israel, Jordan or Palestinians
-  Hisban possible brackish water desalination plant (30-50 Mcm p/yr.)- would serve Amman




Other New Supplies and Cooperative Opportunities

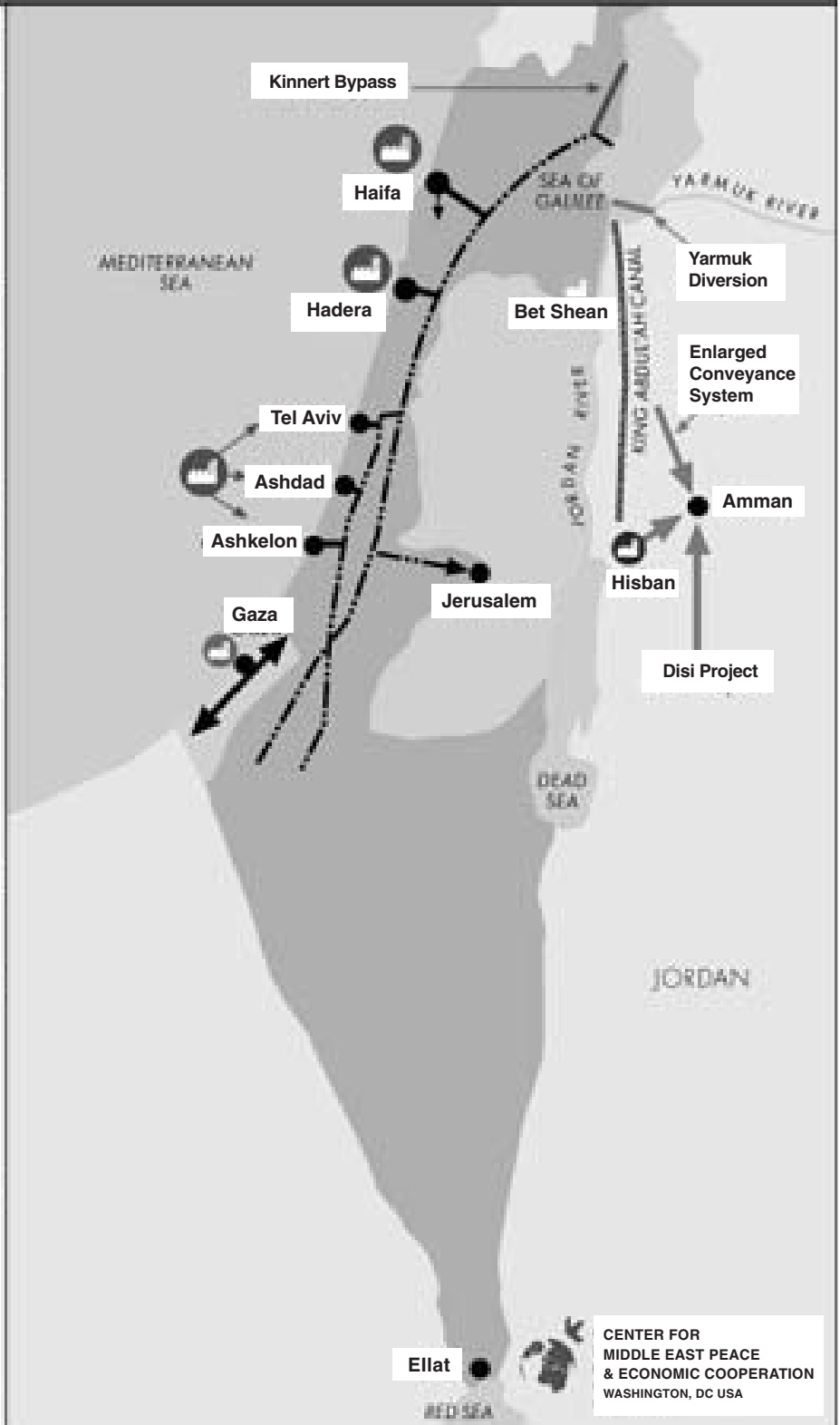
 Cooperative Agreement to share the Sea of Galilee for mutually beneficial storage, distribution and water quality improvement purposes

Two cooperative Sea of Galilee projects are proposed to maximize inter-dependent opportunities:

-  Yarmuk Diversion-50-100 Mcm p/yr. of new fresh water and storage for Jordan, could be linked to development of new supplies elsewhere from desalination
-  Kinneret Bypass-Possibility that would improve water quality for Israel, reduce pumping, with no related reduction in quantity

-  Enlarged Conveyance System to Amman
-  Disi Project-New Jordan supply (100 Mcm from southern aquifer)

-  New supplies could be delivered almost anywhere in the region if cooperative agreements, water banking and creative water exchanges are employed
-  Potential for resolution of present water conflicts will be greatly enhanced
-  Private sector can be employed to develop many of the required components



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WASHINGTON, DC USA

and to the south, the proposed new Disi Project to bring in aquifer flow.

Not shown on Figure 1, but also covered are long-standing proposals for inland seawater canals. "There are serious proposals pending in Israel to bring large amounts of Mediterranean water inland, for desalination between the Mediterranean and the Dead Sea, using either a northern or southern route (Med-Dead). Another proposal would bring large amounts of Red Sea water (Red-Dead) for desalination inland. In both scenarios, the 400 meter elevation drop between the Seas and the Dead Sea would be used to generate electricity and desalinate seawater, with fresh water used for domestic purposes throughout the region, and waste brine ending up in the Dead Sea."

Thus, the "geography" of the sites of new water output, and the network of distribution, is clear. Also indisputable, is the proven success of the various modern desalination technologies—in particular reverse osmosis. And the urgency of the need for expanded water supplies goes without saying.

Besides the White Paper reported here, studies and feasibility plans have been drawn up for decades to promote desalination in the trans-Jordan. For example, in the March 1995 report prepared for the Palestinian Economic Council for Development and Reconstruction, titled "Water Resources and Agricultural Development and Management—a Subsector Report," author Hasan K. Qashu included an appendix on "The Desalination Alternative for Gaza." Dr. Qashu wrote, "Freshwater balance for Gaza is approaching a disastrous proportion as reflected by impacts on health and the rapid contamination trends of freshwater aquifers. The only practical sources are the restoration of surface and sub-surface freshwater flows across the boundaries with Israel, to original levels before the expansion of groundwater exploitation by Israel in the upper basin *or desalination of seawater*. Expected deficit of freshwater for Gaza will reach 40 million cubic meters a year by the turn of the century. This water can be produced from the sea using a co-generation of water and power facility at a cost of \$0.70-\$0.85 per cubic meter. This complex would generate about 50 million cubic meters a year freshwater and 50 megawatts power for sale through Gaza/West Bank grid" (emphasis added).

The White Paper from the Center for Middle East Peace and Economic Cooperation presents thorough tables of statistics on comparative costs of desalination in other parts of the world, and those proposed for the Middle East, showing how inexpensive it is.

As far as production costs, "The average price of desalinated sea water is today only one-tenth of what it was 20 years ago, dropping dramatically from \$5.50 per cubic meter in 1979 to \$0.55 in 1999, including interest, capital recovery, and O&M [operations and maintenance]." The desalination plant under construction in Tampa, Florida (34 million cubic meters a year output) will produce at a cost of \$0.55 per cubic meter. The report notes, "The careful study of cost data has convinced us that Israel could desalinate as much as 1 billion

cubic meters of sea water at a cost of \$0.55 to \$0.70, probably closer to the lower figure, and that the economy will largely justify and support that investment."

A Nuclear-Powered 'Oasis Plan'

The most interesting political-economic policy question, is: Why not go nuclear? The biggest part of the cost of desalinating salty water, is the expense of electricity for the process. Safe, modern nuclear power plants—in particular, the proposed high-temperature gas-cooled designs, coupled with the appropriate desalination technology—could vastly expand the "natural resource" base of water supplies in water-short regions.

For decades, Lyndon LaRouche has proposed such an approach for the Middle East, North Africa, and other arid lands, calling it the "Oasis Plan" approach. Envisioned are "nuplexes" of nuclear-powered and desalinated water-supply centers and corridors, home to complexes of advanced agro-industrial development. This kind of approach on the Med-Dead and Red-Dead routes, as well as on the sea coastlines, and for brackish-water sites, would transform the economic landscape throughout the Middle East. The impact would be to create "corridors of development" with plentiful power and water supplies, thus creating a man-made "Oasis" effect in the deserts (see *EIR*, May 19, 2000, "Solving the Water Shortage Is the Key to Mideast Peace").

LAROUCHE ON THE NEW BRETTON WOODS

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British Foreign Office, U.S. State Department Plan Iraq Provocation

by Dean Andromidas

The London-based “Indict” organization, backed by the U.S. State Department, has launched a mobilization to indict Iraqi leaders for war crimes. According to a British Broadcasting Corp. (BBC) report, Indict has turned over information to the U.S. State Department and other governments on alleged war crimes of key Iraqi leaders. The initiative hopes to force the U.S. and European governments to issue international arrest warrants against Iraqi leaders, including Iraqi Deputy Prime Minister Tariq Aziz. The move is part of a series of operations to create the media and political groundwork for a military strike against Iraq. Such a move would further destabilize the region, especially given the current collapse of the Camp David talks between Israel and the Palestinians.

Made in Great Britain

Indict was founded on Jan. 15, 1997, at the British House of Commons, on the initiative of British Labour Party Member of Parliament Ann Clywd, who is the organization’s chairperson. The only purported purpose of its existence is to seek the formation of a United Nations-sponsored war crimes tribunal, modelled after those for the Balkans and Rwanda. On April 16, 1997, Indict was also launched in Washington; it got a statement of support from President William Clinton on May 8. In November 1997, an effort, led by Sens. Arlen Specter (R-Pa.) and Jesse Helms (R-N.C.), succeeded in getting both houses of the U.S. Congress to pass a resolution supporting Indict, and calling for an international tribunal to put Iraqi leaders on trial for war crimes. This support, both political and financial, increased with the passage by the U.S. Congress of the Iraq Liberation Act in October 1998.

Although Indict’s website reports that the organization has an executive committee and a board of advisers, a representative for the organization refused to name any of them, except to say that Ann Clywd was chairperson. All callers are referred to Clywd, who failed to return any calls to *EIR*. Nonetheless, the organization boasts of statements of support from former British Prime Ministers Margaret Thatcher and John Major, as well as current Prime Minister Tony Blair. Other supporters include leading lights of the international human rights mafia, including Lord Avebury and Danielle

Mitterrand, and organizations including Human Rights Watch and Amnesty International.

On the Washington side, the organization joins the chorus of politicians and policymakers calling for a hard-line policy against Iraq. This group includes Senate Majority Leader Trent Lott (R-Miss.), former U.S. Rep. Stephen J. Solarz (D-N.Y.), as well as Richard Armitage, a Pentagon official in the Reagan-Bush administrations. Among this crowd can be found Richard Perle, a leading member of U.S.-based right-wing Zionist policy circles and a foreign policy adviser to Presidential pre-candidate George W. Bush.

Indict is also linked to the London-based Iraqi National Congress, particularly Ahmad Chalabi, and the Washington-based Iraq Foundation. Both groups coordinate the activities of the Iraqi opposition outside Iraq.

According to the BBC report, U.S. roving Ambassador for Human Rights David Scheffer stated that the United States is using the list compiled by Indict in its efforts to get the United Nations Security Council to set up an Iraqi war crimes tribunal.

The Indict list includes Saddam Hussein; Tariq Aziz, Deputy Prime Minister and former Foreign Minister; Ali Hassan Al-Majid, a senior military commander and Saddam Hussein’s cousin; Barzan Al Tikriti, Saddam Hussein’s half-brother, as well as his two sons, Uday and Qusay; Taja Yasin Ramada, Vice President of Iraq; Iztat Ibrahim Al-Douri, Deputy Supreme Commander of the Iraqi Armed Forces; Watban Ibrahim Hassan Al-Tikrit and Sabawi Ibrahim Hassan Al Tikriti, both half-brothers of Saddam Hussein who hold high positions in the regime.

The dossiers for the indictments are said to be based on information drawn from debriefing Iraqi alleged victims, as well as thousands of documents seized in Kuwait in 1991 by U.S. forces, and from northern Iraq by Human Rights Watch and the U.S. government. These documents are being stored at the University of Colorado.

The priority target for indictment is Deputy Prime Minister Aziz, who has functioned as international spokesman and negotiator for the Iraqi government, and as such is the most well-travelled. Aziz is often at the United Nations in

New York, or in other major cities in Europe and elsewhere. He was on his way to Moscow when the BBC story was published.

Nonetheless, even the BBC reported that the chances of the United Nations creating an international tribunal are next to nil, because of French, Russian, and Chinese opposition. In fact, the latter two nations have been calling for the United Nations sanctions against Iraq to be lifted.

An International Arrest

The most likely scenario to set up such a tribunal, would be to utilize the International Torture Convention and the Geneva Convention. The latter has universal jurisdiction, and would simply require an indictment from an individual signatory country. Thus, a U.S. or a European court could issue an indictment, which would lead to an international arrest warrant being issued by Interpol. Several precedents have already been set for this, the most recent being that issued by a Spanish court, and supported by a Belgium court, against former Chilean dictator Augusto Pinochet.

The BBC reports that the United States has begun to pressure European governments to enforce such arrest warrants. The arrest of a key Iraqi leader, such as Aziz, in a major European capital, would obviously generate an instantaneous media event, which would help lay the groundwork for a new "Iraq crisis."

This latest provocation in the making is not an isolated effort, but dovetails with renewed efforts by both the United States and Great Britain to force Iraq to accept a new United Nations weapons inspection team, which it has so far refused to do.

In this regard, the activities of former United Nations weapons inspector Richard Butler, currently "diplomat in residence" at the New York Council on Foreign Relations, parallel those of Indict. Butler has been on an international tour promoting his new book, *The Greatest Threat: Iraq, Weapons of Mass Destruction and the Crisis of Global Security*. In it, among other outrageous comments and scenarios, Butler writes about how Saddam Hussein could deploy terrorists to set off chemical or biological weapons in a New York City subway.

During the recent Camp David summit, Butler deployed to Israel, where he gave presentations before the Israeli Knesset (parliament) and other forums. He tried to convince his hosts that Aziz has told him that Iraq still possesses chemical and biological weapons reserved for the "Zionist entity." His trip was sponsored by the right-wing Israel- and Washington-based Jerusalem Center for Public Affairs, and its kindred organization, the Washington-based American Enterprise Institute. It was also financed by the New Atlantic Initiative, another international right-wing organization founded by Thatcher (see "BAC Extremists To Gather in Bratislava," *EIR*, April 28, 2000, and "Bush-British Loonies Plot New Confrontations," May 12, 2000).

London, Wall Street Now Turn To Sever Chiapas from Mexico

The following statement was issued on July 26 by the Ibero-American Solidarity Movement (MSIA) of Mexico, the co-thinker group of U.S. Presidential pre-candidate Lyndon H. LaRouche, Jr., in light of the upcoming Aug. 20 gubernatorial elections in the Mexican state of Chiapas.

After assuring the continuity of the economic looting policies of [Mexican Presidents] Carlos Salinas de Gortari and Ernesto Zedillo, by orchestrating the election of Vicente Fox as the next President of Mexico, the London-Wall Street financial oligarchy is now readying the next step in its drive to destroy the Mexican nation-state: installing Protestant pastor Pablo Salazar Mendiguchea as Governor of the state of Chiapas, in the Aug. 20 elections.

As its spokesmen scarcely conceal, the Anglo-American oligarchy is drooling with greed over the imminent possibility of repeating in Mexico, the territorial and institutional disintegration which they have achieved in Colombia. They seek to destroy the sovereign nation-state, and replace it with shattered "narco-republics" whose financial flows can serve to prop up Wall Street's insolvent speculative bubble.

Do you want to hear it from their own lips? Robert Pastor, an adviser to Democratic Presidential candidate Al Gore and a Latin American affairs expert who has been associated for decades with former President Jimmy Carter, the Trilateral Commission's puppet, told a journalist in the middle of July that Chiapas is "a portion of Central America," which "has not yet emerged from the guerrilla wars of the 1970s and '80s, and the Mexicans have ruled Chiapas with an iron hand." Salazar, Pastor added, "whom I met, . . . represents both the Fox and the PRD [Democratic Party of the Revolution] coalition, both the left and the right. . . . Now, if he were to win, I think that solving the problem of Chiapas would become a lot easier." In other words, what Pastor says is that Chiapas is not part of Mexico, and that the obstacle to "resolving" the Chiapas conflict has been the central government, as it has functioned up until now.

During the Carter Presidency, Pastor served as Director of Latin American and Caribbean Affairs at the National Security Council under Zbigniew Brzezinski. In 1986, Carter named Pastor director of the Latin American Program at his Atlanta-based Carter Center, at which post Pastor remained

until 1998. Pastor headed the Carter Center's election-monitoring mission during Mexico's Presidential elections this past July 2.

Carter is a "left-wing" creation of the "Atlanta mafia," which helped create the Trilateral Commission, and which has close ties with the Atlanta-based Coca Cola multinational. Mexican President-elect Fox is a "right-wing" political product bottled by the same interests.

As is well known, both Fox and Cuauhtémoc Cárdenas of the PRD have offered to pull the Mexican Army out of the area "controlled by" the Zapatista National Liberation Army (EZLN), in addition to offering to grant the EZLN the various demands for territorial and administrative autonomy contained in the San Andrés Larrainzar Accords, signed with the Mexican government in mid-1990s. Reliable sources report that Fox intends to pull the Army back to its positions of early 1995: Not only would it leave so-called "Zapatista" territory, but it would also abandon its positions along the border with Guatemala, thus providing free transit for drugs through the region.

For its part, the London *Financial Times*, one of the leading mouthpieces for financial interests, says that Fox "has an *alter ego*" in Salazar, "another tear-up-the-rulebook politician." Both, says the *Financial Times*, "share an irreverent streak uncharacteristic in Mexican politics, [and they] also have something in common: They need each other badly."

A Salazar victory, says the London daily, could help Fox fulfill one of his most sensitive promises: ending the conflict in Chiapas. Quoting Rodolfo Elizondo, responsible for political relations in Fox's transition team, the *Financial Times* says that it would be "a magnificent opportunity" if Salazar wins the race for Governor of Chiapas, and "could go a long way to encouraging a new dialogue with Subcommander Marcos." Neither "civil society" nor the Zapatistas trust someone with the political trajectory of Fox, so "it is important for Fox to count on Pablo [Salazar] if he wants an eventual dialogue with the EZLN," the *Financial Times* declared.

The *Financial Times* bubbles that both Salazar and the Zapatistas believe that negotiations should take place at the federal level, but Salazar, "if necessary, . . . would act as a go-between between the future President and 'Mr.' Marcos."

The oligarchy's message is clear: Fox has to ensure that Salazar wins in Chiapas, and at the same time assure that the "central government" will no longer be an obstacle to "resolve" the conflict in Chiapas, which, more than a region of Mexico, is "a portion of Central America."

But, what is the "solution" which the oligarchy is seeking?

A Pastoral Scene

To understand what the financial oligarchy's agents mean by "solving" the Chiapas conflict, you have to look

at Pastor's earlier role in handing over chunks of national territory to the FARC narco-guerrillas in Colombia.

In a discussion with a journalist, Pastor said that little more than a year and a half ago, at the request of the Colombian government and the FARC, "I'd been in touch with both at many different times, and both of them asked if I would come down" to "intercede" for the liberation of 77 soldiers held hostage by the FARC. The Carter Center website reports, in fact, that Carter and Pastor were in the thick of the negotiations between Colombian President Ernesto Samper Pizano, who governed on behalf of the Cali Cartel, and Colombia's FARC, since at least September 1996. The deal which Carter, Pastor, Samper, and the FARC negotiated, was to hand the narco-guerrillas control over a demilitarized area in the south of Colombia, in exchange for the release of 70 of the soldiers held by the FARC.

The "demilitarized area" created by Pastor and Carter officially was to last for 32 days; but once installed, the FARC never left. Pastor's "solution" set the precedent for the subsequent, much larger territorial concessions which the government of Andrés Pastrana granted to the FARC narco-guerrillas.

As opposed to the "15-minute solution" to the Chiapas conflict which Fox promised during the election campaign, what is being cooked up here is a Pastoral solution which amounts to slicing the national territory into pieces.

Although the EZLN has made no direct statement about Fox's request for a personal meeting with Subcommander Marcos, to resolve the conflict "in 15 minutes," their response was delivered through Gonzalo Ituarte, the longtime lieutenant of Bishop Samuel Ruiz and current vicar of Justice and Peace in the San Cristóbal de las Casas diocese in Chiapas:

"Prior to any meeting between Fox and Marcos, it is necessary to have a correct vision of the magnitude, the complexity, and the national implications of this conflict, which especially manifests itself in Chiapas, and from that starting point, find the elements which have to be dealt with to create favorable conditions for a meeting."

Among the elements which "have to be dealt with," said the Zapatista spokesman, are: militarization (that is, the creation of a demilitarized zone, à la Pastor); the control of territories "by corrupt mechanisms" (that is to say, that the EZLN be handed territories to be controlled by their "uncorrupt mechanisms"); end the paramilitarization and the police state in the region; and a "re-evaluation" of the San Andrés Accords.

In other words, what Gonzalo Ituarte is demanding is that, first, the EZLN's territorial and autonomy demands be met, which would have national consequences, and that only at that point would there be a "15-minute" meeting between Fox and Subcommander Marcos. A first, necessary step in this strategy is to consummate the assault on Chiapas through the election of pastor Salazar to the governorship.

Colombia's Gen. Harold Bedoya Fingering for Assassination

In a July 24 interview broadcast by Colombia's Radio Caracol network, the military commander of Colombia's second-largest narco-terrorist force, the National Liberation Army (ELN), Nicolas Rodríguez Bautista (alias "Gabino"), named Gen. Harold Bedoya (ret.) as the principal obstacle to the implementation of the Pastrana government's promise to demilitarize and hand over to ELN control a significant part of the territory of the Colombian state of Bolivar. "Gabino" lied that Bedoya, the former Commander of the Military Forces and now head of the *Fuerza Colombia* political movement, is the effective leader of the paramilitary forces in the Bolivar region.

In Colombia of today, such a charge is tantamount to an assassination order.

Simultaneously, networks of the governmental Prosecutor General's office in Colombia have targetted Bedoya for possible prosecution and jailing, on fabricated charges. On July 23, the national television news program, NTC Noticias, reported in its evening news broadcast that an anonymous witness for the Prosecutor General's office has now identified General Bedoya as the purported intellectual author of the Nov. 2, 1995 assassination of former Senator Alvaro Gómez Hurtado. Testimony by the same witness, whose identity is a secret, was used a year ago to jail other Colombian military officers.

General Bedoya told NTC that the charge was "totally false."

Prosecutor General Alfonso Gómez Méndez is no neutral party in Colombia's narco-terrorist wars. Gómez Méndez ran for Senate in 1994 on the slate of the Cali Cartel's President Ernesto Samper Pizano (charges were raised at the time that he, like Samper Pizano, also accepted drug money for his campaign), and he has made his career supporting narco-terrorists and prosecuting military leaders.

Clearing the Terrain of Opposition

The back-to-back threats against General Bedoya, the most prominent, still living leader of Colombians' resistance to the takeover of their nation by the drug mafias and their narco-terrorist armies—the ELN, the Revolutionary Armed Forces of Colombia (FARC), and the United Self-Defense of Colombia (AUC)—must be taken with absolute seriousness.

In recent years, General Bedoya has taken the point in the battle against Wall Street's drive to legalize the drug trade and dismember the Colombian nation. As Military Commander,

General Bedoya publicly opposed President Samper Pizano's efforts to hand over territory to the narco-terrorist FARC, and ultimately was fired because of it. In 1998, when President Andrés Pastrana announced his intention to demilitarize 52,000 square kilometers in the south of the country, and hand the area over to the FARC on the pretext of furthering "peace" negotiations, General Bedoya warned, in an interview with *EIR*, that "what is being surrendered . . . is the infrastructure that controls half the country: the river communication channels and the geographic corridors of mobilization, through which they have access to 500,000 square kilometers. . . . Countries like Brazil, like Peru, like Venezuela, and like Ecuador are going to be exposed to the actions of these terrorist organizations." Should the demilitarization proceed, he warned, "the entire region is lost."

Subsequent events have proven General Bedoya's warning correct.

In 1999 and 2000, General Bedoya travelled to Argentina, Brazil, Peru, Uruguay, and the United States, to speak about the international strategic threat represented by the policy of capitulation to the drug cartels, a policy adopted by the Pastrana government and promoted by the U.S. State Department, in the hypocritical name of "peace." He urged honest international forces to rally against Wall Street's Opium War in the Americas, and shocked his audiences with the picture of New York Stock Exchange president Richard Grasso embracing "Raúl Reyes," the head of the FARC's finances. He explained that both Wall Street and the International Monetary Fund were deployed to bring about the legalization of drugs, in order to try to prop up the cancerous speculative bubble which has taken over the world financial system.

During a September 1999 visit to Washington, D.C., General Bedoya met with more than a dozen Congressional and Senate offices, briefed diplomats from around the world, and gave numerous press interviews, including a very well-attended briefing at the National Press Club. In February 2000, General Bedoya came back to Washington to hold a joint seminar with U.S. Presidential pre-candidate Lyndon H. LaRouche, Jr., whose candidacy he endorsed. The two addressed the crucial issue, "The War on Drugs and the Defense of the Sovereign Nation-State."

Inside Colombia, General Bedoya has organized a national movement which refuses to accept the Balkanization of Colombia into warring criminal states. In recent months, he has given his active support to the mass opposition which



Gen. Harold Bedoya (ret.) is the most prominent, still living leader of Colombians' resistance to the narco-terrorist takeover of their nation.

arose to the Pastrana government's plans to demilitarize an area in the south of the state of Bolivar, and hand it over to the ELN. Control over this area, located near Colombia's main oil fields, rich in gold, and riddled with coca and opium plantations, would give the narco-terrorists control over the strategic Magdalena River Valley, with its waterways and agriculture.

As a prospective candidate in the 2002 Presidential elections, General Bedoya represents a pole of political power potentially capable of rallying the immense majority of the Colombian people who are disillusioned with the traditional political parties and terrorized by the savageness of the narco-terrorists.

Who Did Kill Alvaro Gomez?

The charge that General Bedoya was involved in the assassination of Gómez Hurtado is preposterous. Gómez Hurtado and Bedoya were both leading public opponents of the drug-cartel-run regime of President Ernesto Samper Pizano, whose Interior Minister, Horacio Serpa, is known as a longtime ally of the ELN. Gómez Hurtado was organizing publicly for Samper to resign, or to be ousted, up to Nov. 2, 1995, the day he was killed. Gómez Hurtado and his newspaper, *El Siglo*, supported the Armed Forces and General Bedoya, by name, in their battle against the narco-terrorists, noting that this met the criteria of a "Just War" as outlined by St. Augustine and other Christian leaders. Gómez Hurtado

had also criticized then-U.S. Ambassador Myles Frechette for his outspoken opposition to allowing the Colombian military to fight the narco-terrorist FARC and ELN "with the same vigor with which the drug trade has been fought."

A year after Gómez Hurtado's assassination, Colombian media revealed that a group of prominent civilian and military leaders of Colombia had been preparing a coup d'état against the Cali Cartel's Samper Pizano, and that Gómez Hurtado had reportedly agreed to head up a new government. By one account, the coup was to take place on Nov. 11, 1995, but on Nov. 2, Gómez Hurtado was murdered.

By his own, later admission, it was U.S. Ambassador Frechette who fingered the coup plans to the Samper-Serpa regime. Frechette reported in August 1996, that a year before, in August 1995, a group of Colombian citizens had come to him, to sound out U.S. reaction to a planned civil-military operation to oust the narco-President. Frechette said that the group represented certain "concerns" of the military, and he, Frechette, had told them that the United States would oppose any coup, and he proceeded to warn the Samper government of the plan.

Following Frechette's report, *EIR* asked publicly whether the U.S. State Department did not have a role in "fingering" Gómez Hurtado for assassination by Samper and related cartel interests. It is a question worth pursuing today.

Although *EIR* has no independent confirmation of the claim that Gómez Hurtado was part of the coup plot denounced by Frechette, it is a matter of public record that, in the months before his murder, Gómez Hurtado had become the most prominent national figure to demand that "the corrupt system be overthrown." At the time of his death, Gómez Hurtado was looked to by Colombian patriots as the one man with the political will and stature to stand up to Samper's thuggery. Political elites in Colombia privately confided that, in the aftermath of the Gómez Hurtado assassination, none now dared challenge the Samper government.

EIR wrote in its Sept. 27, 1996 issue: "At the time of Gómez's assassination, *EIR* laid the blame at the doorstep of the Samper regime. In light of Ambassador Frechette's admission that he had alerted the cartel-run government of Colombia to the coup threat, it is appropriate to now ask as well: What responsibility does the U.S. State Department . . . have in the elimination of Samper's leading political opponent?"

Today, given the scurrilous attempts to use the assassination of Gómez Hurtado to prosecute, jail, and possibly murder those who were Gómez Hurtado's political allies in the military, and General Bedoya in particular, *EIR* repeats the question: Was Myles Frechette, today reportedly serving as a Latin American adviser to Republican Party Presidential candidate George W. Bush, involved in fingering Gómez Hurtado for a hit? And, are the Wall Street interests to whom he answers now trying to similarly finger General Bedoya for assassination?

Argentines Sue Britain's Thatcher for Acts of War

by Jacques Cheminade

Editors' Note: *On July 19, the European Court, citing mere technical grounds of the statute of limitations, declined to hear the case of Argentines killed outside the war zone in the 1982 Malvinas War, on orders of Margaret Thatcher. Despite the European Court's evasion, the issues of the case are true, and its repercussions not at all finished. Therefore, we have decided to print this article on the case, written before the Court's non-decision.*

The families of Argentine sailors who died when the British torpedoed the Argentine battle cruiser *General Belgrano* in 1982, are suing the British government and its then-Prime Minister Margaret Thatcher, for committing illegal acts of war. Jorge Olivera, spokesman for the families' Argentine lawyers, is the formal plaintiff before the European Court of Human Rights in Strasbourg, France, acting on behalf of the victims' families. On May 2, 1982, 323 sailors aboard the *General Belgrano* were killed, and another were 150 wounded, when the British submarine *Conqueror* received orders from Thatcher to torpedo the cruiser.

At the time, Great Britain had not formally declared war against Argentina, which, on April 2, 1982, had reasserted its territorial rights to the Malvinas Islands, which the British had seized from Argentina in 1833—in violation of the Monroe Doctrine—and had renamed “the Falklands.” After Argentina reasserted its sovereignty over the islands, Britain unilaterally defined an “exclusion zone,” a perimeter of 200 miles, inside which all vessels were prohibited. Notwithstanding, the British torpedoed and sank the *Belgrano*, without warning, as it was moving toward Argentina's Atlantic coast, *outside* of that exclusion zone.

The Argentine lawyers stress that Thatcher's decision not only violated The Hague Convention of 1907 regarding acts of war, but that her order also wrecked the peace efforts between London and Buenos Aires, which had been undertaken by Peruvian President Fernando Belaúnde Terry.

The waters where the *Belgrano* was sunk, off the Isla de los Estados, were unquestionably *within* Argentine jurisdiction. In fact, that very principle in international law was framed after World War II, when British and Allied legal authorities indicted, tried, and sentenced German submarine commanders, as well as members of the Nazi government, for acts against both British merchant ships and war vessels committed in international waters, similar to the *Belgrano*

atrocities. In brief, Thatcher's government committed a war crime as defined by its own conception of law.

The case was presented to the European Court of Human Rights, because all other recourse within Argentina's court system has been exhausted. The judges in the Criminal Court of Tierra del Fuego, Argentina, have ruled that, if the acts of Thatcher were indeed illegal, they cannot be prosecuted before an Argentine court, because they pertain to international law. Their decision was confirmed by the Argentine Supreme Court in a ruling on March 14, 2000.

Ironically, some British circles say that the aggrieved Argentine families, before bringing their suit in the European Court, should have attempted to bring their case before British courts, and only after their demands had (of course) been rejected, should they have sought relief from the Strasbourg court as a last resort. The argument is cynical, since no one would expect British legal officialdom to make rulings unfavorable to their own government's interests.

Olivera and his colleagues presented their case before the European Court on July 4, under the First Section of the European Convention of Human Rights signed in Rome on Nov. 4, 1950, and ratified by the British government on March 8, 1951.

A Taste of Their Own Medicine

Paris dailies across the political spectrum—*Le Figaro*, *Le Monde*, and *Libération*—have been giving Argentina's case a great deal of favorable coverage. This solidarity is occurring at a point when France's President, Foreign Minister, Finance Minister, and Central Bank governor are publicly taking their distance from the Anglo-American globalization and geostrategic policies (see “French Foul Up Albright's ‘Democratic’ Fascist Scheme,” and “France, Germany Move to Overhaul Europe,” *EIR*, July 7, 2000).

On July 17, according to Olivera, the plaintiffs are “resolved that the suit was well presented and that the victims of the *Belgrano* and their families have a right to go forward with the proceeding, to request indemnization, as well as the extradition of Margaret Thatcher.” The European Court may now agree with the arguments of the Argentine lawyers, and order the British government to pay reparations, heaping public shame on the British, who always hypocritically claim to be defending human rights and democracy. That, in turn, he said, would give the plaintiffs a lever for moving the Buenos Aires government to act. There will be many Argentinians who will remind their not-so-courageous public officials, that President Carlos Saúl Menem had at one time called for Thatcher to be extradited for her war crimes. Since that time, the human rights mafia has established a precedent for extraditing former national leaders, with the Transparency International effort to have Britain extradite Chile's Gen. Augusto Pinochet (a dear friend of Thatcher, by the way) to Spain. That he was not so extradited, was due to his advanced age and ill health. No one can say the same of the Iron Lady.

International Intelligence

Austria's Haider Wants 'Europe of Macroregions'

Austrian populist leader Jörg Haider, on the eve of a visit to Venice, gave an interview to an Italian daily, calling for the creation of a "Europe of the Regions," and proposing to form a new "macroregion" between Austrian Carintia and the Italian regions of Friuli-Venezia Giulia and Veneto. The concept is in opposition to the late French President Charles de Gaulle's idea of a "Europe of the Fatherlands," which placed the emphasis on cooperation among sovereign nation-states. A Europe of the Regions would emphasize regional and ethnic particularities, eroding what remains of European nations.

In the interview, given to a new daily called *Libero*, and summarized in the newspaper *La Repubblica* on July 22, Haider says that he is against the "United States of Europe," because he is against any states at all. He prefers a "Europe of the Regions," whose borders are re-drawn according to a common "political and cultural identity. . . . We share one culture, the lifestyle and the way to conceive daily life, the organization of our systems. It is not important if we do not speak the same language."

Haider's interview provoked generally negative reactions among Italian politicians. Parliament speaker Luciano Violante said, "I believe it is idiocy." Gianfranco Fini, leader of the right-wing Alleanza Nazionale party, said that his party has "a different view. We think that Europe starts from national states and not from regions."

British Official Attacks NATO's Kosovo War Policy

Lord Gilbert, Britain's Minister of State for Defence, who was in charge of intelligence during the Kosovo war, made a stunning attack on the war in testimony in Parliament, the *Guardian* reported on July 21.

Declaring that NATO had forced Yugoslav President Slobodan Milosevic into war, he said, "I think certain people were spoiling for a fight in NATO at that time. I think the

terms put to Milosovic at Rambouillet were absolutely intolerable: How could he possibly accept them? It was quite deliberate." Lord Gilbert accused his own intelligence service of withholding information from him.

He also attacked British Chief of Staff General Sir Charles Guthrie for claiming that NATO was prepared to mount an invasion in September 1999. "I think a land invasion of Kosovo would have been possible by September, but by September this year, not by September last year." He said that Ministry of Defence intelligence ought to "be picked up by the scruff of the neck and shaken. A very serious look needs to be taken at the quality of British and U.S. intelligence. . . . We also got extremely varying intelligence on the state of Serb morale and what was happening post-Milosevic.

"I have to say that it was very difficult to know what to believe from one day to the next."

He then complained that the Defence Evaluation and Research Agency (DERE) "employs no fewer than 100 psychologists. I was very surprised when I found this out." When asked why he didn't get answers as to why they had 100 psychologists, he said, "You know how it is, you ask a question three times and if you do not get an answer you give up asking the question; you are only a humble Minister of State."

Shevardnadze Boosts Brits in Transcaucasus

Georgian President Eduard Shevardnadze visited London beginning on July 17, in an effort to re-create Britain's historical position in the strategically key Transcaucasus. Before leaving Tbilisi, he was interviewed by the London *Daily Telegraph's* Simon Sebag Montefiore, who affectionately refers to him as the "Grey Fox." Sebag Montefiore begins: "President Shevardnadze will appeal to the British government for help for his impoverished land, and seek support for Georgia against Russian encroachments during his visit this week."

The journalist writes that Georgia is ner-

vous because, despite Russian promises to evacuate bases in Georgia, President Vladimir Putin is using the war in neighboring Chechnya to threaten Georgia. And so, "Mr. Shevardnadze has cleverly covered himself by placing monitors from the Organization for Security in Europe, including British troops, on the border."

In the interview, Shevardnadze waxes ecstatic about the British. He says that during his years as Soviet Foreign Minister, beginning in 1985, then-Prime Minister Margaret Thatcher was "certainly one of the most impressive" leaders he worked with. Asked who his hero is, he responded, "Churchill, oh yes, Churchill. We need England, and I will discuss with Mr. Blair the strategic importance of Georgia, and remind him of the traditional friendship with Britain, which helped us so much in the first independent Georgia of 1919-21. England is a traditional ally." British post-World War I geopolitical strategy against the Soviet Union, as devised by Lord Curzon and his close adviser Sir Halford Mackinder, as well as by Winston Churchill himself, was to create a League of Caucasian States, allied to Britain.

Shevardnadze goes on to say how much he admires the British monarchy, and that he contemplates restoring the monarchy in Georgia, under the ancient Bagratian dynasty, the which ruled Georgia for a thousand years, until 1801. He says: "I've thought about it, and it's very appealing. It is still early days, but the time for a king will come."

Rees-Mogg Says Blair Is 'in the Bunker'

The state of British Prime Minister Tony Blair today is reminiscent of Adolf Hitler in his Berlin bunker as the Soviet Red Army approached, and of former Prime Minister Harold Macmillan in 1963, as the "Profumo Affair" brought an end to his regime, wrote Lord William Rees-Mogg in his column in the London *Times* on July 17.

Rees-Mogg is a backer of Conservative Party leader William Hague, and one of

THE THAI government appealed to U.S. Drug Policy Adviser Barry McCaffrey in June to help Myanmar's anti-drug effort. Minister in the Prime Minister's Office Jurin Laksanawisit, who oversees Thailand's anti-drug program, urged the U.S. "not to increase Myanmar's isolation," which "had taken its toll on neighboring countries, especially Thailand."

MALAYSIA'S Prime Minister Dr. Mahathir bin Mohamad, in a speech on July 11, dwelt on the recent theft of 90-100 weapons from two Malaysian military facilities by the Al-Ma'unah cult, which tortured and murdered two Special Branch officers, one Christian and one Hindu, and tortured two Muslim policemen. The incident, he said, shows that "if you support the wrong kind of ideas, you will only get hurt. That is why we have always been against this politics of hate."

QUEEN ELIZABETH II visited Berlin on July 19 to inaugurate the new British Embassy there. This was the first visit by a monarch to open an embassy, and provided a field day for Anglophiles in Germany. Foreign Minister Joschka Fischer (Green Party) gushed how grateful Germany should be for all that Great Britain has done for it, from World War II to the Beatles. He also praised "the contribution of Winston Churchill to the founding of the European Union."

DRACONIAN anti-bribery laws were passed by Australia's Federal Parliament in July, which will see corporations fined up to \$330,000 and criminally convicted for corruption. Press reports attribute the passage of this law to the work of Prince Philip's political hit-squad Transparency International. Virtually any corporate activity may be defined as "corrupt" under the purview of this bill.

INDO-AMERICAN Christians will send a delegation to India to persuade New Delhi to protect minorities from violence and harm. The delegation will meet the President, Prime Minister, and the Home Minister.

those moving to realign the Anglo-American relationship, in the direction of a "Bush-Hague axis," in the years to come.

He begins by reminiscing about sitting in the House of Commons, in June 1963, "listening to the debate which marked the end of the Macmillan administration, though it tottered on for another few months. The debate was about the Profumo scandal." Today, "the atmosphere of 1963 seems to be returning to Downing Street. Indeed, Harold Macmillan, though damaged by the scandals and rumors of scandals, never became quite as isolated personally as Tony Blair seems now to be."

The whole atmosphere in and around Blair's Downing Street is "very depressing," Rees-Mogg writes. He says the comparisons which come to his mind, are "with Fort Apache, with hostile Native Americans clustered around, or Hitler's bunker in Berlin, with the Red Army in the suburbs of the city."

He charges that Blair has "lost his touch, he has lost his voice, he has lost his humility. . . . I cannot remember him making any profound speech to the House of Commons." Blair is clearly suffering from "exhaustion and isolation," and if he doesn't overcome these, he will certainly suffer the same fate as Macmillan, His Lordship concludes.

Japan To Lift Sanctions on India and Pakistan

Japanese business leaders and Prime Minister Yoshiro Mori's Liberal Democratic Party (LDP) have persuaded the Japanese government to lift the two-year-old economic sanctions on India and Pakistan, according to the Japanese English-language daily *Yomiuri Shimbun*. The anti-sanctions lobby pointed out that Japan must make efforts to repair its relations particularly with India, which is becoming one of the world's largest markets.

Tokyo also feared that further deterioration of the Pakistani economic situation would fuel activities among Islamic fundamentalists and cause political instability.

Japan imposed sanctions, including a

freeze on new non-humanitarian grants and loans, after India and Pakistan carried out a series of nuclear tests in May 1998.

Friction Grows Between France and Russia

The already-tense relations between France and Russia have been worsened by the fact that a French court issued an order in mid-July to seize the *Sedov*, a large Russian sailboat used for training by the Murmansk Technical University, which had sailed to France in order to participate in the "tall ships" festivities at the French seaport of Brest.

The court acted in compliance with the ruling handed down by an international arbitration court in Stockholm, which has ruled in 1997 in favor of the Swiss company NOGA, in a suit against the Russian Federation Council for breach of contract. In 1991, NOGA had worked out a food-for-oil contract with Russia: The Swiss furnished the food, but the Russians never supplied the oil, so the company decided to sue the Russian Federation in the Stockholm court for \$1.4 billion. The court's ruling in favor of NOGA allowed it to seize Russian assets wherever they found them, for more than \$800 million. Earlier this year, NOGA had seized the accounts of the Russian Embassy and Central Bank in Paris, as well as money that was owed by France's state electrical firm EDF to Russia.

This new situation comes at a time when relations between the two countries have significantly deteriorated. The new Russian government is angry over France's support for former Prime Minister Yevgeni Primakov, prior to Putin's election, and over the fact that France has taken the lead in pressuring Russia to open up political negotiations in Chechnya. France is the only major European nation that President Vladimir Putin has not visited since he came to power, and he has let it be known that he is in no rush to do so. French diplomatic circles say that France wants to build good relations with Russia, but that it will not stop insisting that Russia must handle Chechnya politically.

Dems Take to the Hustings, To Revive the Party of FDR

by Marla Minnicino and Rochelle Ascher

A growing number of Democratic constituency leaders, most of whom participated in the June 22 Ad Hoc Platform Hearings facilitated by the Presidential campaign committee of Lyndon LaRouche, are coming forward in public forums and on the airwaves as leaders of the “real” Democratic Party of Franklin Roosevelt, John F. Kennedy, and Martin Luther King, Jr. Their determination to speak out on the issues of concern to the 80% of the Democratic Party ignored by putative Democratic Presidential nominee Al Gore, stands in stark contrast to what the Gore-controlled wing of the Democratic Party is doing, in squelching debate and forcing through policies such as “free trade” and support for the death penalty—policies which are the antithesis of everything traditional Democrats hold dear.

The tool which these party leaders, primarily state legislators and other elected officials, are using, is the Proceedings of the Ad Hoc Democratic Party Platform Hearings, held in Washington, D.C. All were panelists or participants at the hearings, which heard testimony from activists seeking fundamental reforms in the areas of agriculture, labor, health care, education, law and justice. (Highlights of the hearings appeared in *EIR*, July 7; for copies of the full proceedings and a 90-minute video, contact LaRouche’s Committee for a New Bretton Woods at 1-800-929-7566.)

The common view of this emerging leadership grouping, many of whom share LaRouche’s insistence that the “fundamentals are not sound,” contrasts sharply with the line of the Gore loyalists in the Democratic Party who would rather cling to the sinking hulk of the Gore machine, than steer the party back toward its traditional roots. The Gore-pushers are working hand-in-glove with a small clique in the Democratic National Committee (DNC) which has refused to recognize LaRouche’s candidacy, and which stole outright the 53,000 votes LaRouche won in the Arkansas primary. The Arkansas

results, had they not been usurped by Gore, would have entitled LaRouche to a small fraction of the delegates to the Democratic National Convention in Los Angeles on Aug. 14-17.

The theft of LaRouche’s votes and the lying and racism of this small cabal in the DNC, have further catalyzed this nascent Democratic Party leadership core into motion. The thug methods of the Gore camp in trying to pressure these legislators to break with LaRouche’s policies, have only fueled their determination to restore the party to its own roots, now represented by the LaRouche wing of the party, rather than by Gore’s minions.

Although the panelists have not all endorsed LaRouche’s candidacy, they recognize the imminence of the financial crisis as LaRouche has forecast, and understand the necessity for a New Bretton Woods financial system, as the only way to address the economic crisis in the United States and internationally.

Call for an Open Debate

To this end, several of them have taken to the hustings, speaking at town meetings convened by the LaRouche movement in their own or other states, or have spoken out in radio interviews. State legislators taking this aggressive approach are Rep. Erik Fleming (Miss.), who served as chairman of the Ad Hoc Platform Hearings; panelists Sen. Joe Neal (Nev.), Rep. Harold James (Pa.), Rep. Ed Vaughn (Mich.), Rep. Perry Clark (Ky.), and witnesses Theo Mitchell, former State Senator from South Carolina, and Joe Jones, City Councilman from Cleveland, Ohio. Several others are reportedly planning to join in and many are distributing the Proceedings booklet.

On July 4, Representative Fleming and Senator Mitchell participated in a dialogue on National Urban Radio, along with LaRouche’s National Spokeswoman Debra Hanania-Freeman. The two men ruthlessly took on the excuses of Dem-

ocratic Party officialdom about excluding LaRouche, and the real issues of the day — poverty, Nazi “health care,” and rampant injustice in the judicial system. When host Bev Smith brought up the typical argument that Democrats have to support Gore, as the lesser of two evils, Fleming and Mitchell would not capitulate. Mitchell explained that there would be no “sit-down” with Gore, because Gore would never do it. “They don’t want me or you at the table, and that is what this is about,” Mitchell said. Fleming added, “LaRouche didn’t start this. All he asked for, all Bill Bradley asked for, was an open campaign, an open debate. But Gore knows he could never get the nomination that way. So there isn’t any election, and anyone who is going to L.A. should be prepared for a coronation, not a convention.” Both men reported that the DNC had refused to allow them to testify at the party-approved platform hearings held in St. Louis on July 6, despite their years of public service.

At town meetings organized by the LaRouche movement, Michigan State Rep. Ed Vaughn, who formerly chaired the state Legislative Black Caucus, and Nevada State Sen. Joe Neal, who currently chairs the Nevada Legislative Black Caucus, were equally direct on the issue of the Democratic Party’s thuggery. Vaughn reported privately that the Gore campaign in Nashville had called his office, and asked, “Is it really true that Representative Vaughn has endorsed Lyndon H. LaRouche for President?” Vaughn instructed his aide to inform them that it “emphatically” was.

At a town meeting in Detroit, Vaughn presented the Ad Hoc Platform Proceedings as the “hammer” to break open the Democratic Party for real policy debate. He told the audience how LaRouche and the “forgotten 80%” of the party had been snubbed by the Democratic Party leadership. Now, you all need to read this, he said, pointing to the Platform Hearings booklet, but “since none of you read—you say you will, but you won’t—we are going to go through this together right here in this meeting.” Copies of the booklet were passed out, and Vaughn went through them, page by page, beginning with the videotaped speech by Lyndon LaRouche and covering each session, from the economic crisis, to health care, to constitutional law and justice. “During these ‘tremendous economic times,’” he said, “where . . . everybody assumes the system is okay, well . . . think back to the Roaring 20s. Everyone was happy, everyone was giddy, . . . you had the flappers. Think of Lyndon LaRouche trying to warn people that doom was impending. Would they have believed LaRouche? No, they sure would not have! Then came 1929, and the bust came: a massive depression.” He explained how President Roosevelt had gotten us through it, as a model for what had to be done now. “If a million copies [of this booklet] are to be distributed,” said Vaughn, “your job is to disseminate this information to others, so you all have to take copies of this to get it out to a million people. Now, you have no excuse, as you know what is in this book.”

At a Philadelphia town meeting on July 26, State Rep. Harold James used video clips of the hearings to highlight

some of the key issues of concern to Democrats — AIDS, the racist corruption of the criminal justice system, the death penalty, and the drugging of children with Ritalin. He said that it is because of the abuses in the criminal justice system that he is committed to opposing the support for the death penalty by the Democratic Party. He urged people to read and subscribe to *EIR*, and to distribute the Platform Hearings booklet.

At a July 24 town meeting in Las Vegas, State Sen. Joe Neal emphasized that the Ad Hoc Platform Hearings were vitally necessary, since there is a farm crisis, a health-care crisis, an economic crisis — yet the only concern many people have, including elected officials, is to make money. If you are not out to help those who most need it, you are not serving the nation, he said.

The high point of his presentation was his description of the Democratic Party as it was, and what it has become. He said that in 1992, he was asked to serve on the national Democratic Platform Committee by the Clinton campaign. He said that he had many serious disagreements with Clinton, especially on the death penalty, but was told that that was all the more reason for him to serve on the committee, since the purpose of the hearings was to discuss these issues. He contrasted this to Gore and his campaign staffers, who have decided what can and cannot be discussed within the Democratic Party. Senator Neal said, “Only those views desirable to certain people will be heard.” He said that Supreme Court judges had ruled that the Democratic Party is a private club, and that this is no different than the “Jaybird” white Democratic primaries of the 1920s and ’30s.

He reported that he had received calls from the Gore camp and the DNC. “We are concerned about these Ad Hoc Platform Hearings,” an official of the Gore campaign in Nashville told him. Senator Neal’s response to the call was, “I stand by this hearing. I understand Dr. LaRouche wants 1 million copies of this platform printed and circulated before the Democratic Convention. And the idea of the million pamphlets is to restore the party to the FDR tradition. Why would the DNC panic over this? What’s wrong with this? I think this is a good thing!”

The fight to restore the soul of the Democratic Party was the topic of a July 26 interview with Representative James and Debra Freeman on WHAT, the largest black talk radio in Philadelphia. James referred to his efforts to meet with DNC Chairman Ed Rendell to discuss the exclusionary tactics against LaRouche, but to no avail.

The mobilization to take back the Democratic Party is being spearheaded by the distribution of 1 million copies of the Platform Hearings booklets. Over one-half million have gone out, as we go to press, and copies, along with a video, have been sent to all National Convention delegates. Panelists and testifiers at the Hearings are taking bulk copies of the printed transcript to distribute to their political networks. Even delegates to the Democratic National Convention who do not necessarily agree with LaRouche, are agreeing to read and distribute the pamphlet. Clearly, a revolt is in progress.

Economic 'Boom' Causing National Hospital-Nursing Home Shutdown

by Paul Gallagher

You may be among those who believe that the United States is booming and prosperous, and has entered an era of budget surpluses. If so, chances are you have not been seriously ill or had an accident recently.

The Balanced Budget Act of 1997 and related policies supposed to be causing surpluses to materialize, are causing the nation's hospitals and nursing homes to vanish, along with the skilled nursing staffs in them.

On July 24, hospital and business associations went public in Washington, D.C. with a warning that the nation's hospitals face bankruptcy and shutdown, and began placing newspaper and TV advertisements to run through the Democratic and Republican Conventions, to continue through 2001. The American Hospital Association is already conducting a national petition drive for the same purpose: to repeal the 1997 Balanced Budget Act.

Already, the number of hospital beds in the United States has fallen by 15% since the 1980s (**Table 1**), and the trend

has been accelerating since 1994 (**Figure 1**). More than one-third of the hospitals remaining are losing money year-to-year; in Massachusetts, it is two-thirds of all hospitals; in Pennsylvania, four out of five hospitals cannot cover operating costs with revenues.

The interviews which follow this article highlight the painful case of Washington's venerable D.C. General Hospital, apparently slated for a shutdown that will leave an entire area of the city without hospital care. Traditional inner-city hospitals are hit worst by the crisis, but not those alone. Outside Washington, in Virginia's Fairfax and Loudoun Counties, two of the wealthiest in the country, the ratio of hospital beds to population has fallen to two per 1,000 people. And the *entire sector* of hospitals located in the nation's rural areas, is losing money as of 1999; when these close, whole areas of Plains, Southern, or Western states are left without hospitals.

With nursing homes and long-term care facilities, the situation is worse. Ten percent of all nursing homes in the United

TABLE 1
Community Hospitals Closed and Beds Eliminated, 1985-97

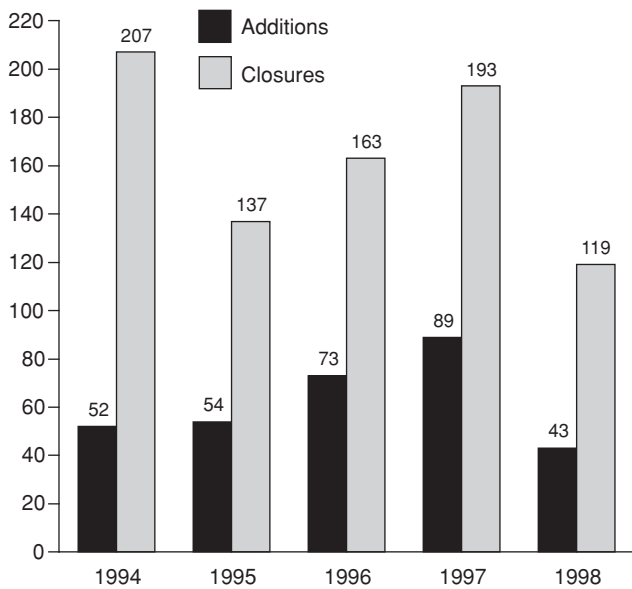
	1985		1997		Number shut down		Percent shut down	
	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds
Massachusetts	112	25,892	84	17,400	28	8,492	25.0%	32.8%
Michigan	193	37,546	154	27,900	39	9,646	20.2%	25.7%
Minnesota	165	21,933	137	17,100	28	4,833	17.0%	22.0%
Texas	480	66,061	407	55,800	73	10,261	15.2%	15.5%
Illinois	238	54,925	202	40,300	36	14,625	15.1%	26.6%
Washington	103	13,173	88	10,800	15	2,373	14.6%	18.0%
Tennessee	145	25,230	124	21,100	21	4,130	14.5%	16.4%
Alabama	129	19,703	111	18,600	18	1,103	14.0%	5.6%
Ohio	197	47,500	170	36,100	27	11,400	13.7%	24.0%
California	479	83,232	414	74,100	65	9,132	13.6%	11.0%
New York	259	78,986	225	71,000	34	7,986	13.1%	10.1%
Missouri	141	25,734	123	20,900	18	4,834	12.8%	18.8%
Louisiana	145	20,190	127	18,600	18	1,590	12.4%	7.9%
Pennsylvania	241	56,221	217	45,700	24	10,521	10.0%	14.7%
U.S. total	5,732	1,000,688	5057	853,300	675	147,388	11.8%	14.7%

Sources: American Hospital Association; U.S. Statistical Abstract, various years; EIR.

FIGURE 1

Closures Outweigh Additions, 1994–98

(Number of Hospitals)



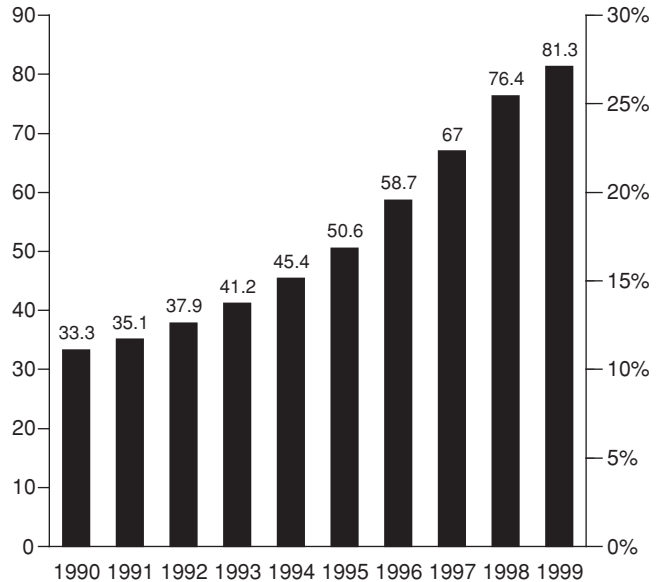
Sources: AHA Annual Survey, 1994-1998; *Health Forum*.

FIGURE 2

Total HMO Enrollment, January 1990–January 1999

(Millions)

(Growth rate)



Source: The InterStudy Competitive Edge: HMO Industry Report.

States are operated by companies in bankruptcy, according to *The Week in Healthcare* magazine; this year alone, five major providers of long-term care services have filed for bankruptcy. The most recent, Genesis Health Ventures, blamed “drastic and unanticipated cuts” in Medicare and Medicaid payments. The American Health Care Association blames the bankruptcies on the Balanced Budget Act.

The nursing homes also have lost staff, to the point that a report recently released by the U.S. Department of Health and Human Services says that the majority of all nursing homes do not provide the *minimum standard* of two hours care per patient per day from nurses’ aides, nor 12 minutes (!) care per patient per day from registered nurses.

Killer Surpluses

The disappearing availability and quality of health care make a mockery of the delusion, constantly invoked, of a booming and prosperous U.S. economy. Since 1996, the Federal government has savagely cut the payments for specific medical conditions, from Medicare and Medicaid to hospitals and nursing homes. These very cuts, and others enshrined in the 1997 Balanced Budget Act, have created the illusion of Federal budget surpluses, which supposedly betoken prosperity! At the same time states, many of those “rolling” in surpluses in the late 1990s, had similarly cut their payments to health care and health insurance programs.

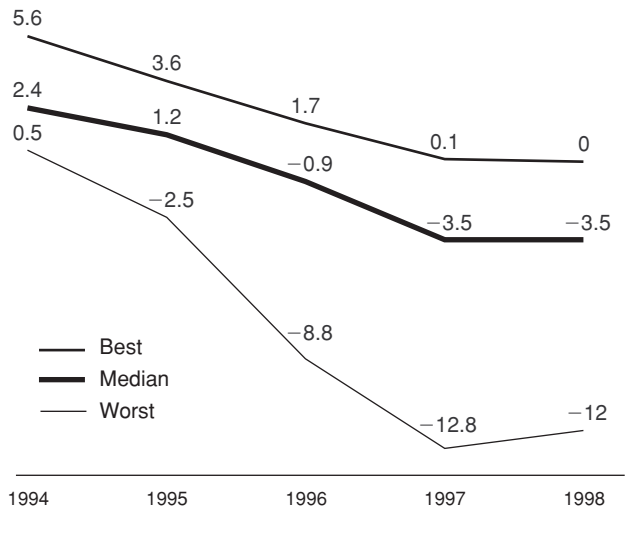
The fatal irony of the Hospital Associations’ now-urgent mobilization to attempt to stop the shutdowns, is that such

groups have accepted the myth, spread by the Gore and Bush campaigns, the media, and so on, of future multitrillion-dollar surpluses. These are nothing but myths, in the face of the looming financial crash. But the hospital groups invoke that myth: “Washington is listening. Now, we must take . . . our crusade beyond the hospital walls and into the community. . . . The announcement of a more than \$2 trillion surplus confirms that the resources are available to repair the damages caused by the Balanced Budget Act.”

The fact is, that in January, the Congressional Budget Office reported that Medicare payments to hospitals over the next five years, would be \$62 billion *lower* than the same CBO had estimated only two months before!

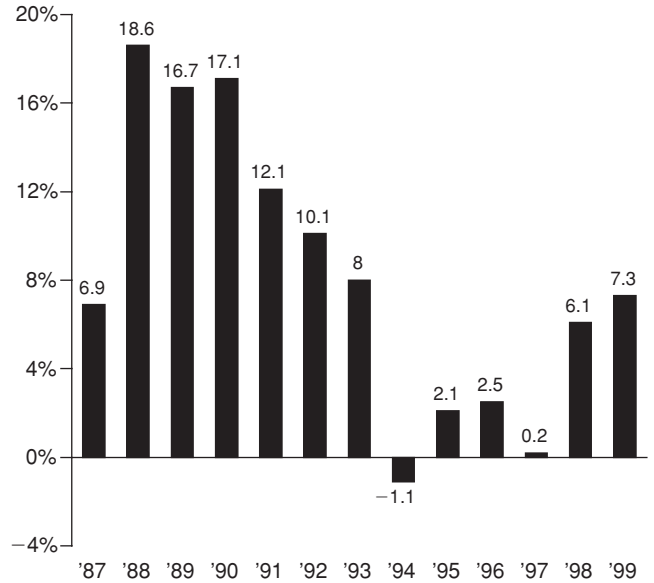
At the same time, a drastic nursing shortage developed due to the tightening grip of the health maintenance organizations (HMOs) on the nation’s health care. The HMOs replaced nursing staff with lower-paid nurses’ aides and medical technicians on the one hand, and high-paid accountants and time-study types on the other. Nurses are drastically overworked and quitting; nursing school enrollments dropped by 21% from 1995 to 1998. Half the country’s RNs will retire in the next 15 years or less; during that period, only one-third of the new nurses needed will be available, says the Department of Health and Human Services. At a four-day Washington, D.C. conference on nursing shortages in late July, an officer of the Maryland Allied Healthcare Recruiters Association admitted that her attempts to send nurses into high schools to encourage students into nursing careers backfired, because the fact that

FIGURE 3
HMO Profitability
 (Percent)



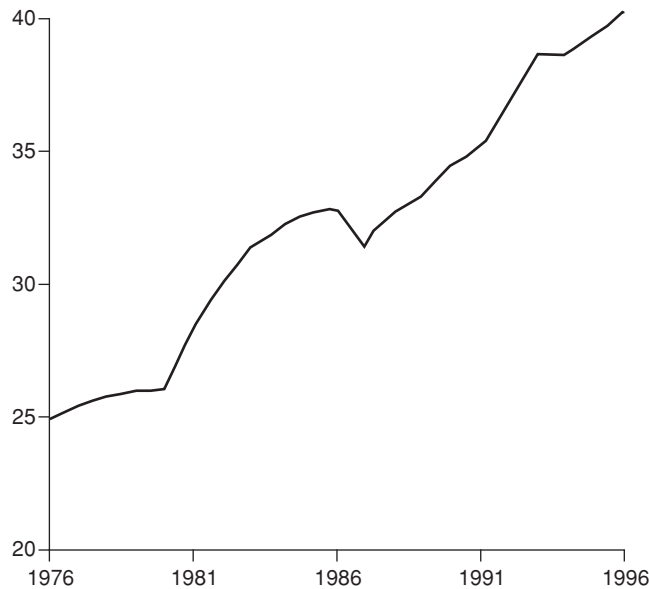
Lines represent 75th, 50th, and 25th percentiles of HMO's
 Source: The InterStudy Competitive Edge: HMO Industry Report.

FIGURE 4
Annual Change in Average Cost of Health Benefits, 1987-99



Source: William M. Mercer, Inc.

FIGURE 5
Number of Uninsured Americans, 1976-96
 (millions)



Source: David U. Himmelstein, M.D. and Steffie Woolhandler, M.D., M.P.H., *Healthy Profits, Unhealthy Care: An Update on Market-Driven Health Care*, tabulation from CPS and NHIS data.

the nurses are obviously overworked, exhausted, and frazzled scares the students off.

HMO's Take Hospitals into Bankruptcy

This current phase of shutdown of America's hospital and health-care delivery system, is following from the *final phase* of healthcare looting by managed care, the HMOs, and similar operations.

The HMOs looted super-profits from health care during the late 1980s and 1990s—indeed, the U.S. Supreme Court recently ruled that that was the purpose intended for the HMOs by Congress!—by drastically lowering the payments to health-care providers for treating specific conditions, just as the Federal and state governments have done with their cuts. The number of insured Americans enrolled in HMOs reached a peak of over 81 million in 1999 (Figure 2). But predictably, now the HMOs themselves are going bankrupt from their own looting process (Figure 3). The reduction in health insurance premium increases which they briefly provided, has reversed itself (Figure 4). In the HMOs' desperation to avoid bankruptcy and quell revolts of their stockholders, they are "skipping out" on their contracted payments to hospitals and nursing homes, to the tune of tens of billions of dollars per year.

On top of this, the number of Americans without any health insurance is undergoing an "alarming and steady increase," in the words of a July 24 *Washington Post* editorial. The continuing deterioration of the nation's health insurance

system again belies the myth of the “greatest period of prosperity,” etc. “In theory,” wrote the *Post*, “the economic progress should have produced a decline in the number of people without insurance, because the higher the income, the greater the likelihood a person will be insured. But in fact, the number of people, and not just poor people, without insurance continued to increase.” That number, which had increased by about 750,000 per year since 1986 (Figure 5), jumped from 1994-98 by more than 1 million per year. The HMOs will drop insurance for nearly 1 million elderly Medicare beneficiaries in 2001, according to the Clinton Administration — more than doubling the rate at which these HMOs were casting off Medicare patients in the past two years.

The nation’s hospital sector, as a whole, will soon be in the red. Repealing the Balanced Budget Act in itself will not free up “surpluses” to save the hospitals and nursing homes from closing in even greater numbers. For that, HMOs have to be abolished, and the nation returned to the health-care policy of the 1954 Hill-Burton Act, under which Federal, state, and county authorities were jointly responsible for ensuring a national average of more than five beds per 1,000 people, and that the specific types of care and staffing necessary, were in fact available. This approach is embodied in the proposed “The Right to High-Quality Health Care” bill, drafted and advanced by Lyndon LaRouche’s Presidential campaign.

Stop the Shutdown of D.C. General Hospital

by Marianna Wertz

While hospitals around the nation are in crisis, many shutting their doors or declaring bankruptcy due to the ravages of managed care and the “balanced budget” austerity that has left them grossly underpaid by Medicare and Medicaid, the crisis besetting the landmark District of Columbia General Hospital, now threatened with closure, is particularly severe. This is true not only because of the manifold and chronic health problems besetting the impoverished Washington, D.C. population, which D.C. General has served for generations, but also, because this is the nation’s capital, and whatever happens there, reverberates across the country.

EIR spoke in late July with two of the leading figures in the D.C. health field, both in the forefront of trying to stop the shutdown of D.C. General. Loretta Owens is president of the government employees union, the American Federation of State, County and Municipal Employees (AFSCME) Local 1033, which represents approximately 800 professional and technical workers at D.C. General. She is passionately involved in this fight for a hospital where she herself was born, and where she has worked for nearly 28 years.

John Fairman is the embattled former Chief Executive Officer of the D.C. Health and Hospitals Public Benefit Corp., which runs D.C. General. He was fired on June 30, in the midst of an escalating scandal surrounding his office and his own alleged mis-administration. We called Mr. Fairman when it appeared that he was being scapegoated by those District and Federal officials whose actual intent is to shut down the hospital, despite the consequences for the D.C. population.



The District of Columbia General Hospital, health-care “provider of last resort” to the poor and uninsured residents of the nation’s capital, faces the threat of imminent shutdown.

Why D.C. General Is Needed

D.C. General Hospital is the “provider of last resort” for all District residents, the only public acute-care hospital in the District. It serves the entire District, but particularly those in the Southeast quadrant, where it is located. The Southeast has the highest concentration of poor and black residents, and the highest incidence of heart disease, infant mortality, and cancer in the District. Infant mortality in 1997 in the District overall was 12.1 deaths per 1,000 live births—70% higher than the national average. The number of AIDS cases per 100,000 people, at 189 in 1997, is nearly nine times the national average.

D.C. General is run by the D.C. Health and Hospitals Public Benefit Corp., or PBC, formed in 1995, which also oversees ten clinics, nurses in 147 public schools, and the city jail and health facility. PBC was created to develop one integrated public-health-care delivery system for city residents, to ensure that the city’s most vulnerable residents didn’t fall through the cracks.

At the same time that the PBC was formed, the District, and the country as a whole, entered the thralls of the “Contract

On America,” the human-scrapheap approach to budget-balancing brought about courtesy of the Newt Gingrich-led Congress. The District of Columbia, home to that Congress, received, and continues to receive, a lion’s share of the Contract’s “medicine.” In 1995, Congress effectively dismantled District home rule, giving authority over public spending to the Financial Responsibility and Management Assistance Authority, known locally as the Control Board.

That Control Board, which answers both to Congress and, more importantly, to Wall Street, is now working hand in glove with its figurehead Mayor since 1999, Anthony Williams, to shut down D.C. General and hand over its patients to managed care. Fairman, as PBC’s CEO, attempted to stop the shutdown of D.C. General and drew down on his own head the wrath of these powerful forces. He is accused of running up a \$90 million deficit over three years, despite the fact, as he makes clear in the interview below, that it was the illegal operations of the Mayor’s office and the Congress which forced him to rely on borrowing from the District to meet day-to-day operating expenses, a practice now outlawed but which was standard operating procedure for more than 100 years.

Note, in the interview with Loretta Owens, that her remarks about Fairman reflect the intensity of the operations being waged to demonize him, as well as to stop her own efforts to halt the shutdown.

The same financial and political elite which is now recommending that African HIV/AIDS victims “die quickly” (see *EIR*, July 28, 2000, p. 4), are pushing the shutdown of the one hospital in the nation’s capital that serves the majority of poor, black, and HIV-infected residents. This must be stopped, here, as well as in Africa.

Interview: Loretta Owens

‘This Hospital Is Family’

Loretta Owens is President of the American Federation of State, County and Municipal Employees (AFSCME) Local 1033, representing approximately 800 professional and technical workers at D.C. General Hospital in Washington, D.C. Ms. Owens is a faith and community HIV and AIDS prevention outreach specialist. Her job entails going out and speaking to youth and high schools, doing health fairs in the community, as well as throughout the faith community. She is a native Washingtonian and has worked at D.C. General for almost 28 years. The following interview with Marianna Wertz occurred on July 24.

EIR: It’s been said, by Rep. Ernest Jim Istook (R-Okla.), chairman of the House Appropriations Subcommittee overseeing the District of Columbia budget, that it’s quite possible that D.C. General will be shut down in the near future. Has AFSCME had anything to say about that?

Owens: We’re trying to do everything we can to keep the hospital open, because we strongly disagree with closing the hospital. The hospital is a landmark. It’s here for those who cannot afford to go anywhere else. Many of the people that work here actually were born here, at this hospital, I being one of them.

We have worked for a long time without all the necessary equipment that we need. Many of the people that work here can do more than one thing, and it’s because we’ve had to work without for so long, that we’ve learned to improvise.

EIR: I spoke with John Fairman last week about his firing and his charges that there is a plan to shut down the hospital and blame it on mis-administration. Have you seen anything of that?

Owens: I haven’t seen it. I feel strongly there are decision-makers and rule-makers and there are rule-followers, and the workers here, along with the patients that we serve, did not make any of these decisions to overspend the budget or to spend the monies the way they were spent. It concerns us that this went on for so long, not only with John Fairman, but those who allowed him to spend. They see the budget. They know what he’s spending.

EIR: As to the question of the poor, who are served by D.C. General: I understand that 60% of the uninsured in Washington, D.C. go to D.C. General Hospital.

Owens: They have been coming for years and years and years, because they know that they cannot get treatment or care the way that we serve here at this hospital. When we do things, we treat our clients as if they were family. Many of these people that we service are our neighbors, or people that took care of us or looked after us when we were coming up, and we know them from the neighborhood, we know them from the schools. When our clients come in here, particularly in the clinics that I work in, we hug our clients, we care about our clients. When we lose a client, we send cards to their families, because we feel like family.

EIR: What’s going to happen to them if they shut down D.C. General?

Owens: What concerns me is that you have other institutions that say they do, and are prepared to take on the clients that D.C. General now services. But what happens when there is no money? Will they still be willing to treat them? What happens when they run into someone who is a drug addict, or alcohol abuser, and these people really, really need help? They need somebody to care about them. What happens? Will they mistreat them?

All these years, they have refused to see these people.

Many of these institutions have sent clients from their institutions over to D.C. General, because they don't have insurance, or because they just didn't want to be bothered with them. And now, all of a sudden, all these institutions are saying they're willing to take them. Where were they when they were needed?

EIR: They say they're willing to take them if they're given Medicaid by the District, but Medicaid has never guaranteed that the hospital or doctor is going to be paid.

Owens: This is what I'm saying. What will happen if they don't get the money? Will they be turned into the bitter streets? I look at the Reagan Administration, when they turned all those people from St. Elizabeth's [the District's main mental hospital] out into the streets. This city had never before seen such homelessness. But now, there's an abundance of the homeless all around us. There's nobody caring about these people, or caring for these people. Who cares for those who cannot care for themselves?

D.C. General has always done that. We've always been there. And those people who want to shut it down have no idea of the services that we offer.

We provide a service with love, because it's coming from the heart, and they don't understand that. This is not an institution that you want to shut down. This is an institution that you want to stay open. You want it to be part of the community, because we reach out to those whom others won't.

EIR: When you say "they" don't understand it, who is "they"?

Owens: Those that wish to close the hospital. I have not spoken to Representative Istook, but I've read his comments in the paper. When we have people that represent the nation, they should talk to the front-line workers. Find out where you can cut. Why would you continue to just be going to those who were in charge, who made the mess? They're not the ones who are working on the front lines. Some of the members that I represent, presented documentation to Mr. Fairman, showing how they could save money. It fell on deaf ears. Again, we are presenting things to this new Board of Directors, we are prepared to present it to them as well as the authority—ways to save money. Let's see who listens, or is it just the intent to shut the hospital down so they can build high-rise apartments or condominiums over here on Anacostia River-front? Is that the true intent? I wonder.

EIR: I didn't realize there was such a plan.

Owens: I don't know if there is a plan. I'm asking a question: What is the true intent? I'm not saying that that is the intent, but I'm asking. What would you do with this property, if you decide to tear the city hospital down, think about that. Who is going to take care of our inmates [in the D.C. jail]? Who really wants to take care of them?

EIR: What about the AIDS patients?

Owens: Oh, my God. All over the city they send them away. Our patients tell us how they are being treated in other places, and that's why they come back to D.C. General. My question is the same as yours: What about the patients that are infected with HIV and AIDS? Who will take care of them? Who is willing to take care of them? And I don't mean take care of them from a distance, but give them the love that they need as well.

EIR: One of our reporters interviewed a lead speaker at the New York Council on Foreign Relations last week [see *EIR*, July 28, 2000, p. 4], who was speaking about AIDS and the pandemic in Africa. His name is Peter Schwartz; he worked at Royal Dutch Shell. Our reporter asked him, what do you think should be done about the AIDS crisis in Africa. His response was, "They should die quickly."

Owens: Have mercy, Jesus.

EIR: We were quite shocked at this. Then, on further pursuit, he said, and this appears to be the thinking going on among top levels of this country, that these people are costly and they're taking up too much space, and we shouldn't spend money on making them better, because it's a waste of money. They think the world is run on the idea of the survival of the fittest.

Owens: But, you know why they say that? It's easy to say, when it's not you. It's easy to say, when someone that you love is not infected, or someone who's a good, close friend, someone you care about. But what about those that are infected? What about all of the things that can be done, that are not being done?

EIR: Have any of the Congressmen, or Mayor Williams, come down to D.C. General and talk to some of the patients?

Owens: I haven't seen any, but that's not to say it hasn't been done. It simply means I have not seen any come in and actually sit down by the bedside and carry on a conversation with these patients. But, if they had done it, there would have been media everywhere.

Think about it: How many times have they taken a minute out of their day, to care about someone who really needed care? It's easy to sit up on a pedestal and be at a great distance from where the problems lie, and make decisions. It's another thing to be in the trenches, knowing where the cuts should be made.

Everybody is entitled to the same opportunity. We all should be afforded the opportunity to work. We should all be afforded the opportunity to receive A-1 health care. D.C. General provides top health care, and if they didn't, you wouldn't have so many people surviving here.

EIR: As you may know, Mr. LaRouche is campaigning on a platform calling for an end to managed care, saying it's like a holocaust going on in this country. Has managed care affected D.C. General?

Owens: I personally don't like managed care. The reason for that, and it's just my opinion, is that they treat patients as if they were on an assembly line. In 15 minutes, and out. Well, if you were infected with HIV, you couldn't be seen like that, and I thank God that these doctors here, that work in Phoenix Health Center, don't treat patients like that. They take the time, and give the patients the time that they need to be serviced. I can't tell you anywhere else in the hospital how they're seeing other clients, but I do know that you want to treat people as if you were treating your mother, or your father, or someone you cared about. You take the time, all the time that's needed.

EIR: Your job is probably in question now, isn't it?

Owens: Let me tell you something. God gave me this job and man cannot take it from me. All the things that they are putting me through, because of my speaking out, no weapon formed against me shall prosper, not one.

EIR: Anything else you'd like to say?

Owens: I would like for somebody to listen to the front-line workers. I would like for someone to listen to the labor leaders, because we're getting our information from those persons that have elected us to represent them. If somebody would just take the time and listen, there can be a turnaround here, without shutting down the hospital.

Interview: John Fairman

Who Is To Blame for Health-Care Crisis?

John Fairman, former CEO of D.C. Health and Hospitals Public Benefit Corp., grew up in a family of twelve in rural Mississippi, where his father was a minister and his mother a school teacher. Mr. Fairman worked in Houston's public hospital system for almost 14 years, rising to the number-two spot there when he was 24 years old. He was then recruited to Denver's public hospital system, where he worked for nearly four years, before being hired in Washington, D.C. in 1992, to head up the PBC. He has a graduate degree in hospital and health care administration from Trinity University in San Antonio. He spoke with Marianna Wertz, on July 21.



John Fairman

EIR: You charged in an interview last week with Washington's *The Common Denominator* newspaper, that your removal and the developments around D.C. General Hospital in recent weeks, are a first step in an effort, by the D.C. Financial Control Board and the Mayor's administration, to shut down the D.C. General Hospital. Could you elaborate on that?

Fairman: Yes. From 1995 through August of 1996, the D.C. Health and Hospitals Public Benefit Corporation was formed, to oversee D.C. General, ten clinics, and the nurses in 147 public schools, to build one integrated delivery system, so people, the most vulnerable, wouldn't fall through the cracks. At that time, the Control Board had just come in.

That was done after 37 different reports over 17 years, all recommending that you build one, community-based system connected to D.C. General. Report after report had consistently recommended that. When this was done, the new regime [the Control Board] came in and they started all over again, about whether or not you should close the hospital and contract out the care. I presented numerous pieces of information to the Control Board, the [City] Council, and the Mayor, Marion Barry at that time, that that was *not* a sound idea, that managed care was something that had holes in it, and that those of us in health care knew that this was going to eventually blow up, like a lot of other things purported to be ultra-conservative and also life-giving, in terms of expanding care.

So the PBC was formed. The new Chief Financial Officer law had been passed, and Anthony Williams took over as the CFO. Immediately, he started discussions about—these were in budget meetings with the Control Board, the City Council, and himself—“If you want to go against national trends and keep a public hospital, then this is what it will cost,” he said.

In concert with Paul Offner, who was the Medicaid director at the time, they did all kinds of things, trying to cut our appropriations, slow up our payments, question our claims at the Medicaid office. Ironically enough, this is all part of the same family, the D.C. government, yet our biggest fights were within this family with the Medicaid office.

I guess everybody was embattled in their own ways, and thought that this was too complicated to understand, and we never got any real support. Every time I appealed to the Federal government, over being mistreated, and demanded that they honor their fiduciary responsibility and make sure that we were treated according to what's called the State Health Plan, which is the bible that governs how Medicaid operates, we were *systematically* not paid according to what was in law then, and what is in law now.

EIR: Rep. Ernest Jim Istook (R-Okla.), who is in charge of the House Appropriations subcommittee relevant to this, has written to Mayor Williams, saying that the hospital could soon close, because of the lack of funds.

Fairman: That is tied to something different. The law that created oversight over the hospital, said that we were legislated authority to go to the banking market and the bond market, to secure funds, on our own, independent of the D.C.

government. Systematically, the Control Board and Mayor Williams opposed that and would not allow us to do it, though it had been done for the past 100 years. What they are erroneously calling a cash deficit, that Istook is reportedly upset about—he’s calling it a “loan to the hospital,” saying the D.C. government has no authority to loan us money—well, the D.C. government has operated in that relationship with D.C. General for over 100 years! There is *nothing new*.

The internal documents that they are well aware of, say that, if the District government paid D.C. General in a timely manner, and paid it what it owes according to its *illegal* way of paying, that the problem would be somewhere between \$3 million on the low side, and, on a high side, \$10 million. Now, on a \$160 million budget, that’s not a major problem to fix. If they paid us according to the State Plan, it would clearly be in the black without question. So, D.C. government controls this issue, and they’re controlling the spin, the Mayor is.

To withhold the information, and then go to Istook and criticize the fact that it’s costing the city cash, at the same time that you won’t let the hospital go to the banking market and the bond market to borrow money, which the law allows—that smells of a different game. And that game was, fundamentally, they do not want to continue to operate D.C. General as an acute care hospital.

EIR: D.C. General is the major provider to the 81,000 uninsured in Washington, D.C.?

Fairman: Absolutely. Sixty percent of all of the uninsured care is provided by D.C. General. And it is the *only* public acute-care hospital in D.C.

EIR: So, if it shuts down, what happens to those people?

Fairman: They say, that they can take some money and expand Medicaid, and therefore give the poor “freedom of choice.” Now, all across the country, it is clearly documented that the mere presence of insurance does not guarantee access; because there are socio-economic, cultural, all kinds of things that require outreach: going into drug-infested markets, going into markets in which people have little hope of making sure that their health is in good stead, and also that disease and other things are controlled.

More importantly, is whether one is talking about the private sector or the public sector. Managed care is when the doctor and managed-care organization get the money. They have no incentive to see you on a timely basis.

EIR: They’re actually cutting off seniors all over the country right now.

Fairman: That is absolutely correct. So, you’ve got the money and it’s easy to say, three weeks, six weeks down the line, come and see me, and hope that six weeks down the line, either somebody has gone to an emergency room, like the ones that are in Medicaid managed care in D.C.—D.C. General was prohibited, barred, from even creating our own HMO [health maintenance organization]. They said we didn’t need

one, we could just contract with the existing HMOs. We said, we need to create our own, because over 50% of the persons with Medicaid usually do not exercise their legal option to choose an HMO or to choose a doctor. So, consequently, they were randomly assigned to seven HMOs.

EIR: Most of which were not in the poor area of the District.

Fairman: Absolutely. In the case of Prudential, in the early stages of it, they had doctors many miles away from the area where the underserved needed care. These persons, before then, were coming to D.C. General and its clinics. So, when they were randomly reassigned, they still came, but we could not get reimbursed because we didn’t have prior authorization, or they wouldn’t give it. So, the emergency room [case load] increased without reimbursement.

The same patients that we used to bill for, on fee for service, now we could not bill for, and we were put in an adversarial relationship with people who have been coming there for, sometimes, two or three generations or more.

EIR: Where do you think this is going to go in the immediate days ahead?

Fairman: I think that all indications are that they will end up closing or changing the character of D.C. General away from an acute-care hospital. I think that would be very consistent with the fact that just a year and a half ago, the Mayor attempted to cut the appropriations to D.C. General by 50% in one year, with just a couple of months notice. I opposed that, so that did not make me the favorite son of this administration.

EIR: You’re definitely not anybody’s favorite son right now!

Fairman: Yes, but it’s okay. I think that, as you know, it doesn’t make any difference how much the *Washington Post* proselytizes itself in bashing me. The truth of the matter is, that the record speaks for itself. I think it is unfortunate that, regardless of what one’s philosophy is, that you figure that you have to demonize somebody else, so that you can lie to the public and make it seem like it was a situation of mismanagement that led to closure, rather than what your plan was, that is very evident and printed in all the budgets and all that for the past years.

EIR: You may know that Mr. LaRouche has called for the shutdown of managed care and the ousting of any Congressman who continues to support it.

Fairman: Let me tell you one thing that is beginning to go on around the country, according to one of my colleagues with one of the large national health care firms. He said that hospitals all over the country are beginning to refuse to do business with managed-care companies.

EIR: Including here in Loudoun County, Virginia.

Fairman: There is strong agreement that is just sprinkling all over the country right now, in agreement with Mr. LaRouche.

The Danforth Report on Waco: One More Justice Department Cover-Up

by Edward Spannaus

On July 21, Special Counsel John Danforth issued an Interim Report “Concerning the 1993 Confrontation at the Mt. Carmel Complex, Waco, Texas,” in which more than 80 people were killed. Danforth’s report, not surprisingly, totally exonerated the U.S. Justice Department and the Federal Bureau of Investigation with respect to responsibility for the deaths resulting from the FBI’s assault on the Branch Davidian headquarters.

Danforth’s primary concern about Waco, was not the tragedy there, but the prevalence of “conspiracy theories” and accusations against the government, or what he termed “the widespread and persistent public belief that the government engaged in bad acts at Waco.” Danforth cited as an example of this, a *Time* magazine poll in August 1999, showing that 61% of the public believed that Federal law enforcement officials started the fire at Waco.

“This is a matter of grave concern,” Danforth wrote. “The readiness of so many of us to accept as true the dark theories about government actions at Waco deserves serious attention by all of us.”

Danforth’s approach is reminiscent of the infamous Warren Commission created after the assassination of President John F. Kennedy in 1963: It is well established that the primary purpose of the Warren Commission was to confirm the “lone assassin” theory, and to officially debunk any allegations of a wider conspiracy.

Narrow Mandate

In his preface to the report, Danforth said that the charges against the Federal government that he was investigating were: “that its agents deliberately set fire to a building full of people, that they pinned children in the burning building with gunfire, that they illegally employed the Armed Forces in these actions, and that they then lied about their conduct.”

Danforth explicitly said he was *not* addressing the issue of whether it had been appropriate for the Bureau of Alcohol, Tobacco and Firearms to execute a raid on Feb. 28, 1993, or for the FBI “to execute its gas insertion plan on April 19, 1993.” These were questions of judgment, Danforth said—thus excluding the most crucial area of investigation from his probe. “These issues are an evaluation of judg-

ment,” Danforth said, “an evaluation that is outside the scope of the Attorney General’s mandate.”

Even if it were the case that David Koresh and his associates started the fire, there is substantial evidence that the FBI had strong reason to believe that any assault on the Davidian compound would be seen by Koresh as fulfilling his apocalyptic prophecies, and that precipitating a confrontation, rather than waiting it out, would likely end in a fiery holocaust and multiple deaths.

But, from his deliberately narrowed standpoint, Danforth states that he concluded the following: “Government agents did not start or spread the tragic fire on April 19, 1993, they did not direct gunfire at the Branch Davidians, and did not unlawfully employ the Armed Forces of the United States.”

Danforth’s only criticism of the government was its withholding of information, such as that pyrotechnic devices were used—although Danforth stressed that these devices had nothing to do with starting the fire which engulfed the compound and killed most of its inhabitants.

In contrast to earlier hearings in which Senate Republicans lambasted Attorney General Janet Reno for the Waco deaths, Danforth was greeted with lavish praise when he appeared before a Senate Judiciary subcommittee hearing on July 26, chaired by Sen. Arlen Specter (R-Pa.). Even Sen. Charles Grassley (R-Iowa), who has been a persistent (and well-informed) critic of the FBI and the Justice Department, lauded Danforth’s investigation as going “a long way toward restoring the public’s confidence.”

What About the Justice Department?

Three days after Danforth issued his interim report, it was revealed for the first time that President Clinton himself had had strong disagreements with the FBI plan to launch an assault on the Branch Davidians, and that he had felt pressured by the Justice Department to go along with their operation. “I gave in to the people in the Justice Department who were pleading to go in early,” Clinton told DOJ investigators last April, adding: “I made a terrible mistake.”

The President’s declaration touches on the most critical issue relating to Waco, which is how top Justice Department officials, such as Mark Richard, the number-two career pros-

ecutor in the Criminal Division, put unbearable pressure on Attorney General Reno, and then on President Clinton himself, to approve their assault plan. The FBI used their approval as a pretext to deviate from the plan, which called for a phased, gradually escalated assault over a period of two or three days—not over a few hours, as was actually done.

The Justice Department's own internal report on Waco, documented that Richard, a Deputy Assistant Attorney General in the Criminal Division, played the crucial role as the go-between from the FBI to Reno. Richard, aided by other FBI and DOJ officials, pressured Reno to approve the plan to assault the compound, after she had initially refused to okay it. (When she first declined the FBI's entreaties, Richard declared: "The FBI will not be pleased.")

Reno finally agreed, with the proviso that the assault would be a phased, gradual, step-by-step escalation lasting two to three days, to give those inside a chance to come out. After she submitted to the pressure from Richard and the FBI, she then briefed President Clinton, stressing to Clinton that April 19 would *not* be "D-Day," i.e., a sudden, one-day operation—which is, of course, exactly what the FBI did do, by using armored vehicles to break into the compound and insert gas within a matter of a couple of hours of the launching of the assault.

Nobody Held Responsible

Former U.S. Attorney General Ramsey Clark, who represents some Davidian survivors, said Danforth "failed to look at what really happened. He doesn't focus on the obvious." Clark, quoted in the *Los Angeles Times*, said, "History will record . . . these assaults on the Mount Carmel church center remain the greatest domestic law enforcement tragedy in the history of the United States."

Attorney Dick DeGuerin, who represented Davidian leader David Koresh during the 1993 siege, says the Danforth report fails to hold anyone responsible for the bad decisions made by the government. "It's clear those were bad decisions, and nobody has been held responsible for them," DeGuerin told UPI.

DeGuerin, who visited Koresh five times inside the besieged compound, says that he believes Koresh would have eventually surrendered. "There were 80 other people in there, and they are all dead," the attorney said. "You can't justify sending tanks and tear gas into their homes when there was no arrest warrant for them. . . . You can't blame all those people for the sins of David Koresh."

DeGuerin added that he thinks that the FBI's action pushed Koresh into a corner. "I think that Koresh, and a few others, if they started the fire, were driven to do it by that action, and the FBI had reason to believe that was what the result would be, and yet they went ahead with that plan."

Patrick Caddell, the lead attorney for the Davidian plaintiffs in the civil case, said: "We had received indications from Danforth's office that they intended to toe the govern-

ment's line on every issue." One of the things he found most troubling, Caddell said, was Danforth's assertion that the FBI's commanders at Waco did not violate the plan approved in Washington, when the FBI sent in tanks to dismantle the Davidian headquarters on the first day of the siege.

Another 'Waco': the LaRouche case

Lest anyone doubt that the Justice Department's permanent bureaucracy is capable of directing such a bloodbath, one should recall another incident—which has never received Congressional scrutiny or any official investigation, by a special counsel or otherwise. That is the Justice Department-directed raid against facilities associated with *EIR* Founder Lyndon LaRouche, in Leesburg, Virginia on Oct. 6-7, 1986. According to admissions by agents of the Justice Department's task force, run out of the Criminal Division by Richard, Jack Keeney, and others in the permanent bureaucracy, this was intended to culminate in a Waco-style assault on the farm where LaRouche was residing, with the intention of killing LaRouche and others.

The Leesburg operation involved a force of more than 400 Federal, state, and local officers, and was conducted in coordination with Pentagon special operations support units, and included paramilitary units and the FBI's Hostage Rescue Team waiting for the orders to launch the assault—orders which never came, only because higher authorities in Washington went over the heads of the strike-force commanders and the Justice Department's Criminal Division.

It is no accident that Danforth's investigation, as has every other investigation of Justice Department misconduct, has left the DOJ permanent bureaucracy, which is centered in the Criminal Division, unscathed. That nest of corruption is centered around its senior member, Deputy Assistant Attorney General John Keeney, who started his career in the Department in 1951, working in the McCarthyite Internal Security Section as an ally of J. Edgar Hoover. Keeney, along with Richard and a handful of other long-term career prosecutors, in fact runs the Criminal Division and the Justice Department, no matter what political appointees are nominally in charge. Until Congress gets up the courage to take this apparatus on—which of necessity involves taking up the LaRouche case—we will continue to see cover-up after cover-up, of which the Danforth report is only the latest.

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'Black Like Me'? The Strange Saga of J. Edgar Hoover

by Edward Spannaus

J. Edgar Hoover, the director of the Federal Bureau of Investigation from 1924 to 1972, was notorious for his targeting of black leaders, whether in civil rights, elected officials, or other areas such as black newspaper publishers, or the singer Paul Robeson. Newly discovered evidence now sheds more light on Hoover's legendary fear and hatred of African-Americans, suggesting that this may have been a form of *self*-hatred on Hoover's part.

As we will show, rumors that J. Edgar was partially black were commonplace in Washington, D.C. during Hoover's reign, and were well known to associates of Hoover—and even to Hoover himself. But a new book shows that stories that Hoover was “passing for white” were also being passed down from generation to generation a thousand miles away, through a former slave family, once owned by another Hoover family, in the area of McComb, Mississippi.

We present here some preliminary findings, of an ongoing historical investigation.

Operation Fruehmenschen

In 1988, Rep. Mervyn Dymally (D-Calif.) placed before the House of Representatives a sworn affidavit from a Special Agent of the FBI, Hirsch Friedman, exposing an FBI program called “Operation Fruehmenschen” (German for “primitive man”). Friedman's affidavit declared:

“The purpose of this policy was the routine investigation without probable cause of prominent elected and appointed black officials in major U.S. metropolitan areas. It was explained to me that the basis for this Fruehmenschen policy

was the assumption by the FBI that black officials were intellectually and socially incapable of governing major governmental organizations and institutions.”

In Ad Hoc Democratic Platform Hearings, held in Washington, D.C. on June 22, former Tennessee judge and legislator Ira Murphy testified about Operation Fruehmenschen, which he has studied extensively. Judge Murphy said that the operation began under Richard Nixon and J. Edgar Hoover, and it has continued since that time. Judge Murphy said that more than 300 black and minority officials have been investigated by the FBI and the Justice Department.

Hoover's obsession about blacks was well known. In 1956, in the wake of the Supreme Court's school desegregation decisions, Hoover fought with Attorney General Herbert Brownell, Jr. over Brownell's proposals for new civil rights laws and enforcement provisions. Hoover declared that “the specter of racial intermarriage” was behind the tensions over “mixed schooling,” and he attacked the National Association for the Advancement of Colored People and other civil rights organizations, while praising the White Citizens Councils in the South. It was also in 1956 that Hoover launched the FBI's Cointelpro (Counter-Intelligence Program) which targeted civil rights groups and leaders among others. (See Curt Gentry, *J. Edgar Hoover: The Man and the Secrets* [New York: Norton, 1991].)

And as early as 1957, Hoover ordered his agents to monitor Dr. Martin Luther King, Jr. and King's Southern Christian Leadership Conference, when the SCLC began a campaign to register eligible black voters in the South. By the beginning



Left: Dr. Martin Luther King was a subject of Hoover's obsessive hatred, with efforts to “neutralize” King including an effort to drive King to suicide, and involvement in joint FBI-Military Intelligence programs which played an important role in the events leading to the assassination of King on April 4, 1968. Right: former U.S. Rep. Mervyn Dymally exposed the FBI's Operation Fruehmenschen, which targeted black elected officials for investigation and prosecution. He demanded that Congress open hearings into the FBI and Justice Department program, which it has never done.





This photograph is identified in almost every biography of Hoover as young John Edgar with his parents, but the presumably-authoritative caption in the J. Edgar Hoover Room of the Scottish Rite Masonic Temple in Washington, D.C. identifies the young child as Hoover's older brother Dickerson. This is one of many mysteries concerning J. Edgar's birth and early childhood.

of the 1960s, the FBI was routinely carrying out illegal break-ins of SCLC offices, and wiretapping King.

Hoover's obsession with destroying King—or, in Bureau-speak, “neutralizing” him—became notorious. Thus it was no surprise that jubilant cries of “They got the SOB!” reverberated through the Atlanta FBI office when the news first came over the radio that Dr. King had been shot in Memphis on April 4, 1968 (Gentry, p. 606). One former FBI agent recalled another agent shouting “We finally got the son of a bitch!” (See Anthony Summers, *Official and Confidential: the Secret Life of J. Edgar Hoover* [New York: Putnam, 1993], p. 364.)

It is of note that on March 4, 1968, FBI Headquarters issued a memorandum expanding its Cointelpro activities against “Black Nationalist—Hate Groups” and warning that Dr. King, among others, could emerge as a “‘messiah’ who could unify and electrify the black nationalist movement.” The memorandum called for the use of “imaginative” techniques, and required a report on accomplishments within 30 days. On April 4, Dr. King was assassinated. Hoover's cooperation with military intelligence units conducting surveil-



J. Edgar Hoover, director of the FBI from 1924 to 1972. There was always widespread belief among black Americans—especially in Washington, D.C.—that Hoover was partly black, and such rumors were also prevalent within the FBI itself.

lance and more deadly operations against King has been established. (See William Pepper, *Orders to Kill: The Truth Behind the Murder of Martin Luther King, Jr.* [New York: Warner, 1998].)

What Did Washington and Mississippi Know?

Rumors of J. Edgar Hoover's black ancestry were widespread during his reign, both inside and outside of the Bureau. Hoover in fact deployed his agents to track down rumors of his racial origins, just as he did regarding rumors of his homosexuality.

Author Anthony Summers, in his 1993 book *Official and Confidential*, cites two examples. A *New York Post* reporter, researching J. Edgar Hoover, found that blacks referred to Hoover as “some kind of spook” and even “soul brother,” and came to realize that in black communities in the East, it was generally believed that Edgar had black roots (Summers, pp. 349-350).

Summers also interviewed writer Gore Vidal, who grew up in Washington, D.C. in the 1930s. “Hoover was becoming famous,” Vidal told Summers, “and it was always said of him—in my family and around the city—that he was mulatto. People said he came from a family that had ‘passed.’ . . . That's what was always said about Hoover.”

In the late 1950s, a young black girl in Mississippi came home from school and asked her grandfather about J. Edgar Hoover, whom her history class had been studying. The increasingly frightened young girl was told that, yes, J. Edgar was related to her family, and that he was passing for white. “This is a family secret,” the girl was told. Her grandfather went on to tell her that Hoover had a lot of power, that Hoover was the grandfather's second cousin, and the youngster was warned not to ever tell anyone this, because Hoover could

have them all killed. “He doesn’t want the secret out, and he is a powerful man!” the trembling young girl was told.

When the young girl asked if there wouldn’t be records, such as a birth certificate, which would show him to be related to the family of former slaves, her grandfather told her: “J. Edgar Hoover has a lot of power. He can destroy files, and he’s already done it.”

The young girl was Mildred McGhee, whose family lived in Pike County, Mississippi, on the site of the former plantation of a Hoover family. According to her account, a mixture of the family’s oral history and reconstructed memories, the Washington Hoovers, a mixture of black and white, were related to the Mississippi Hoovers. The part of the family’s oral history which was very specific, and oft repeated, was that she and her family are descended from the union of a slave woman and the slave woman’s master, which resulted in the birth of a daughter in 1814 in Virginia, who was named Elizabeth Allan.

Elizabeth, according to the oral history, was taken to Maryland by a Hoover man. Her first born was Emily, very light-skinned, who was taken away from her to Mississippi, where she became the mistress of a plantation owner William Hoover, and bore many children by him. Meanwhile, according to the oral tradition, Elizabeth, still in the Maryland/D.C. area, married a William Hoover, and passed for white, and had seven children.

Millie had heard rumors that J. Edgar himself was not the son of Dickerson N. Hoover of Washington, as is officially reported, but that he was born in the South, probably New Orleans, and then taken to Washington, D.C. at a very young age, and raised there by the Hoover family.

In November 1998, Millie McGhee, by now an educator in California, retained a genealogist, George Ott of Heritage Consulting in Salt Lake City, Utah, to assist her in attempting to document her family history, and to see if there were any links to J. Edgar Hoover. Through his research, Ott found that many aspects of Millie’s story bore a remarkable correspondence to the documentary record.

This spring, McGhee published her recollections and her preliminary findings in a book entitled *Secrets Uncovered: J. Edgar Hoover—Passing for White?* (Rancho Cucamonga, Calif.: Allen-Morris, 2000). The book contains a fictionalized version of the family history along with the results of the first phases of genealogical research. A second, revised edition will be published in August.

Ott, the genealogist, found that some records coincided quite well with Millie’s oral history. For example, the 1860 census for Washington, D.C. shows a William Hoover, born 1804 in Maryland, married to Elizabeth A., born 1814 in Virginia. They have seven children, including a son John T. Hoover who who has a child named Dickerson N. Hoover (the father of J. Edgar Hoover).

In subsequent research, conducted since the publication of the first edition of McGhee’s book, Ott has found some

census records for Mississippi that also correspond to the family oral tradition regarding “Emily,” and he has recently found records which appear to link the Maryland and the Mississippi Hoover families. Ott also found strange—and highly unusual—alterations and erasures in some of the census records pertaining to other Hoovers in Washington.

Who Was J. Edgar?

This writer has confirmed that there are substantial discrepancies and oddities concerning J. Edgar Hoover’s early biography. McGhee and Ott located the birth records index for Washington, D.C. for 1895, in which J. Edgar Hoover’s name was obviously added later than the other entries. Not only is it in different handwriting, but the format is different: The other entries give only the parents’ names; Edgar’s entry adds not only the child’s name, but that he was male, white, and the date of birth.

This writer obtained a copy of Edgar’s actual birth certificate, which was not filed until 1938. Edgar’s own family history, written when he was 17, says that he was born Jan. 1, 1895, at home, with a doctor in attendance. It was legally required to report a birth, but if the doctor was present, he failed to do so. The verification of birth is provided by an affidavit by Edgar’s older brother Dickerson, himself a U.S. government official; it does not mention a doctor being present.

Hoover was baptized when he was 13, under the tutelage of his brother Dickerson, who took him from one church to another, looking for the most prestigious congregation. His birth certificate, obtained by *EIR*, shows the date of birth to be June 1, 1895, not January.

There is also the issue of photographs. The most famous photograph of J. Edgar as a young child is the oval “family photograph,” published in most biographies of Hoover. However, around 1989, the curators of the exhibit in the J. Edgar Hoover Room at the Scottish Rite Masonic Temple in Washington changed the identification of the child to Edgar’s brother Dickerson, not Edgar, and it is now so identified in the exhibit in the Hoover Room.

So far, there is no “smoking gun,” so to speak, and there may never be, given Hoover’s known penchant for altering historical records concerning himself, even those in the National Archives (Gentry, pp. 389-390).

But taken together with the prevalent rumors in Washington, and the oral history of Millie McGhee’s Mississippi family, the discrepancies in Hoover’s own documentary history suggest that Hoover was hiding something.

McGhee herself says her book is not intended as an exposé of J. Edgar Hoover, and indeed, she says she never wanted to be related to him. “I don’t want him to be related to me,” she says, but she adds that, since it now seems that he was, “I want to be the one to erase the hate.”

Eradicating the legacy of J. Edgar Hoover in the FBI and the Justice Department, would be a good place to start.

House Votes To Loosen Cuba Trade Sanctions

Supporters of efforts to repeal the U.S. trade embargo against Cuba gained ground on July 20, when the House, in separate votes, acted to allow the sales of food and medicine, and to weaken travel restrictions. The vehicle this time, was the Treasury, Postal Service and General Government appropriations bill, and the language was changed to conform more to the budget language of the appropriations bill. Instead of specific language authorizing selective lifting of the sanctions, as was attempted with the Agriculture appropriations bill, this time, the language used prohibits the spending of funds for the enforcement of specific provisions of the sanctions with regard to Cuba. As Robert Menendez (D-N.J.) repeatedly pointed out, the law, as it stands, is not changed by the amendments.

The first amendment, sponsored by Jerry Moran (R-Kan.), prohibits the enforcement of sanctions on agricultural products and medicines. The second, sponsored by Mark Sanford (R-S.C.), prohibits the enforcement of restrictions on travel to Cuba by Americans. Charles Stenholm (D-Tex.) argued that the nearly 40-year unilateral embargo has not worked and is only hurting U.S. producers, because the rest of the world is selling to Cuba. Sanford admitted that the Helms-Burton law, which imposes secondary boycotts against foreign companies doing business in Cuba, has not worked. Instead, he argued that supporters of normal trade relations with China ought to take the same approach toward Cuba, since Cuba is no longer regarded as a military threat to the United States.

Opponents, led by Menendez, Lincoln Diaz-Balart (R-Fla.), and Ileana Ros-Lehtinen (R-Fla.), argued that the amendments would make law enforcement impossible with respect to the

sanctions, and that easing the restrictions would aid Cuban President Fidel Castro's regime. However, the vote on Moran's amendment was 301-116, and on Sanford's amendment, 232-186.

Agriculture Spending Bill Passes Senate

On July 20, the Senate completed action on its version of the Fiscal Year 2001 Department of Agriculture appropriations bill, passing the bill by a vote of 79-13 after three days of work on it. The bill includes \$2 billion in emergency assistance for agricultural producers, about \$900 million of which was added in while the bill was on the Senate floor.

The additional emergency assistance, for recovery from natural disasters and low commodity prices, did not come without complaint, however. Banking Committee Chairman Phil Gramm (R-Tex.), after agreeing to a motion to prohibit the consideration of further emergency funding beyond what was already approved in the bill, admitted that there were legitimate emergencies, but that the \$16.6 billion provided for agricultural emergencies over the last two years "strengthens the ability of those who want to draw the line and say that enough is enough." Budget Committee Chairman Pete Domenici (R-N.M.) added that, at some point, adding emergency funding to the bill "has to kind of end." Kent Conrad (D-N.D.) replied, "The reason we have had to have substantial emergency spending is because of the failure of the last farm bill." Byron Dorgan (D-N.D.) said, that when "people are flat on their backs from causes they could not control," the Federal government ought to step in and help.

Republicans have responded to the farm crisis with the "Rural American

Prosperity Act," a bill introduced on July 19 by Senate Agriculture Committee Chairman Richard Lugar (R-Ind.) and a gaggle of House Republicans. Instead of admitting that the 1996 "Freedom to Farm" bill has failed, the GOP takes the approach that what farmers need, instead of stable parity commodity prices, is tax cuts, regulatory relief, and "risk management tools." Lugar declared that these measures will increase the farmer's return on capital and therefore "make very possible the continuation of family farms in America."

Partisan Wrangling over Tax Cuts Continues

On July 21, the Senate, on a vote of 60-39, sent to the White House a bill to cut the so-called marriage penalty tax. President Clinton had denounced the bill on July 18 as "part of an irresponsible, poorly targeted, and regressive tax plan." Clinton added, that if the GOP succeeds, "more benefits will go to the top 1% of taxpayers than to the bottom 80% of all Americans." However, he offered to sign the bill if Congress passes the President's Medicare prescription drug benefit plan. The GOP's response to Clinton's offer, was to call it fiscally irresponsible.

Underlying this back and forth is a battle over what to do with the budget surplus being projected by the Congressional Budget Office. The latest projections put the surplus at \$4.2 trillion over the next ten years. The Republicans have responded by passing tax cut after tax cut, while the Democrats are calling for that money to be used for prescription drug benefits, school construction, and other programs. Presidential politics is also a factor, because the Republicans are reportedly hoping that the President will veto their tax cuts before the national party conventions.

National News

How Big a Hole in the Texas Budget?

An internal memo of the Texas Department of Health, written in May, surfaced in July and indicated that the state's shortfall in the Medicaid program could be as high as \$633 million by August 2001, a figure double the previously forecast deficit, according to the *Houston Chronicle* on July 18. The issue has become a political football between Texas Gov. George W. Bush and Vice President Al Gore.

The state comptroller, Republican Carol Keeton Rylander, released a statement saying that the state will finish this financial year with a \$1.1 billion surplus, which is more than enough to cover the cost overruns in Medicaid and other state programs. But some Democrats, with the urging of the Gore campaign, are calling for an audit of the state books. Sen. Mario Gallegos held a press conference by phone, arranged by the Gore campaign, on the issue.

The major cause of both the originally projected \$610 million overrun, and now the possibility that the figures are higher than that by 50% or more, comes from increasing medical costs, particularly pharmaceuticals, according to medical reports.

'Little Rock Judge Endorses Stealing'

The theft by the Gore campaign of more than 53,000 votes cast for Presidential pre-candidate Lyndon H. LaRouche, Jr. in the May 23 Arkansas Democratic Party primary, was prominently covered under the headline "Little Rock Judge Endorses Stealing," in the July 15 issue of *The Voice*, a monthly newspaper in Russellville, Arkansas.

Author Sara Summers reports:

"On Friday, June 23, Pulaski County Circuit Judge John Ward ruled in favor of the Democratic Party, awarding seven LaRouche-entitled delegates to Al Gore. This ruling ignores Arkansas Election Code

7-8-20, which states that delegates to the national nominating conventions of the political parties, 'shall be apportioned according to the votes for each candidate' on a percentage basis rather than winner take all. Judge Ward's order states, 'The Democratic Party's decision about who can be nominated as delegates and even who can be considered a Democrat are clothed in First Amendment protection.' There are 53,280 registered voters in Arkansas who want to know where in the First Amendment Judge Ward found that the Democratic Party's rights override those of the voters! . . .

"Votes for LaRouche were actually 17,000 more than those cast for Republican frontrunner, George W. Bush. The vote count reflected the undeniable voice of the people clearly supporting LaRouche. Yet, in an unbelievable turn of events, LaRouche was notified by Arkansas Democratic Party Chairman Vaughn McQuary, pursuant to orders from Democratic National Committee Chairman Joe Andrew, that the seven delegates voters had given LaRouche, would not be allowed to participate in the state Democratic Convention. In fact, in defiance of over 53,000 voters, those seven delegates were awarded to Al Gore! Shortly after this notification, the 'Gore 2000 Delegate Count' on Gore's website listed 45 Arkansas delegates as having been taken by Gore. . . .

"LaRouche's national spokesperson, Debra Hanania Freeman, said, 'DNC Chairman Joe Andrew, and a small group of Gore henchman, based at DNC headquarters in Washington, D.C., have, from the very beginning of this campaign, been determined to silence anything or anyone that posed a potential challenge to Al Gore's pre-anointed status as the Democratic Presidential nominee, despite a growing recognition that Gore is simply unelectable.' Freeman further stated that, 'to that end, Mr. Andrew has shown himself to be a liar and a racist. Now, in Arkansas, in a blatantly illegal action, he has robbed over 50,000 Democratic voters of their most sacred right as Americans. . . .'

"LaRouche has called for Joe Andrew to step down to prevent the Democratic Party from 'losing the Presidency' as well as 'receiving a crushing defeat in Congress.'

"There are a lot of 'claims' on both sides here, folks. But the bottom line is that over 53,000 Arkansans' votes have been stolen through the 'Democratic' legal system. An individual's right to vote, regardless of how uninformed that voter might be, is guaranteed in the U.S. Constitution. No 'elite' group, no matter how infomed they might be, has the right to steal. Yet that is exactly what has occurred, an action endorsed by the decision of Judge John Ward, a Clinton appointee.

"One final thought: Why aren't the Republicans up in voice over this matter?"

U.S. Labs Are Losing Asian-American Experts

Over the past year, since charges of nuclear spying for China were leveled at Los Alamos computer scientist Wen Ho Lee, Asian-American scientists have left the nation's three weapons labs, and many fewer than usual are applying for jobs, according to July 16 press reports. Two Asian-American organizations have called for a boycott of the labs, due to accusations of racial profiling by lab management, the removal of foreign scientists' security clearances, harassment, and the lack of promotions.

Testifying before a hearing of the House Armed Services Committee, Rep. Ellen Tauscher (D-Calif.) stated that there is "the sense that Asian-Americans are targeted or scapegoated as potentially coming to work at the labs because they can spy." Dr. Jonathan Medalia, at the Congressional Research Service, who authored a recent study on the national labs, told the *New York Times* that the labs are "falling apart." He said that the loss of talent in computer science could threaten the country's ability to ensure the safety and reliability of its nuclear weapons.

The National Science Foundation has warned that "heightened security concerns" were hindering efforts to recruit and retain Asian and Asian-American scientists at the labs, and the effect is more far-reaching, because more than one-quarter of all Ph.D.s awarded in science and technology in U.S.

universities each year are to Asians and Asian-Americans.

Space News reported on an incident which demonstrates how far this “anti-foreigner” hysteria has reached, and the impact it is having on scientific research. At a meeting of the committee considering designs for the Next Generation Space Telescope, which will replace the Hubble Space Telescope in the future, scientists, including the chairman of the committee, who works for a science institute in Germany, were asked to leave the room. The NASA managers were afraid that sharing some of the information on the satellite design could violate the terms of the International Traffic in Arms Regulations rules.

California Report Hits Moskowitz-Israel Scam

The Joint Legislative Audit Committee of the California legislature, chaired by Assemblyman Scot Wildman (D-Los Angeles), has issued a 149-page report alleging that casino owner Irving Moskowitz, who is based in Florida, received \$4 million in public funds to build a casino in Hawaiian Gardens. Moskowitz has used the proceeds from the casino to fund right-wing settlers in Israel—including those committed to blowing up the Al Aqsa Mosque—to sabotage the peace process.

Hawaiian Gardens is a small enclave of 15,000 residents located within the city of Los Angeles. It has been the center of controversy since Moskowitz took it over, as a base for a Bingo Club, which he has used to launder more than \$30 million to Israeli-based extremists since 1992. When he came under attack from city officials who allied themselves with supporters of Lyndon LaRouche to drive him out, he used thug tactics against the officials, as well as millions of dollars which he gave to the city, to take over the enclave. After his opponents were driven out, the city, now under the control of a clique of Moskowitz supporters, gave \$4 million of public “redevelopment” funds, to build the project, which housed a new card club.

Wildman’s report states that, in addition to the \$4 million which paid for sidewalks and sewer lines, another \$8 million is slated to go to the project to pay for legal fees and lawsuits which resulted from relocation of businesses which previously occupied the site.

The report was forwarded to California Attorney General Bill Lockyer, for consideration of legal action against Moskowitz. It was also sent to Harlan Goods, the Director of Gambling Controls.

Moskowitz funds the American Friends of Ateret Cohanim, the National Council of Young Israel, the Zionist Organization of America, Pro Israel, the Center for Security Policy, and Americans for a Safe Israel. For background, see “Terrorist Funder Moskowitz Threatens Middle East Peace,” *EIR*, Sept. 5, 1997.

Students ‘Learn’ Civics by Pushing Marijuana

To graduate from high school in Maryland’s Montgomery County, in the Washington, D.C. suburbs, students are required to complete 60 hours of community service, in programs approved by the county public school system. According to the July 5 issue of the *Gazette Community News*, a local newspaper, two recent graduates from Walter Johnson High School in wealthy Bethesda filled their “Student Service Learning” requirements by working at the Washington-based Marijuana Policy Project, which advocates legalization of pot.

Scarlett Swerdlow, one of the students who worked at the pot project, told the paper, “The war on marijuana has caused so much harm.”

Montgomery County Public Schools spokeswoman Kate Harrison confirmed that the Marijuana Policy Project met “the guidelines,” and so it was placed on the approved list of civic programs. A source in the White House Drug Office confirmed that they are aware of the matter and are incensed at the idea of the school allowing seniors to participate in the pro-dope effort.

THE EXPORT-IMPORT Bank has announced a pilot project to finance \$1 billion a year in exports to countries of Sub-Saharan Africa, of anti-retroviral drugs to combat HIV/AIDS. Whereas the retail price for an anti-retroviral “cocktail” is \$10-15,000 per year per patient, the pharmaceutical cartels are offering them discounted to \$1-2,000 per patient per year.

PRESIDENT CLINTON, in visiting the Peace Memorial at Itoman, Okinawa, Japan on July 20, became the first American President ever to visit a war memorial in Japan. His speech noted the huge number of casualties on both sides of that World War II battle, and added that we should “honor what must have been their last wish—that no future generation would be forced to share their experience or repeat their sacrifice.” Okinawa Governor Inamine told Clinton that he was “deeply grateful from the bottom of my heart.”

SISTER HELEN PREJEAN is the frontrunner for the Nobel Peace Prize, according to the Death Penalty Information Center. Sister Helen, author of *Dead Man Walking*, is spearheading Moratorium 2000, an international movement against the death penalty.

RUSSIAN DUMA members from President Putin’s Unity faction will attend the Republican Party convention in Philadelphia. The visit is being arranged by Rep. Curt Weldon (R-Pa.), who heads a joint U.S. Congress-Russian Duma commission. Democratic Party officials told AP that they were unaware of any plans for Russians to attend the Democratic convention in Los Angeles.

HEPATITIS C is rampant in U.S. prisons, former Surgeon General C. Everett Koop testified recently. About 40% of all prisoners in the United States are infected with the virus, he said, but in some prisons, “the rate of infection has reached 80%—virtually saturation level.”

The LaRouche Experiment

Lyndon LaRouche's short paper, "Trade Without Currency," in this issue of *EIR*, makes it apparent again that LaRouche has secured the responsibility of providing the concepts needed by leaders world-wide, whether they are inside or outside of governments, who now know that they must rescue their populations from the coming, inevitable shipwreck of the "IMF" world financial system.

LaRouche has earned his place in this hot-seat by his scientific authority and his unflagging morality—along with a proselytizing zeal like that of Socrates in Plato's *Gorgias* dialogue. But to most Americans, and indeed to most of our readers of whatever nationality, the process by which LaRouche has won this unique distinction, is so paradoxical as to be incomprehensible.

For one thing, LaRouche never had any money, and has none today.

No university economics department ever certified his authority—rather, they united to pretend he never existed, after LaRouche trounced Queens College economics professor Abba Lerner in a 1971 debate. A furious Lerner told an associate afterwards that LaRouche would never be permitted to debate any notable academic economist again, and so it has remained to this day.

No establishment picked him up and sponsored him. Instead, he was simultaneously the number-one hate-object of the Soviet media during the late 1980s and 1990s, while at the very same time, he was subject to a massive defamation campaign in the controlled U.S. media—a campaign which still continues to a great extent. An authoritative Sept. 24, 1976 *Washington Post* commentary by Stephen Rosenfeld, pontificated that "we," the press, have no obligation to cover anything LaRouche does or says, and that what "we" must do, is black out everything about him at all times, never mentioning his existence except to demonize him. That is still the rule for all major U.S. print and electronic media, whether "liberal" or "conservative."

The conventional wisdom would have it that LaRouche had to have been "in the right place at the right time," in order to have earned the position he has

today. And he has been in the right place at the right time, according to *his* lights—but not in the way most Americans would see it, because "the right place" included five years in Federal prison (1989-94). LaRouche and several associates were put there by an unprecedented Federal-state-private frameup, and by his own refusal to compromise his principles under that sort of pressure. Indeed, one his associates, the scholar Michael O. Billington, is still behind bars today.

It is relevant to this whole paradox, that the "clout" behind the LaRouche railroad and frameup was so great, that not a single Federal official, whether elected or appointed, had the nerve to speak out against this travesty of justice then—and not one has done so to the present date.

And yet, this man is now the adviser—unofficial, to be sure—to Presidents and other leaders, in a way and to a degree unprecedented during the Twentieth Century.

How is this possible? In the world inhabited by the American populist, to take one important example, it is not. In that fanciful world, "they" make everything happen by conspiracies acting behind the scenes. Systemic financial collapse, like that ongoing now, is excluded, because "they" would never let it happen. In that world, ideas count for nothing, especially ideas motivated by the desire (horrors!) to do good, whereas money counts for everything. In that world, public figures only achieve prominence by pandering to the powers that be. They are all nothing but prostitutes of one sort or another, the movie star in his or her way, the kept intellectual in a slightly different way.

Who is right? The populist can cite numerous actual and hypothetical occurrences to prove his point, but ultimately they amount to nothing, and he is driven back to platitudes about so-called "human nature." But the LaRouche case is a unique experiment, which has been going on on the world's stage, in virtually complete openness for decades. Wake up, you populist, and others who share similar delusions. You are not living in the world you imagine you are, and human nature—even your own human nature—is not what you insist it to be.

SEE LAROUCHE ON CABLE TV

All programs are *The LaRouche Connection* unless otherwise noted. (*) Call station for times.

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ALASKA

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ARIZONA

- PHOENIX—Ch.99
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• CHESHIRE—Ch.15
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- DELAWARE COUNTY
Adelphia Ch. 42
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- SALINA—CATV Ch.6
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- BATTLE CREEK
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Thursdays—6 pm
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Thursdays—6 pm
- GRAND RAPIDS
GRTV Ch. 25
Fridays—1:30 pm
- LAKE ORION
AT&T Ch. 65
Alt. Weeks: 5 pm
Mon., Wed., Fri.
- LANSING
AT&T Ch. 16
Tuesdays—4:30 pm
- PLYMOUTH—Ch.18
Thursdays—6 pm

MINNESOTA

- ANOKA—Ch. 15
Thu.—11 am, 5 pm,
12 Midnight
- COLD SPRING
U.S. Cable Ch. 3
Nightly after PSAs
- COLUMBIA HTS.
MediaOne Ch. 15
Wednesdays—8 pm
- DULUTH—Ch. 24
Thursdays—10 pm
- MINNEAP.—Ch.32
Wednesdays—8:30 pm
- NEW ULM—Ch. 12
Fridays—5 pm
- PROCTOR/
HERMANTOWN—Ch.12
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- ST. LOUIS PARK—Ch.33
Friday through Monday
3 pm, 11 pm, 7 am
- ST. PAUL—Ch. 33
Sundays—10 pm
- ST. PAUL (NE burbs)*
Suburban Community
Ch.15

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- JACKSON
T/W Ch. 11/18
Mondays—3:30 am
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T/W Ch. 34; RCN Ch.109
Alt. Sundays—9 am
- NASSAU—Ch. 71
Fridays—4 pm
- NIAGARA FALLS
Adelphia Ch. 24
Tuesdays—4 pm
- N. CHAUTAUQUA
Gateway Access Ch.12
Fridays—7:30 pm
- ONEIDA—T/W Ch.10
Thursdays—10 pm
- OSSINING—Ch.19/16
Wednesdays—3 pm
- PENFIELD—Ch.12
Penfield Community TV*
- POUGHKEEPSIE—Ch.28
1st, 2nd Fridays—4 pm
- QUEENS
QPTV Ch. 57
Mon., Jul 31: 2 pm
- QUEENSBURY—Ch.71
Thursdays—7 pm
- RIVERHEAD—Ch.27
Thursdays—12 Midnight
- ROCHESTER—Ch.15
Fri-11 pm; Sun-11 am
- ROCKLAND—Ch. 27
Wednesdays—4 pm
- SCHENECTADY—Ch.16
Tuesdays—10 pm
- STATEN ISL.—Ch.57
Thu.-11 pm; Sat.-8 am

NEBRASKA

- LINCOLN
Time Warner Ch. 80
Citizen Watchdog
Tue-7 pm; Wed-8 pm
- NEVADA
• CARSON CITY—Ch.10
Sun-2:30 pm; Wed-7 pm
Saturdays—3 pm

NEW JERSEY

- MONTVALE/MAHWAH
Time Warner Ch. 27
Wednesdays—4 pm
- NEW MEXICO
• ALBUQUERQUE
Jones Ch. 27
Thursdays—4 pm
- LOS ALAMOS
Adelphia Ch. 8
Sundays—7 pm
Mondays—9 pm
- TAOS
Adelphia Ch. 2
Mondays—7 pm

NEW YORK

- AMSTERDAM—Ch.16
Mondays—7 pm
- BROOKHAVEN
(E. Suffolk)
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Wednesdays—9:30 pm
- BROOKLYN—BCAT
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Cablevision Ch. 68
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- BUFFALO
Adelphia Ch. 18
Saturdays—2 pm
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OREGON

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Alt. Tuesdays
12 Noon, 7 pm
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Ch.23: Regional Area
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Mon-5 pm; Wed-10 am;
Sundays—10 am

RHODE ISLAND

- PROVIDENCE—Ch.18
Tuesdays—6:30 pm

TEXAS

- EL PASO—Ch.15
Wednesdays—5 pm

UTAH

- GLENWOOD, Etc.
SCAT-TV
Ch. 26,29,37,38,98
Sundays—about 9 pm

VIRGINIA

- ARLINGTON
ACT Ch. 33
Mondays—4:30 pm
Tuesdays—9 am
- CHESTERFIELD
Comcast Ch. 6
Tuesdays—5 pm
- FAIRFAX—Ch.10
Tuesdays—12 Noon
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- LOUDOUN—Ch. 59
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Thursdays—2 pm
- SALEM—Ch. 13
Thursdays—2 pm
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WPMG-TV Ch. 17
Adelphia Ch. 13
Saturdays—6 pm

WASHINGTON

- KING COUNTY
AT&T Ch. 29/77
Thursdays—3 pm
- SPOKANE—Ch.25
Wednesdays—6 pm
- TRI-CITIES
Falcon Ch. 13
Mon-Noon; Wed-6 pm
Thursdays—8:30 pm
- WHATCOM COUNTY
AT&T Ch. 10
Wednesdays—11 pm
- YAKIMA—Ch. 9
Sundays—4 pm

WISCONSIN

- KENOSHA—Ch.21
Mondays—1:30 pm
- MADISON—Ch.4
Tue-2 pm; Wed-8 am
- MARATHON COUNTY
Charter Ch. 10
Thursdays—9:30 pm;
Fridays—12 Noon
- OSHKOSH—Ch.10
Fridays—11:00 pm

WYOMING

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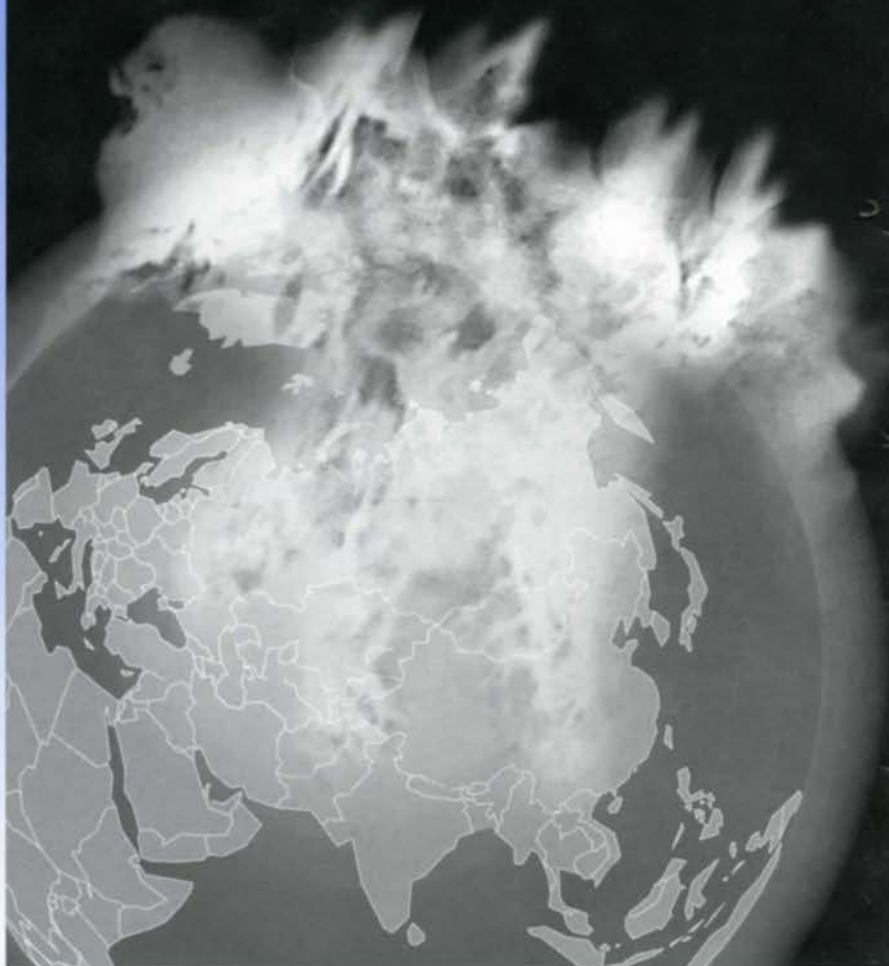
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