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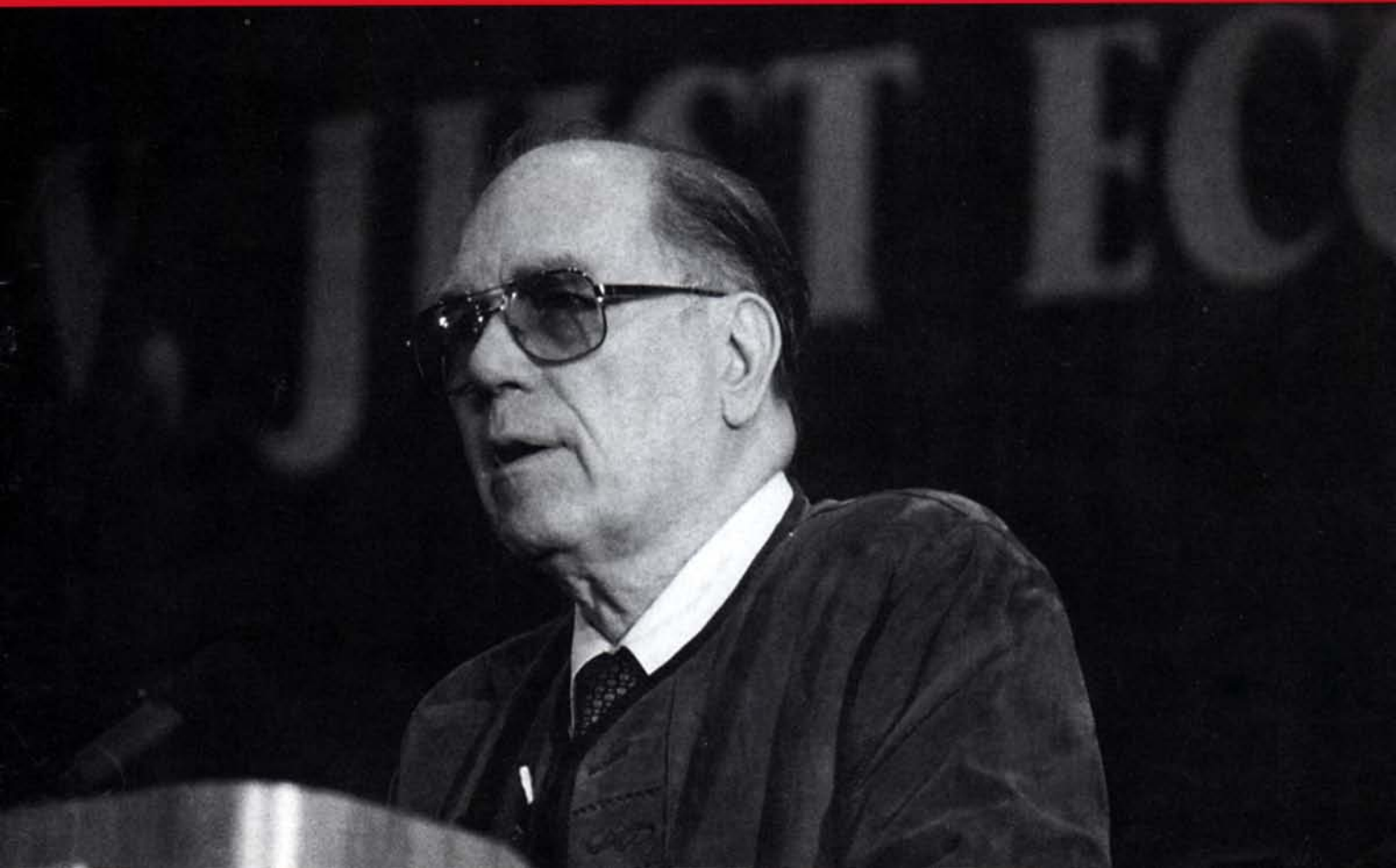
Executive Intelligence Review

June 5, 1998 Vol. 25 No. 23

\$10.00

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'Asian contagion' spreads**





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Available from:

**EIR News Service** P.O. Box 17390 Washington, D.C. 20041-0390

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*EIR (ISSN 0273-6314) is published weekly (51 issues) except for the second week of July, and the last week of December by EIR News Service Inc., 317 Pennsylvania Ave., S.E., 2nd Floor, Washington, DC 20003. (202) 544-7010. For subscriptions: (703) 777-9451. World Wide Web site: <http://www.larouchepub.com> e-mail: [eirns@larouchepub.com](mailto:eirns@larouchepub.com)*

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**In Mexico:** EIR, Río Tiber No. 87, 5o piso, Colonia Cuauhtémoc, México, DF, CP 06500. Tel: 208-3016 y 533-26-43.

**Japan subscription sales:** O.T.O. Research Corporation, Takeuchi Bldg., 1-34-12 Takatanobaba, Shinjuku-Ku, Tokyo 160. Tel: (03) 3208-7821.

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**Postmaster:** Send all address changes to EIR, P.O. Box 17390, Washington, D.C. 20041-0390.

## From the Associate Editor

It is hard to believe that nobody laughed, when International Monetary Fund Managing Director Michel Camdessus stood up in front of a press conference on May 27, and said, regarding events in Russia, “This is not a crisis.” Or, when Federal Reserve Chairman Alan Greenspan proclaimed that there is “a small but not negligible probability that the upset in East Asia could have unexpectedly large negative effects” on the rest of the world, including the United States. (We leave it to Mr. Greenspan to explain what a “small but not negligible probability” is.)

It looks like the world’s erstwhile movers and shakers are “losing it.”

This week’s *Economics Feature* develops a striking counterpoint between current explosive events on the financial front, and Lyndon LaRouche’s forecasts of what was going to occur. We discuss case studies from four countries—Japan, Russia, Indonesia, and South Korea—and provide a thumbnail sketch of two areas that *EIR* has covered at length on other occasions: the collapse of the physical economy, and the derivatives bubble.

Next to all the idiocy coming from Camdessus, Greenspan, and company, LaRouche’s record stands out like a beacon of sanity.

As the chorus of worldwide attacks on the IMF makes clear, there is a growing realization that current financial policies are utterly bankrupt. But, who will have the courage to join LaRouche’s call for a New Bretton Woods system, with fixed exchange rates among currencies, national banking principles to protect the productive economy, and great projects for development, centered around the Eurasian Land-Bridge? Who will dare to embrace the ideas of a man who has been so savagely attacked by the British oligarchy and their cohorts among the U.S. Anglophile establishment?

In the coming weeks, the LaRouche movement will sponsor a number of initiatives on these vital matters. First, we will be holding conferences on the New Bretton Woods, and a video is now in production, to provide people with the information they need to organize others. Second, we are mobilizing for LaRouche’s exoneration. See *National* for several articles on the campaign to get serious hearings in Congress on Justice Department misconduct, including especially the judicial railroad against LaRouche.

*Susan Welsh*

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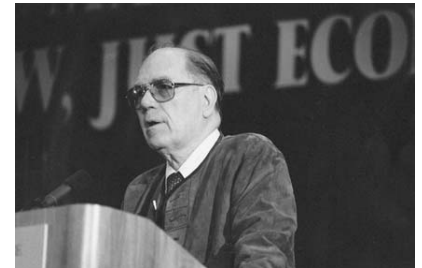
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## LaRouche was right again: 'Asian contagion' spreads

by William Engdahl

In the last two weeks of May, Asia's financial and economic crises have erupted anew with a global vengeance, creating shock waves in financial markets from Moscow to Istanbul to Johannesburg, across all major markets of the European Union, into the New York stock market. The latest events serve as an ominous reminder of warnings issued this past January by *EIR* founder Lyndon H. LaRouche, Jr. who warned, "If you think things are bad now, wait until March or April come around. It's going to be impossible."

Indicative of the new phase of the crisis are the following financial headlines from just May 28: "Yen Weakness Could Test China Resolve to Hold Yuan," "South African Share Prices in Grip of Bears," "Russia Triples Interest Rates to Control Economic Crisis," "Indonesian Banks Face Forex Time Bomb," "Major Stock Market Fall Amid Anxiety Over Asia."

Protest strikes by South Korean trade unions, against planned job losses and downsizing of the giant Korean *chaebol* industrial groups is credited with having triggered the latest round of global market panic selling. In two days, May 25 and 26, the Seoul KOSPI stock index plunged a total of 13%. It has fallen 45% over the past 30 days, and the won dropped another 7% in the week.

"The unravelling of Korea, despite their new law permitting foreign takeovers of Korean firms, sent real shocks through world markets," commented S.J. Lewis, a City of London financial strategist. "It kindled new fears that, if Korea now comes undone, the hopes of Asia finally calming down were wrong. Fund managers are giving the order to sell across the board in all risky markets. On top of that, we have the dramatic deterioration in Russia in recent days, with inter-

est rates being hiked to 150% in a desperate bid to save the ruble and keep foreign capital in the country."

According to Lewis, a next possible focus of market pressure could be the Hong Kong dollar, which until now has fiercely resisted breaking its 14-year peg to the U.S. dollar.

An influential City of London investment adviser, David Roche, has issued a client letter discussing an ongoing Chinese

domestic liquidity crisis which, he claims, will soon force devaluation of China's renminbi, forcing the Hong Kong dollar to devalue. "Roche is close to conservative circles in the City establishment and echoes former Hong Kong Governor Chris Patten on 'predicting' devaluation of the Chinese yuan," Lewis noted.

If China and Hong Kong devalue, given the unprecedented instability of currencies across Asia, according to Lewis and other informed financial market sources, "the situation globally would become a meltdown overnight."

### Japan in the center of the maelstrom

Making the situation even more fragile is the unresolved political paralysis within the establishment of the world's second largest industrial economy, and the world's largest creditor nation, Japan. After no more than a few days of illusory calm on Japanese stock and currency markets, the yen dropped sharply the week of May 25 to its lowest level since 1991, to 138 yen to the dollar. Fears are that a further fall in the yen, however it might improve Japanese export profits, would severely damage Korea's won and the fragile currencies across Asia. As well, further currency falls across Asia will put enormous pressure on China to break with the stable dollar peg and to devalue.

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### Feature

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The globalization of capital flows over the past seven years or so has made what began as an Asia crisis a year ago, into a global systemic crisis whose true dimensions, predicted by LaRouche, are beginning to emerge only now. The largest lenders to the collapsing Asian economies have been Japanese banks, desperate for high gains to cover catastrophic domestic bad loans believed to exceed \$1 trillion. In total, Japanese banks had lent \$253 billion across Asia, according to Bank for International Settlements data at the time the Asia crisis first erupted.

While Japanese officials go out of their way to issue calming statements about their Asian exposures, banking sources believe that little of that \$253 billion is now providing timely debt service to the Japanese banks; that is, technically, the loans are in default or close to it.

In Indonesia alone, Japanese banks are reported to have given some \$40 billion of the total \$78 billion in loans held by Indonesian companies. A report on the Indonesian banking system released at the end of May by Moody's Investors Service notes that "Indonesia is now faced with a broadly insolvent banking system." They estimate that fully "30% to 75% of bank loans are, or soon will be, non-performing." In the context of the collapse of the rupiah since last summer by almost 80% and huge flight of capital in the tens of billions, much said to be tied to the Suharto family and their close banking cronies, as well as the impact of disastrous demands from the International Monetary Fund (IMF) last November to close down 16 banks and contract the money supply, the banking system is simply out of money.

Moody's noted, "Illiquidity is so severe that most banks are unable to lend, and, in fact, many desperately need to collect outstanding loans in order to meet the demands of depositors and creditors to get their money back. Foreign currency availability is the biggest problem. Private banks simply have no foreign currency." On May 27, the Bank of Indonesia revealed that it had given emergency cash injections to prevent the collapse of nation's largest private bank, PT Bank Central Asia, a bank owned by Liem Sioe Liong, the country's wealthiest man, and two Suharto family members.

Japanese bank exposure to the damaged economies of the region complicate the crisis in Japan enormously. For this reason, on the same day, Moody's severely downgraded the credit rating of five of Japan's largest banks, two of the world's ten largest banks, including the giant Bank of Tokyo-Mitsubishi with \$720 billion in assets, and Dai-Ichi Kangyo Bank with almost \$500 billion in assets. Four of the five were previously considered Japan's "healthy" banks. Other banks are likely to follow. The action, they stated, "reflects concern that Japanese banks are facing a third wave of asset quality problems because of the weakening domestic economy, on top of the problems resulting from the East Asian crisis and the collapse of the bubble economy."

What Moody's did not say, is that to date, Japanese banks, and reportedly many European banks, have taken

alarming steps to conceal their Asia loan defaults. "The Bank of England and the Federal Reserve, and presumably the other central banks of the G-7, issued discreet orders last December," a well-placed London banker told *EIR*. "They told banks within their respective jurisdictions to maintain complete silence on any loan losses from Asia and to roll the loans over. Defaulted Asian loans were rolled from the fourth quarter of 1997 onto the first quarter of this year, now onto the second quarter."

According to this report, the European banks have adopted the model developed by Japanese banks over the past decade, to hide bad loans by using off-balance-sheet derivatives to roll over the loans, hoping for an economic miracle that never comes. According to Darrell Whitten of the Dutch ABN-Amro Bank, Japanese banks run "essentially two sets of books. They have been shuffling the bad loans around through different vehicles until no one is sure where they are buried." J.P. Morgan Bank's chief economist in Tokyo, Jesper Koll, estimates that "perhaps one-third of all corporations in Japan are being kept alive by the fact that bad loans are not being written off," but rather rolled over, reportedly using London branches of Japanese banks to hide this reality.

### A global yen?

One of the more bizarre policy options being debated inside Japan's Ministry of Finance and the Bank of Japan

## In this section

Our *Economics* section this week provides an in-depth report on the worldwide financial and economic crisis, with selected case studies showing how Lyndon LaRouche's forecasts have been borne out. William Engdahl's introduction focusses on the situation in Japan, and is accompanied by a selection of graphics that give a snapshot view of the Asian financial crisis. Then comes a selection of LaRouche's statements, including excerpts from his 1994 "Ninth Forecast." On p. 10 is a report on the explosive Russian situation, and LaRouche's interventions there going back to 1991. Next, come profiles of Indonesia and South Korea, with documentation of LaRouche's warnings and his growing influence. Then are brief overviews of the collapse of the physical economy and the global derivatives bubble—two areas where "the experts" have been consistently wrong, while LaRouche and *EIR* called the shots. We conclude the package with some choice quotes from international commentators—some of whom are beginning to see the light, and some of whom are still completely in the dark.

involves a number of steps designed to “internationalize” the yen. Japanese advocates of the bigger yen role argue that, with the introduction of Europe’s single currency, the euro, in several months, the world will be divided into two huge currency blocs—a dollar bloc and a euro bloc. On May 25, Japanese Finance Minister Hikaru Mitsunaga promoted the idea that Asian economies should increase holdings of yen reserves, to help create a regional alternative to the dollar. The ministry is considering removing a 15% withholding tax on non-residents having Japanese Government Bonds, to encourage foreigners to hold yen debt. “If the Japanese government does not act now,” argued C.H. Kwan of Japan’s Nomura Research Institute, “the yen will have a hard time competing and catching up with the dollar and the euro.”

The one fly in this ointment is the fact that prospects for the yen are gruesome into the far distant future, as things now stand. A classic case of Japan’s bureaucratic right hand not realizing what its left hand does, on April 1, the Ministry of Finance implemented a new law permitting Japanese to hold offshore non-yen investments without limit. With Japanese banks only able to offer depositors a miserly 0.3% interest, and interest on ten-year Japanese Government Bonds today at 1.21%, Japanese savings have begun a steady flow abroad, further weakening the yen.

“Capital outflow out of Japan has just begun,” commented Alex Balfour, manager of a London-based hedge fund, Furinkazan Fund, tied to the Greek Latsis family bank. “On April 1, Japan’s Big Bang deregulation opened the door. Already in April we saw more Japanese savings go into foreign assets than into domestic Japanese investment. With interest earnings in U.S. Treasuries close to 6%, and almost that in German bonds, Japanese savings will steadily leave Japan. Pressure on the yen will be immense, and I see a real danger of a snowballing into a capital flight crisis, which could trigger a meltdown at some stage.”

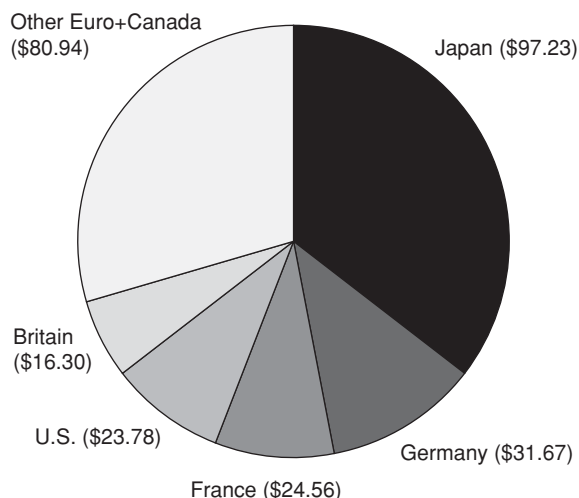
With prospects of a falling yen, it is hard to believe that anyone would want to increase their share of such a disappearing asset. “The economies of East Asia, with their present problems,” noted Lewis, “could hardly want to hitch their economic wagon to a Japanese yen horse now. The time for that would have been in the 1980s, when all the world wanted to hold the yen.”

Most notable about these latest events around the world, is not the nominal size of the daily market or currency falls, though they are notable. Rather, it’s the very fact that such a titanic eruption is taking place now, fully 12 months after the first shocks in Asia hit in May 1997. What is slowly beginning to dawn on policymakers, is the qualitatively different nature of the present crisis from any seen in the entire postwar period—indeed, as LaRouche notes, from any period in this entire century. Traditional IMF “crisis management” and such methods are worthless to contain this process.

## The Asian financial crisis

FIGURE 1  
**Foreign debt owed to Japanese and Western banks by South Korea, Indonesia, Thailand, Malaysia, and the Philippines, June 1997**

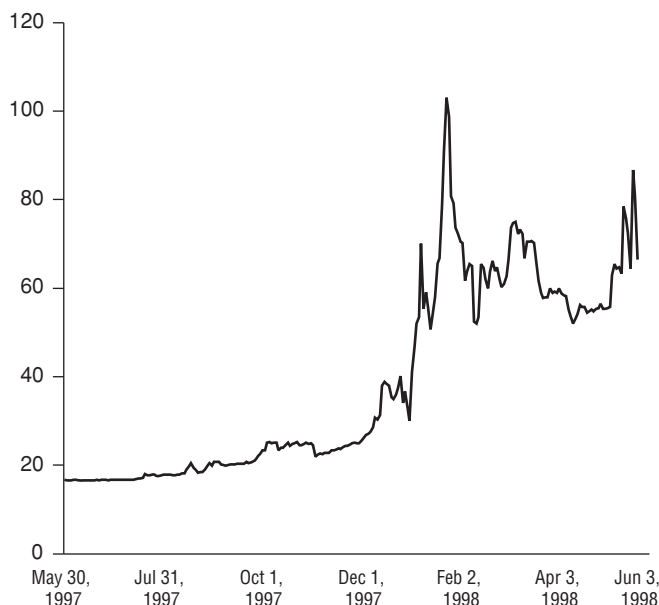
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Source: Bank for International Settlements, June 1997.

FIGURE 4  
**Indonesian rupiah required to repay U.S. bank debt, May 1997-May 1998**

(trillions)

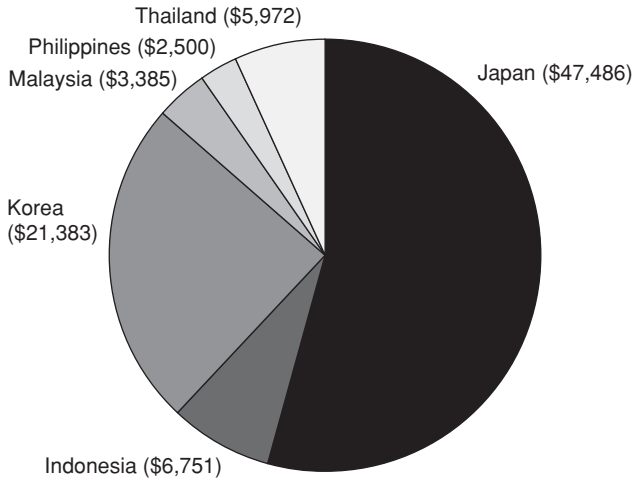




# at a glance

**FIGURE 2**  
**Foreign debt owed to U.S. banks by East Asian nations as of Dec. 31, 1997**

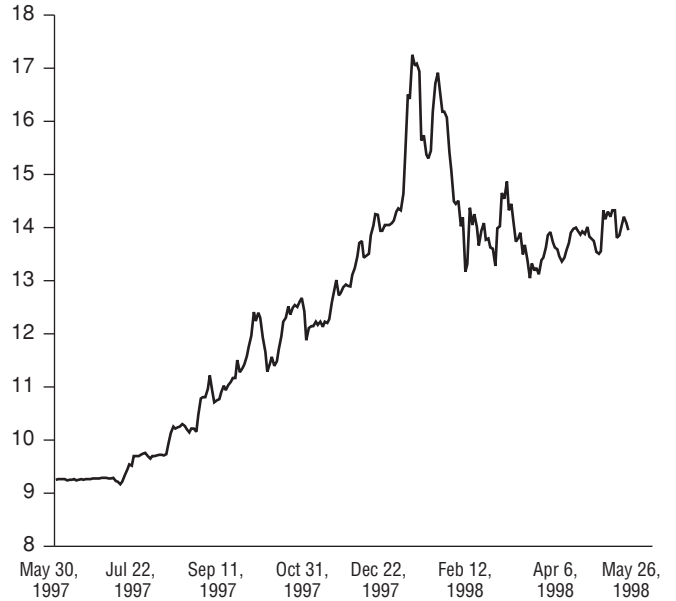
(millions \$)



Source: Federal Financial Institutions Examination Council, December 1997.

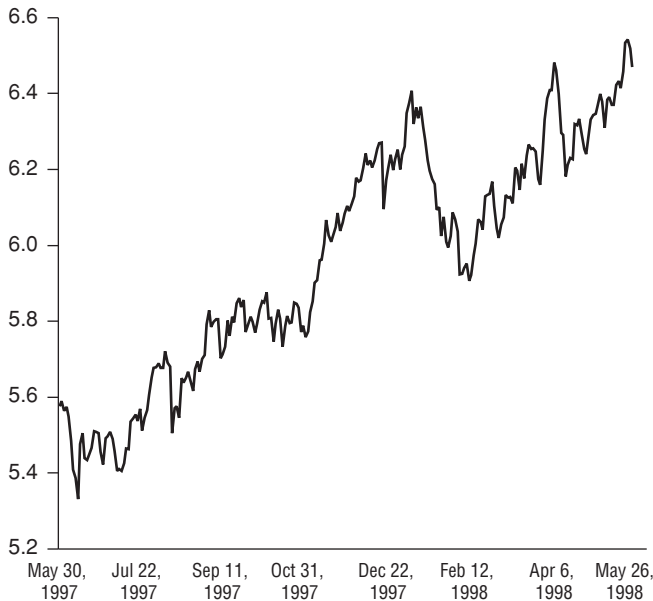
**FIGURE 3**  
**Malaysian ringgit required to repay U.S. bank debt, May 1997-May 1998**

(billions)



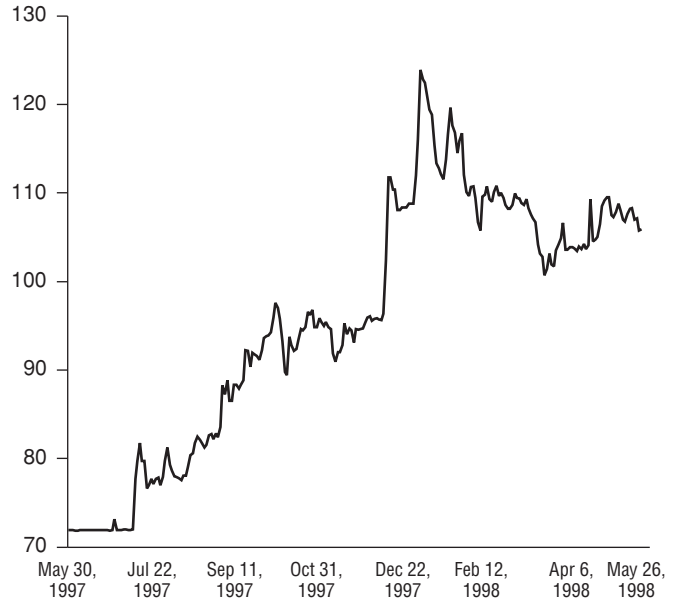
**FIGURE 5**  
**Japanese yen required to repay U.S. bank debt, May 1997-May 1998**

(trillions)



**FIGURE 6**  
**Philippine pesos required to repay U.S. bank debt, May 1997-May 1998**

(billions)



### What LaRouche said

#### **Proposal for a tax on derivatives, March 9, 1993:**

Some form of nominal, but otherwise significant, universal tax must be placed on individual derivative transactions, not only in the U.S., but abroad. The included purpose of this taxation is not merely to derive a new source of revenue . . . but also to bring into the light of day, under penalties of law for non-payment of this tax, the magnitude and structure of a derivatives bubble as a whole. . . . [The derivatives bubble] is a financial bubble in the tradition of the more primitive, more rudimentary, and far less dangerous bubbles of the 18th Century, such as the John Law bubble in France, and the South Sea Island bubble. . . . This is a John Law bubble gone mad. The vulnerability to the entire financial system, the chaos and destruction of actual physical processes of production, distribution, employment, and so forth, is of incalculable potential.

#### **From “The Coming Disintegration of Financial Markets,” (LaRouche’s “Ninth Forecast”), *EIR*, June 24, 1994:**

It comes as no surprise that the name of the Bank of England’s Eddie George is added to the list of which it must be said that “whom the gods would destroy, they first make mad.” During the course of the current London meeting of the International Monetary Conference, Eddie joined the ranks of those greed-maddened public fools of finance who insist that the danger from the now metastatically cancerous financial bubble in derivatives speculation is being exaggerated by some critics.

It is a matter of some urgency that responsible governments subject all incumbent and prospective economics and central banking officials to the sanity test which Eddie George would have flunked gloriously. Among the probable benefits of this, the least would be creating suddenly many encouraging vacancies for the sane unemployed. The test consists of but one crucial question: *Prove conclusively that the near-term disintegration of the presently bloating global financial and monetary bubble is unstoppable by any means alternative to governments acting to place the relevant institutions into bankruptcy reorganization.*

Those officials about to be examined so could look up the answer in the back of the book, so to speak. We supply it here and now. Would that be cheating on their part? Not at all; it would be becoming sane. . . .

About my qualifications: I have introduced relatively few forecasts of critical events during my 40-odd years as an economist (not counting my repetitions of some of those warn-

ings). To date, every forecast which I have made on the basis of my LaRouche-Riemann method has been confirmed by timely developments. I now present a summary listing of those forecasts, for the purpose of identifying my authority for designing the indicated test of economic sanity.

1. During late autumn 1956, in connection with a marketing study, I forecast the imminence of a major U.S. economic recession, triggered by the over-stretching of a post-1954 credit-bubble centered in financing of automobiles, housing, and analogous consumer goods. This recession broke out in February 1957 statistics, and was generally, if reluctantly acknowledged to have occurred several months later. The recession-spiral lasted into mid-1958, and was followed by a prolonged stagnation until an upturn appeared under the Kennedy administration.

2. During 1959-60, I made my first long-range forecast: that near or shortly after the middle of the 1960s, we would see the first of a series of major monetary disturbances, leading toward a collapse of the existing Bretton Woods agreements. I forecast that this collapse would see increased looting of what were then termed developing sector nations, and that the breakup of the Bretton Woods agreements would lead rapidly to austerity measures modelled upon those of fascist regimes, in international economic relations and in the U.S. domestic economy.

All of my economics forecasting and related activities of the 1960s, through spring 1971, were premised upon that same judgment. The first of the series of major monetary disturbances of the period occurred with the collapse of the British pound during November 1967, followed by the dollar crisis of January-March 1968. The break-up of the Bretton Woods agreements occurred beginning Aug. 15, 1971, and was consolidated by the Azores monetary conference of 1972. In immediate response to the August 1971 development, the U.S. government instituted the radical austerity measures known as Phase I and Phase II.

3. In November 1979, during my campaign for the Democratic Party’s presidential nomination, I warned that the measures which the Carter administration and Federal Reserve had just taken, at the urging of newly appointed Federal Reserve Chairman Paul A. Volcker, would lead to the outbreak of a devastating recession, beginning early 1980. Every detailing of that forecast by *EIR* magazine’s quarterly projections through 1983 was the most accurate forecast issued publicly by any agency; in fact, most, including Chase, Wharton, Evans, and Data Resources, were absurd in their sensing of the direction of the trends.

4. In February 1983, in the course of an exploratory back-channel discussion I was conducting with Moscow in coordination with the Reagan administration, I informed the Soviet government, that if it were to reject what later became known as the Strategic Defense Initiative of March 23, 1983, the strains on the Comecon economy would lead to a collapse of that economic system in about five years. This forecast was

repeated in an *EIR* Special Report, *Global Showdown*, issued July 1985. The collapse occurred during the second half of 1989.

5. In spring 1984, in my renewed campaign for the Democratic Party's presidential nomination, I warned, in a nationwide half-hour TV address, and elsewhere, of the outbreak of a collapse in a large section of the U.S. banking system: the savings and loan and related sectors.

6. In May 1987, I forecast, as published in *EIR* magazine and elsewhere, the outbreak of a major collapse in the stock market beginning approximately Oct. 10, 1987. This was my first and only stock-market forecast.

7. During my renewed Democratic candidacy of 1988, in a nationwide half-hour TV address, I described the "bouncing ball" phenomenon as the key to following the continuing collapse of the U.S. economy through the course of apparent, short-term fluctuations relatively up or down. That has continued to the present day.

8. During my renewed Democratic candidacy of 1992, I warned that we were already gripped by a global financial mudslide, "down, down, down."

This is a record of nearly 40 years, a record which cannot be even approached on the public record by any currently living economist, even by France's (and *Le Figaro's*) eminently sane Nobel Prize-winning Maurice Allais.

Out of that same unequalled competence, I say to you now, as I informed various relevant scientific institutions of Russia during the last week of this April past: *The presently existing global financial and monetary system will disintegrate during the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly occur during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization.* That is LaRouche forecast No. 9—the addition to the list of eight, above. . . .

#### **From a speech in Rome, April 10, 1997:**

There is nothing in the history of Europe to compare with what is happening right now, since the middle of the 14th Century. You may recall that with the collapse of the great Lombard banks, Europe went into a Dark Age for some period of decades. That is the nearest approximation of a precedent for what is happening right now. But what we are facing right now is far worse, and it is global; it is not restricted to one part of the planet.

This is not a matter of a recommendation, it's a matter of fact: that, contrary to all debates and discussions of policy within governments and elsewhere, it is not possible for the present international monetary and financial systems to outlive the months ahead. If no one decides to destroy it, Maas-

tricht shall be destroyed in the process. There is nothing to debate. That which ceases to exist, ceases to exist. It is beyond the power and will of man to save this monetary and financial system. . . .

Apart from that decision to put the system into bankruptcy, there's nothing that any government or combination of governments on this planet can do to stop this system from disintegrating. And all discussion to the contrary is a pure waste of time. The system is dead. It is finished. It is over. Thirty years of the greatest insanity ever wrought by man are coming to an end.

#### **From an interview with "EIR Talks," June 17, 1997:**

The expectations at this point are that sometime between June and October—and the talk now among leading circles is more on the September-October side, in other words, the end of the third quarter. Either during or at the end of the third quarter, we are likely to have another blow-out. . . .

The talk is, the recognition now, is that this past crisis, the March-April and the upcoming one which will land here, expectedly, from Mars or something, between June, late June and Oct. 31, the end of the third quarter kind of thing—that that will be a lollapalooza. Not necessarily the big one, but it forces us to look at the fact that the big one is coming. If we're getting the small hurricane, the small tornado, we're getting the big one down the line. It's that sort of thing.

#### **From an interview with "EIR Talks," Jan. 14, 1998:**

The first quarter, into March, is going to tend to be a period of one major strategic blunder by the Clinton administration, and others, after another. This series of blunders is going to set forth a series of reactions from the economic and related processes. That is, the situation is going to become impossibly worse. So, as we enter the second quarter, or as we enter March—one can not predict a precise date on this, but you get the general picture of how things are going—by the time we're approaching, or entering the second quarter of 1998, we're going to be in the most hellish crisis we've ever imagined, something far more hellish, more profound, than anything that has been seen so far in the 20th Century.

For example, you see the implications of the threatened spread of this crisis out of Southeast Asia, and Asia generally, not only into Brazil and Argentina, Chile and so forth; but, also, they're already beginning to hit New Zealand, which means, next, Australia. And, we can see, very rapidly, particularly when you look at some of the figures of the debt ratios, who is owed what, you see that Europe is going to be hit *very* hard, much more difficult than the United States, within a very short period of time.

So, if you think things are bad now, wait until March or April come around. It's going to be impossible. At that point, I think there's going to be a tendency for people to scream "Help us! Help us! Help us!" And, that's what I have to prepare for. . . .

# Financial panic hits, as LaRouche forecast

by Rachel Douglas

Two springs ago, in April 1996, Lyndon H. LaRouche, Jr. spent a day as the guest speaker at a Round Table seminar, hosted by Academician Leonid Abalkin and Academician Gennadi Osipov of the Russian Academy of Sciences. The theme was “Russia, the U.S.A., and the Global Financial Crisis.” LaRouche opened his remarks by saying, “We are in the middle of the worst international and financial crisis of the century. The financial crisis has two dimensions: its severity, and the efforts of many leading institutions in the world, to pretend it doesn’t exist. But that is characteristic of every major crisis in history. Leadership consists of not denying the crisis, in the first place.”

Not all of the Round Table participants were prepared to believe LaRouche. One scholar, from a leading Russian economics institute, countered that the world financial market events since 1987 were “not very serious; . . . the collapse of one major British bank and one large American investment house. As the saying goes: If only we had *your* problems!”

Now, Russia does. The May 1998 meltdown of Russian financial markets, “can be described in one word— ‘panic,’ ” suggested Deputy Finance Minister Oleg Vyugin at his May 28 press conference. The fright unfolded through the very interplay of insane policies inside Russia and on the global scene, about which LaRouche has warned since the moment, in 1991, when President Boris Yeltsin put radical free-marketeer Yegor Gaidar, an intimate of the Mont Pelerin Society’s Lord Harris of High Cross, in charge of Russian economic reform.

In 1995, LaRouche gave testimony to the Russian State Duma (Parliament), at the request of its Committee on Economic Policy, which began:

“In my estimate, the most crucial facts posed by the present economic situation in Russia, and in eastern Europe and the former Soviet Union generally, are in the following order of descending strategic weight:

“**1.0** Russia is trapped in the new phase of a worldwide monetary and financial collapse.

“**1.1** The present global monetary and financial order has recently entered a new phase of collapse, as marked by such prominently discussed examples as (a) the long slide downward in bond markets, (b) the waves of collapse caused by ‘derivatives’ speculation, such as the Mexico crisis, and (c) other impending, similar crises in nations of South America,

Italy, and some former Comecon-member countries in eastern Europe. (Contrary to the hysterical, and demonstrably futile attempts to deny this fact, the current, new round of bankruptcies or near-bankruptcies of both governmental and private institutions is not a mere coincidence of separate and distinct local problems, but, rather, this pattern of increasing local crises is the result of an epidemic: a systemic disorder of the worldwide financial and monetary system as a whole.)

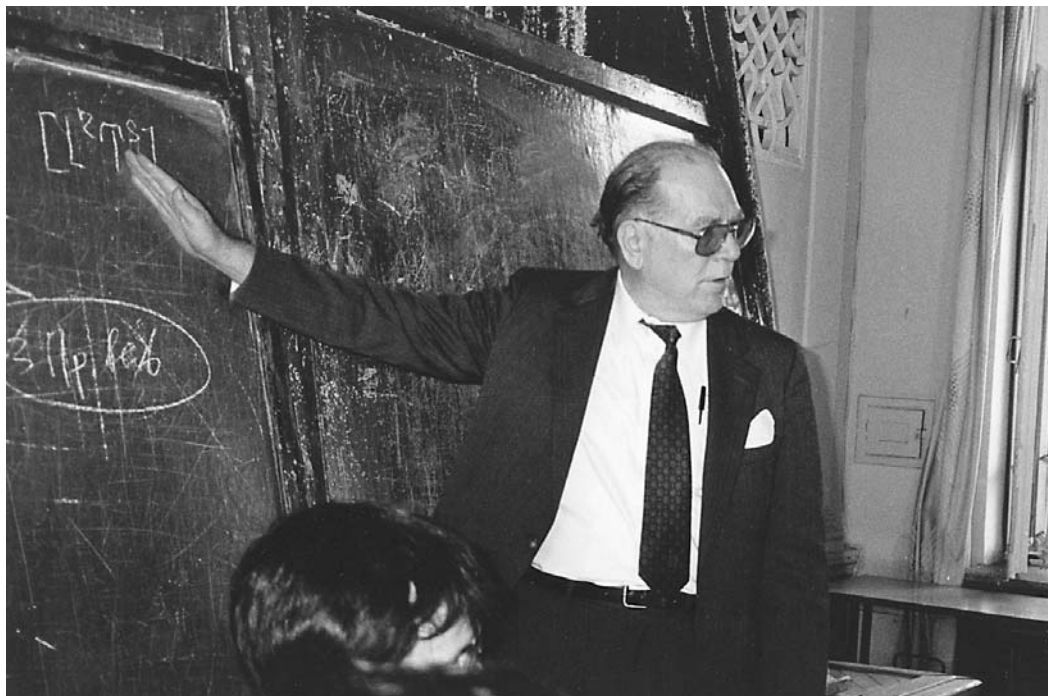
“**1.2** The present phase of the economic crises inside Russia and nearby countries is the result of the interaction between the ongoing, new phase of collapse in the world monetary and financial systems, and the relative exhaustion of Russia’s ability to deliver a stream of loot to Western financier interests. Thus, the shrinking of the relatively depleted economy of Russia is an important feature of the current downward pressures upon London-centered world financial markets. This has a reciprocal effect: At the same time, the so-called reform-process in Russia is put on its death-bed by the inability of the Western side of the financial system to supply sufficient assistance to keep the Russia reform-process alive in its present form.

“**1.3** For related reasons, there exists no possible solution to this crisis, either for Russia or for the world, within the bounds of the previously accepted terms of dominant international economic and financial institutions. The present world system, as derived from the post-1971 form of ‘floating exchange-rate’ international monetary system, and present doctrines of International Monetary Fund (IMF) and related ‘conditionalities,’ is doomed to extinction during the near- to medium-term. The present system will either be brought to an end in an orderly way, through governments acting responsibly to put existing central banking and financial systems under state-controlled reorganization in bankruptcy, or through a chain-reaction form of rapid, ‘thermonuclear’ implosion of that speculative financial bubble which the world’s financial system has become.”

The memorandum that followed, was published under the title “Prospects for Russian Economic Revival,” and widely circulated in Russian by the Schiller Institute for Science and Culture (Moscow), as well as in English (*EIR*, March 17, 1995).

## An emerging disaster

Throughout the Byzantine twists and turns of the personnel configuration in the upper echelons of the Russian leadership in the Yeltsin years, almost all government officials there have considered it a success, when more foreign participants came into the country’s new financial markets. Former Finance Minister and Deputy Premier Anatoli Chubais, who pushed through the fire-sale privatization of Russian industry, was particularly fond of crowing about how Russia was becoming a member of the club, in a globalized free trade economy. It was the “best-performing emerging market,” some manic investment advisers trumpeted in mid-1997.



*Lyndon LaRouche lectures in Moscow, April 1994, at the Russian Academy of Sciences. LaRouche has repeatedly warned Russian policymakers that the greatest danger to their nation's well-being, would be to give the radical free-marketeters control over economic reforms. Unfortunately, some people did not want to listen, and now LaRouche's forecast has been fully confirmed.*

The financial boom, as *EIR* readers know from the writings of Dr. Sergei Glazyev, was divorced from real economic performance, except within the sector producing raw materials for export. "In effect," Glazyev wrote in the March 27, 1998 *EIR*, "the country's economy decomposed into two loosely connected spheres—the speculative financial one, and the productive—the former being characterized by rapid growth and the concentration of wealth and capital, while the latter, playing the role of donor for the former, is in a state of deep depression and decline."

The financial sphere almost fatally exploded in the October 1997 to January 1998 round of global financial crisis. Out of approximately \$15 billion in foreign investments in Russian state treasury bonds (GKOs and OFZs) at that time, as much as one-third belonged to South Korean and Brazilian institutions. In a ten-day period in mid-November 1997, foreign "investors" pulled approximately \$5 billion out of the Russian GKO market, of which \$3 billion was withdrawn by South Koreans and about \$1 billion by Brazilians.

On March 24, 1998, in "A Coup from Above," about Yeltsin's latest purge of the Russian government, LaRouche reviewed how the fuse on the Russian financial time-bomb was re-set, at the end of 1997. "At the time, last Autumn, the global systemic financial-monetary crisis was targetting Korea, Japan, and Indonesia. Russia had postponed a similar collapse by an hysterically inflationary bailout, through short-term international financing at loan-shark interest-rates. Come March, as the end of the first quarter of calendar year 1998 approached, the financial, economic, and social pressures of this bailout financing terrified Russia's leading politi-

cal circles. In such circumstances, whatever might be likely to occur under such circumstances, were likely to begin building up now, echoing the scenario which began during October of 1997" (see *EIR*, April 3, 1998).

Going into the late-1997 crisis phase, Russia had more than \$24 billion in gold and convertible currency reserves. At the beginning of May 1998, those reserves were \$16 billion, of which approximately \$4 billion is in gold. By May 28, some \$2 billion had reportedly been spent in defense of the ruble and to pay out GKO liquidations. The Central Bank hiked interest rates from 30% up to 50%, on May 19, and then to 150% on May 27, after GKO yields rocketted through the previous ceiling and the stock market had fallen a cumulative 40% since the beginning of the month.

### **Looting of real production**

The steepest collapse of Russian stock and bond prices, on May 27, came just days after the interim settlement of a two-week labor action by Russian coal miners. They blocked rail transportation, demonstrating not only for months of unpaid wages, but for the government to take action to save their industry and their regions.

Finance Minister Mikhail Zadornov maintained on May 27 that the financial collapse will not affect the ordinary citizen of Russia. Even apart from the fact that the state savings bank, Sberbank, is the largest single holder of the increasingly worthless GKO paper, Zadornov's ministry has outlined austerity measures, which were adopted on an emergency basis by Yeltsin and Prime Minister Sergei Kiriyenko, that will reach deep into Russian society. *Izvestia* of May 28 sketched

the contours of the 12% cut in planned budget spending (the equivalent of \$10 billion), to hit across the board. *Izvestia* leaked that the package incorporates the notorious “Kudrin” plan, named after the Deputy Finance Minister, for cutting 200,000 people from the state payroll. Two months ago, Yeltsin repudiated that plan as “a provocation,” when it was said to include firing teachers and doctors. *Izvestia* claims that it doesn’t—rather, “hundreds and thousands of employees from the Ministry of Food and Agriculture, Forestry Service, Medical Division of the Russian Academy of Sciences, the Siberian Division of the RAS, and even the government centers for economic analysis and reforms.” The railroads would be reorganized: “Whole sections and junctions would be eliminated.”

All this is supposed to save 3-4 billion rubles in the third quarter and 7-10 billion rubles in the fourth quarter of this year. For comparison, spending on GKO-OFZ debt service during 1998 was planned to be about 100 billion rubles, with interest rates averaging 25% through the year. GKO yields even in the 40-50% range, never mind the 80% or higher they hit on May 27, would mean debt service far exceeding the gains from the new austerity.

### Will the social fabric hold?

Speaking from prison, on Dec. 28, 1991, LaRouche issued a Presidential campaign statement, “On the Subject of the

Threat of Chaos in the Economies of Russia and Its Associated Member-States of the New Commonwealth of Independent States.”

LaRouche warned, “The ironical fact is, that in the present stage, the only likely source of a nuclear crisis coming out of the former area of the Soviet Union today, aside from a special situation in the Transcaucasus region, is the danger that Boris Yeltsin, the President of the Russian Federation, might follow, to some degree or other, the pathway toward bankruptcy which the Polish government pursued for a while, up until most recently, at the instruction of Harvard’s lunatic professor, Jeffrey Sachs. If Yeltsin, for example, and his government, were to go with a reform of the type which Sachs and Sachs’s co-thinkers demand—chiefly from the Anglo-American side—then the result in Russia would be chaos. In such a case, the overthrow of Yeltsin, or somebody, by a dictatorship and the restoration of a form of what is called totalitarianism would probably occur. In that case, then we have a strategic threat.”

Addressing the same matter, five years later, LaRouche wrote in “Russia’s Relation to Universal History” (*EIR*, Nov. 29, 1996), “A so-called ‘Reform’ policy, was jointly imposed upon post-Soviet Russia, Ukraine, and Belarus, by Britain’s Prime Minister Margaret Thatcher and the man she has described as her dupe, U.S. ex-President Sir George Bush. That ‘Reform’ policy, not reversed under U.S. President Clinton, has driven Russia presently to existential extremes, at which some sort of explosion is imminent. ‘Explosion’ does not signify ‘global thermonuclear war,’ but the ignition, and spread of chaos, out from Russia, to engulf much of the planet. It appears, that official diplomatic Washington is more concerned with clinging to the appearance of defending a failed British-designed ‘Reform’ policy, than replacing London’s and the U.S. Republican Party’s bankrupt policy with a sane American one.”

On May 22, after meeting with President Yeltsin, Russian Prosecutor-General Yuri Skuratov said the President wanted an investigation of the coal miners’ leaders for violating the Constitution when they blockaded rail traffic of national importance. Skuratov quoted Yeltsin as saying that the miners had “gone too far,” and that they “have not yet learned to work in a market economy.”

Vitali Tretyakov, founding editor-in-chief of Russia’s first big post-Soviet daily paper, *Nezavisimaya Gazeta*, wrote a May 21, 1998 editorial, titled “The History of the Economic Reforms in Russia Has Been Written to the End.” Hoping that “reforms, as such, (in forms that will better correspond to the sense of this word) sooner or later will be continued,” Tretyakov took stock of the latest turn in Russia’s economic and social crisis, as “the finale of a whole historical period, which is coming to an end. This finale is unfortunate. The reforms in Russia did not just fail. They failed shockingly. They collapsed. The question is if this collapse will mean the simultaneous collapse of the country. It cannot be ruled out.”

## LAROCHE ON THE NEW BRETTON WOODS

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

It can not be reformed, it  
must be reorganized.

This must be done in the  
manner of a reorganization  
in bankruptcy, conducted  
under the authority  
not of international  
institutions, but of  
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# Deadly consequences of taking IMF advice

by Gail G. Billington

**May 1997:** The World Bank issues a report, *Indonesia: Sustaining High Growth With Equity*, praising the country, and by implication, the Suharto government, as the best example of “sustainable growth” through “outward-oriented, private-sector driven, labor-absorbing growth.”

**May 1998:** Indonesia is about to sit down with a team of International Monetary Fund (IMF) technocrats, to lay out the terms of its *fourth* bailout in less than seven months, as the economy faces 20% or greater contraction this year. President Suharto has been “resigned” from office, on the heels of the worst riots in the capital, Jakarta, in 30 years, in which 500 people were killed and a 75-block area of the city left in flames. The private sector was been in de facto default on \$74 billion in debt for months. Unemployment could reach 20 million, more than 20% of the 90 million-person labor force. Trade has come to a halt. Inflation is running at 50%; interest rates are running at 60%, and the currency, the rupiah, has bottomed out, 74-80% lower than it was in July 1997.

IMF IV is likely to carry a higher price tag than the \$43 billion of the previous three bailouts. But who will pay is anyone’s guess—the U.S. Congress surely isn’t ready to ante up.

## Hit and run victims

In February 1997, *EIR* published two reports that forewarned of *the crisis that had to happen* in Southeast Asia, and that go to the heart of what urgent action is needed today. First, was the presentation and subsequent publication of a call for ending the International Monetary Fund’s reign of terror over national economies, and replacing it with a New Bretton Woods system, committed to a return to periodically fixed exchange rates, an end to speculation, preferential credits for rebuilding physical economy at the expense of the almighty “markets,” and a stated commitment to accomplishing the most ambitious reconstruction program in history: the rail-vectored Eurasian Land-Bridge.

In accordance with that perspective, *EIR*’s Feb. 7, 1997 issue featured a report, entitled “The Return to the Machine-Tool Principle,” which not only outlined the method by which that global reconstruction could and must be accomplished, but also stressed that the directionality of the world economy—hell-bent on “globalization”—is diametrically oppo-



*Indonesian President B.J. Habibie can only succeed in rebuilding his devastated nation, if he rejects the monetarist dogmas of the International Monetary Fund.*

site to realizing that objective.

The “tiger economies” of Southeast Asia emerged over 1997-98 as crucial, if painful, proof that it is this irreconcilable conflict in the global monetary system, between speculative looting and productive economy, that is the *cause* of the current, *systemic* crisis. Despite remarkable achievements over the two generations since World War II, coupled with a process of decolonization, still Southeast Asia, in the last decade and a half, was taken over by a new, more insidious colonization, based on the growth of the purely speculative role of capital in dictating national economic policies. “Hot money,” real estate speculation, offshore banking, casinos, derivatives, and currency swaps competed with and edged out spectacularly ambitious infrastructure projects, including dams, bridges, nuclear power, and increasing self-sufficiency in capital goods production.

When sharks, like George Soros and the Tiger Fund, caught the scent of vulnerability, the feeding frenzy against the currencies and stock markets of the region began, first, in February 1997, when Soros staged a hit-and-run attack on Thailand, followed in May, by the concerted assault, first, on Thailand, then spreading to all of East Asia over the summer, and leading into the IMF bailouts of Thailand, South Korea, and Indonesia, with a price tag of more than \$100 billion.

As *EIR* warned, when the IMF stepped in, the first things it moved to shut down were precisely those projects—the bridges, dams, roads, power plants—which were premised on building physical, productive capacity, as the cornerstone of securing the general welfare of the nation, and its future ability to build out of a crisis.

## ‘Not a roaring success’

Indonesia enjoys the questionable distinction of having been put through three (going on four) IMF “bailouts” since October 1997. Rather than blaming a clear pattern of gross miscalculation on President Suharto, who oversaw the transformation of the economy over 30 years, it were better to ask whether the IMF, which loves to refer to its fiscal and monetary austerity reforms as “medicine,” ever got the diagnosis right. Without question, the G-7 and the establishment press were gratefully relieved to have a scapegoat, in the person of President Suharto (and his family), to blame for their own willful blindness in rooting out the source of the “Asian contagion”: Failure is embedded in the underlying premises of *any* IMF program.

Now, the world is being told that commitment to “political reform” goes hand in hand with “economic reform.” Often cited as examples are the elections of “democratic” governments in Thailand and South Korea, while under the tutelage of the IMF in 1997. However, judging by the imminent threat of widespread demonstrations, if not riots, against IMF austerity in those countries, it’s a fair wager that Prime Minister Chuan Leekpai of Thailand and President Kim Dae-jung of South Korea would second the message President Suharto delivered to President Clinton in February: “The current IMF program has not been a roaring success. . . . Where is the alternative?”

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## Documentation

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### LaRouche on Indonesia

*Lyndon LaRouche has repeatedly warned of the likely collapse and disintegration of Indonesia, the world’s fourth most populous country, with catastrophic worldwide effects. Here are excerpts from some of his statements:*

#### “Return to the Machine-Tool Principle,” *EIR*, Feb. 7, 1997:

The term “Asian Tigers” is often applied carelessly to three axiomatically distinct species of economies in east Asia: a) The post-1949 agro-industrial economies of Japan, South Korea, and Taiwan, which are models for what could, and must be done throughout Asia generally; b) Hongkong and Singapore, those Venice-like parasites of the Orient, whose prosperity is, in large degree, a by-product of the flow of opium from the high mountain (“Golden Triangle”) regions on Thailand’s and China’s borders; c) The presently imperilled, superficial, mayfly exuberance of Southeast Asia’s Thailand, Malaysia, and Indonesia. . . .

Do not classify Asia’s blowfish among its tigers: Put to one side, the dangerously silly Mont Pelerin Society’s choice of monetarist paradise, the non-comparable cases of the Venice-style, “hot-money” *entrepôts* of Asia, Hongkong and Singapore. Stick to the relevant cases; contrast the vast superiority of the real “Asian Tigers,” of North Asia, with the “Potemkin Village” facade of prosperity, as featured in the Southeast Asia region: the Philippines, Vietnam, Kampuchea, Laos, Malaysia, Thailand, Indonesia, et al. . . .

There is a way in which the patriotic aims of Indonesia’s Dr. Habibie could be realized, and the other states of Southeast Asia rescued, similarly, from their recently apparent slide toward looming catastrophe; but, that success depends absolutely upon choosing a different route than the blending of “Asia hot-money” trafficking and the lunatic sort of monetarist dogmas which have been fostered by the doomed, presently reigning international monetary and financial institutions.

#### From “EIR Talks” radio interview, Aug. 12, 1997:

The Southeast Asian Tigers are really no more. We call them the Southeast Asian Cheshire cats, because all that’s left is the smile, and that’s turning into a frown. And the next moment, the smile is going to pop away, and never come back again, at least not in its present form. . . .

We are not dealing with a cyclical crisis. We are not dealing with a pure stock market, or financial market crisis. We are dealing with a systemic crisis of the entire system. As I speak, unless something happened in the last several hours that I don’t know about, I can say that no government, no central banking system, no International Monetary Fund, or any combination of institutions on this planet presently has *any plan which would be adequate for what is hitting the world now.*

#### From “EIR Talks” radio interview, Feb. 18, 1998:

**EIR:** Indonesia is clearly in a terrible crisis. What’s happening there?

**LaRouche:** First of all, if you look at it, and you look at it with some knowledge of history, particularly those of you who were conscious adults, say, back in 1965, you will see a pattern there which reminds you of the crisis involved in the coups, the two coups, actually, or three, if you want to count it—fine-tune counting—which resulted in the overthrow of former President Sukarno, who was one [of the founders], together with Tito and also our friend Nasser from Egypt, and so forth, of what was known as the Non-Aligned Movement. This produced a new phase of history, in which the scars of that coup continued.

Now, the outstanding characteristic of those coups was a mass slaughter of persons of Chinese extraction, who were largely the small business merchant class in Indonesia, the dominant feature of it, the most aggressive and dominant feature. The same thing is happening now. So, we’re on the



road to the potential bloody disintegration of the fourth-largest nation on this planet, that is, in terms of population. This is occurring *precisely because of our toleration* of people like George Soros, no other reason, and the policies that go with him, and also the cowardly bungling, the loss of nerve by the U.S. government, including the President, in dealing with this past phase of the explosion of a systemic crisis in South Asia. He just lost his nerve, under—I don't know what pressure, but the point is, the result is manifest.

Now, we're up to the point that if Indonesia goes down—and they are fighting to stay alive, obviously, or at least some people there are, leaders like Habibie, who is the putative vice presidential candidate for the re-election of Suharto, that if Indonesia goes down, then all of Southeast Asia and all of East Asia, possibly excepting China, will go down, including Japan.

The effect of the collapse and disintegration of Indonesia, would mean that you would suddenly set off a \$2-3 trillion or more immediate financial crisis in Eurasia. You collapse, in that area, the investments, the assets, and the trade of Western continental Europe with that part of the world. You thus set forth a shock wave into the European financial system, which results in the spread of the European crisis. You also hit, of course, heavily, particularly our West Coast business community, which depends very largely, directly or indirectly, on trade with East and Southeast Asia. We destroy some of the sources for the outsourcing of the U.S. electronics industry. Some of it could be replaced, some of it not.

So you can not pretend that the President's failure to realize the importance of Indonesia, in the way he dealt with the situation, may bring on a catastrophe. Of course, the President was simply capitulating to the sharks of the *Wall Street Journal*, and people like that, *under pressure of this crazy [special prosecutor Kenneth] Starr*. So, the pressures on the President from this bunch of goons, like this goon Starr, are partly responsible naturally for the President's *loss of will* in dealing with this problem in Asia. But, that's what we're facing with Indonesia.

Indonesia is so big, that its collapse, its disintegration, could blow up all of East and Southeast Asia, would send shock waves through Europe and into the United States, would probably trigger the collapse of the Russian financial system, would probably put enough pressure on the system to ensure the immediate collapse of Brazil. And, we could be in, say, by April or May of this year, we could be in something beyond belief as a result of our government's loss of nerve, in dealing adequately with the threat when it occurred last. The failure to take appropriate action, against the so-called floating exchange rate system, against the so-called free trade system, that failure of nerve, to reverse course on policies which have failed, by our own government, are responsible for the present situation. The next shoe to drop is going to be a big one.

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## South Korea

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# Strikes erupt against next phase of crisis

by Kathy Wolfe

The endgame of the International Monetary Fund's shock therapy program in South Korea began on May 27, when more than 300,000 workers of the Korean Confederation of Trade Unions (KCTU) went on strike against mass layoffs mandated by the IMF, calling for the renegotiation of Seoul's IMF agreement. President Kim Dae-jung, who led the opposition for 30 years until he was elected last December, with support from the unions, will now be forced to choose between supporting the workforce's right to exist, and the IMF's "reforms."

Phase two of South Korea's financial crisis also hit on May 25-26, as the Seoul stock market collapsed by 13% in two days to 311 on the KOSPI index, its lowest level since the crash of 1987. The stock market now stands 60% below where it was last year. The Korean currency, the won, continues to collapse, closing at 1,412 to the dollar on May 27, down over 7% in the last week of May, 40% since last year.

Foreign investors, such as speculator George Soros and his London-Wall Street bank controllers, were responding in part to a flood of frightening economic figures to "sell Korea," one Seoul source said. These included the announcement by the government of a useless \$40 billion bank bailout, and a rise of official unemployment to 1.43 million (6.7%) in April. Private estimates are that unemployment will hit 10% soon.

The end of May crash also comes as the IMF and the London-New York creditors move to enforce "free-market capitalism in its most brutal form," as one Hong Kong stockbroker put it, including the IMF's new labor law, designed to break Korea's unions. IMF Managing Director Michel Camdessus expects President Kim, as an outsider to the Seoul "establishment," to use his influence on the workers to force through IMF austerity.

The IMF cites Korea as a model where they can achieve all their demands which, they claim, were only difficult in Indonesia, because President Suharto was unpopular. This insane strategy threatens to bring Korea, one of the world's last Cold War nuclear trigger points, to the same bloody chaos that occurred in Indonesia.

### Mass unemployment, bankruptcies

The South Korean population, one of the world's most prosperous until late last year, is now facing 1930s Depression

levels of mass unemployment.

As a result of IMF dictates, the giant Hyundai Motors on May 20 announced that it will lay off 8,000 workers, 20% of its labor force. Such actions by major *chaebol* conglomerates, which employ 40% of the country's workforce, were regulated by law until the IMF rewrote Korea's labor laws early this year. The IMF is also deliberately trying to "restructure," i.e., to bankrupt, Hyundai, Daewoo, Samsung, and Korea's other giant *chaebols*, by keeping interest rates above 18% and restricting credit, which has caused sales of autos and other consumer goods to fall 50% during 1998 so far.

As a result of their sales collapse, the debt of these companies is going through the ceiling. Hyundai's debt has reached 533% of its core capital, while Samsung's debt-to-capital ratio is 265%, that of the electronics conglomerate Lucky Goldstar, 343%, and for Daewoo, 414%.

On May 21, only a government emergency loan of \$430 million prevented the bankruptcy of Dong Ah Construction, the tenth largest firm in the country.

Also May 21, the Korean Central Bank revealed a string of horrific economic statistics:

- GDP fell 3.8% in the first quarter alone, which would be over 15%, on an annual basis. The government-run Korea Finance Institute projected that second-quarter GDP drops would be at least as bad. The IMF's latest Korea program had projected "only" a 1% annual drop in GDP for 1998;

- Investment in machinery and equipment fell, for the third straight quarter, by 40.7% from a year earlier;

- Household consumption, which accounts for half of GDP, fell 10.5%, the worst decline since the Central Bank began compiling figures in 1953;

- Output in the construction industry fell 39% compared to the previous quarter;

- Output of manufacturing industries dropped to 19.55 trillion won, from 23.13 billion won, compared to the previous quarter.

On May 20, the Seoul Ministry of Finance and Economy was forced to announce a new bailout package for dealing with the bad loans of South Korean banks, requiring about \$40 billion (50 trillion won) of taxpayers' money. Official figures for the bad loans in the financial sector at the end of March 1998 are \$85 billion (118 trillion won). The financial institutions are supposed to deal with one-half of these bad loans, for example, by writing off loans and selling assets.

A new government-run Korea Asset Management Corp., apparently modelled on the U.S. Resolution Trust Corp., which executed the 1980s bailout of U.S. savings and loan institutions, will buy the remaining half of bad loans at the equivalent of 50¢ on the dollar. The Korea Deposit Insurance Corp. will also put about \$18 billion into the banks to raise their capital and to shore up the deposit insurance fund.

## A state of panic

In response to the Hyundai announcement and the economic crisis, the KCTU unions on May 21 announced the

May 27 strike, in support of the Hyundai workers.

On May 25, "the markets," meaning the IMF and its London-New York financiers, retaliated. That day, South Korea's government, under IMF orders, was scheduled to lift restrictions on foreign ownership of Korean companies, and was expecting a flood of foreign cash. The foreign creditors, however, dumped Korean assets instead of buying them—to send the message that the Korean won and corporate stocks will have to fall much, much lower.

"The word went out to 'sell Korea,' " as one Korean source told *EIR*, with foreign investors saying that if the unions don't back down, "major companies will be destroyed." "The market is in a state of panic," said a banker at Seoul Investment Trust Co. "I cannot see where the bottom lies."

Foreigners sold a net 5.3 billion won worth of stocks on May 26.

The IMF is also forcing the government to announce in early June a list of companies which will be cut off from limited bank financing and allowed to die. "People don't know which companies are going to be off the creditworthy list, so they're selling everything," as one banker said. The KOSPI stock index, which was at 350 at the start of May, could fall to as low as 250 in June, he added.

The pro-IMF faction inside President Kim Dae-jung's government is threatening to break the strike, which would provoke violence. "The strikes are clearly illegal and we will guide employers to apply the 'no work, no pay' policy and discourage any pay negotiations," said a statement released by the Supreme Public Prosecutor's Office on May 25. It referred to the fact that the IMF has changed the nation's labor laws to rule out general strikes. "We will guide management to strongly counter strikes with lockouts if strikes continue too long," the statement said.

"We don't want violence or heavy-handed tactics, but we will deal with strikers if they break the law, and this is an illegal strike," said Dr. You Jong-keun, a key pro-IMF adviser to President Kim.

KCTU spokesman Chung Sung-hee announced the next day that the confederation, which represents more than 500,000 members organized in such key sectors as the automotive, shipbuilding, and steel industries, would proceed with the strike. If the government uses force against the strikers, the KCTU will extend the strikes, Chung said.

## LaRouche vs. IMF Dark Age

With the economic situation at a breaking point, voices inside South Korea are beginning to say openly that "Lyndon LaRouche was right," when he predicted in February and March that the IMF's "Korea success story" would blow to pieces. In Kwangju City, President Kim's home base far south of Seoul, a major attack against the IMF, featuring LaRouche's March 18 speech "Towards a New Bretton Woods" and the LaRouche program for a new monetary system, will appear on June 1 in the *Honam Current News*, a new political journal.

It would appear that a serious faction-fight is brewing in President Kim's inner circles over the life-or-death IMF issue. "Playing the LaRouche card" is rapidly becoming the only option left to the anti-IMF group. Kwangju, where the magazine is published, is as far away from the Seoul establishment as one can get in South Korea.

"The program which the IMF has applied to the Korean financial situation is not the remedy; such a harsh shock therapy can't be a remedy," the editor's introduction states. "The American magazine *Executive Intelligence Review (EIR)* is strongly criticizing the IMF. *EIR* said in its latest edition that unless strong measures are taken, this entire financial disturbance will not end before reaching Japan and ultimately China, and may result in a New Global Dark Age such as the 14th Century. . . .

"*EIR* is emphasizing the necessity of a new international monetary and financial order. *EIR* Editor Lyndon LaRouche, Jr. is appealing to the leaders of all nations of the world to join in this effort." The feature, which is several pages long, then presents two pages of quotes in Korean from LaRouche's March 18 speech (see *EIR*, March 27, for the full text), and a history of the LaRouche movement.

In particular, it quotes LaRouche spelling out the details of his program to shut down the International Monetary Fund, stabilize currencies with fixed exchange rates, and establish a new world financial system to create cheap credit for industrial growth. It notes that LaRouche had predicted well beforehand the 1971 removal of the dollar from the gold standard, and that therefore his warnings that the current IMF programs will lead to global financial collapse should be heeded. This section features LaRouche's underlining of the British role, since the Opium Wars, in destroying both Asia and the United States.

The article concludes saying that "readers of *EIR* include political leaders such as heads of state, congressmen from the U.S., Latin America, Europe, and Asia; trade unionists, think-tanks, business leaders, and small businessmen interested in the truth about world affairs and historical principles. . . .

"*EIR* distributes about 15,000 copies a week in the U.S., Europe, Russia, the Mideast and Africa and has Spanish- and Chinese-language editions. *EIR* News Services also publishes the mass-circulation *New Federalist* newspaper, which distributes 110,000 copies a week. . . .

"Lyndon H. LaRouche, Jr., who will be 76 this year, has been fighting to replace the IMF with a new world financial system for more than three decades." The article reports some further details about LaRouche, noting his authorship of the program which became known as the Strategic Defense Initiative.

Commenting on this article's appearing in a Korean magazine, one scholar close to the Kim government underlined the importance of the fight against the IMF. "This attitude against the IMF is becoming quite prevalent and growing in Korea," he said. "Unfortunately, until now the government has felt there was no real alternative to the IMF program."

# IMF looting wrecks the physical economy

by Richard Freeman

The extension of global financial disintegration, combined with draconian International Monetary Fund conditionalities, into Asia, has aggravated the contraction of the physical economy. In recent years, Asian nations had registered economic growth in sectors of their economies; this year, they are headed toward predicted rates of downturn varying from 5 to 8% in South Korea, to as great as 20 to 25% in Indonesia.

But it is the real physical economy, upon which our future existence depends, that has been destroyed around the world by the financial bubble, whose rupturing is causing global havoc. In most parts of the world, the physical economy is collapsing; but because some financial markets have been booming, the economies have been portrayed as undergoing "unprecedented expansion." Three critical examples indicate what a truly bad condition most of the world's economy is in.

First, in the period of 1989-91, the Communist regime came down in the Soviet Union, and the IMF moved in with its "shock therapy" conditionalities. As **Table 1** shows, the industrial output levels at the end of 1996, for Russia and 8 of the 11 other nations of the Commonwealth of Independent States, were below 50% of their industrial output levels of 1989 (the 1989 production level was set equal to an index number of 100). Industrial output fell for most of these countries during 1997 and the trend has continued through 1998.

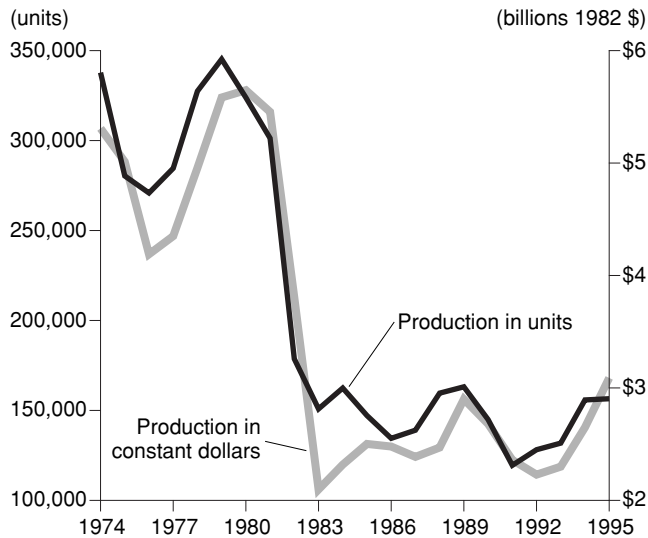
TABLE 1  
**Industrial production of Commonwealth of Independent States, 1996**  
(1989 level=100)

Uzbekistan	107.7
Turkmenistan	79.5
Belarus	62.4
Ukraine	49.7
Kazakstan	47.8
Russia	47.0
Moldova	43.6
Armenia	43.3
Azerbaijan	41.6
Tajikistan	35.2
Kyrgyzstan	35.1
Georgia	17.1

Source: U.N. Economic Commission for Europe

FIGURE 1

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



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

Similarly, neo-liberal IMF "reforms" collapsed output for Poland, Hungary, and other former Communist nations.

Second, the actual functioning of the economies of western Europe—though the financial media would say it is robust—is revealed by the rates of unemployment. Officially, unemployment in western Europe is above 10%. Spain has an unemployment rate above 15%; France's rate is above 11%; Italy and Belgium have double-digit unemployment, and Germany is nearly there, at 9.8%. But Germany's true unemployment is paradigmatic for all of Europe. While the government reports that there are 4.4 million unemployed, the Institute for Labor Market and Professional Research reports that 6.3 million Germans are without regular work and regular income: Added to the 4.4 million officially registered jobless, there are another 1.9 million who are not registered as seeking a job, because they fail to meet the statistical criteria for being listed under any of the standard categories of "jobless." This brings Germany's actual jobless level above 14%.

Third, the United States is supposed to be experiencing the greatest economic growth of the major industrial nations. Certainly, any nation whose economy is growing would have an expanding machine-tool sector. Machine tools are the machines that make other machines. **Figure 1** shows the level of machine-tool production, as measured by close tracking of the number of units produced, and the value of shipments in constant 1982 dollars, for the period 1982 through 1996 (the last year for which figures are available). For 1996, compared to the high point of 1979, units produced and the value of

shipments are down 48% and 45%, respectively. Other sections of U.S. manufacturing and industry follow a similar trend.

Deteriorating conditions in the physical economy extend from eastern Europe to western Europe to the United States, and to large sections of Ibero-America and Africa, as well. The next phase of financial disintegration will overwhelm a physical economy that is barely standing.

## Derivatives bubble is set to explode

by Richard Freeman

The revelation by the May 26 *Wall Street Journal* that the now-defunct Peregrine Fixed Income Ltd. of Hong Kong had \$9 billion in off-balance-sheet derivatives exposure to Indonesia—as much as its balance-sheet exposure to Indonesia—should not come as a shock to anyone who has been reading *EIR*, and who is familiar with Lyndon LaRouche's warnings about the derivatives bubble, dating back to 1993 (see article, p. 8).

Derivatives trading growth in Asia had been in the forefront of world derivatives market growth. Even a peek into the Asian derivatives holdings of leading banks is frightening. Derivatives are bets, gambles on underlying financial instruments and commodities. The size of the world derivatives' market is estimated at \$130 to \$140 trillion.

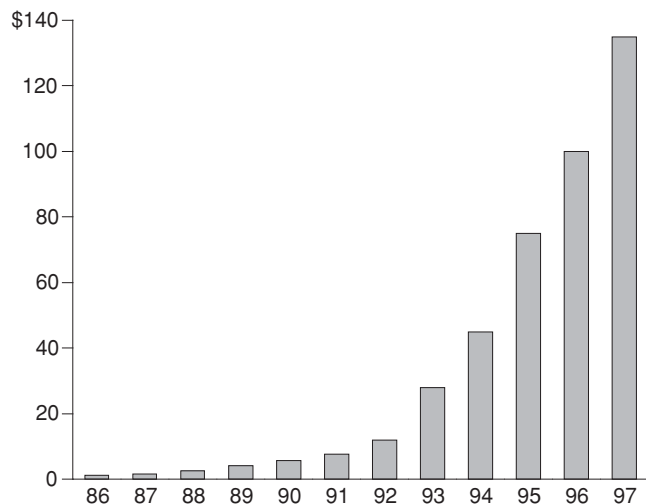
The May 4 *Swap Monitor* reported that four U.S. banks—Bankers Trust, Chase, Citicorp (soon to be Citigroup), and J.P. Morgan—had more than \$1 billion in non-performing Asian derivatives (excluding Japan) as of March 31 this year, and had written off more than \$150 million on them at the end of the first quarter. This figure of non-performing derivatives is a vast understatement, likely by at least one order of magnitude. Late last year, J.P. Morgan was still trying to collect on \$489 million of the derivatives losses that the Korean company SK Securities had suffered in trades with J.P. Morgan, which SK Securities said it would not pay on, leaving Morgan holding the bag. According to the same issue of *Swap Monitor*, these four U.S. banks had \$5 billion in total, non-Japan, Asian derivatives exposure. However, that figure, too, is a huge understatement.

The growth of derivatives leaves little doubt that U.S. as well as European banks have racked up sizeable derivatives holdings all around the globe. For example, in 1997, the seven largest U.S. derivatives holding banks (now six, since NationsBank and BankAmerica have merged) held \$23.79 trillion in derivatives—led by Chase Manhattan's \$7.7 tril-

FIGURE 1

## World derivatives growth: The cancer takes over

(trillions \$)



lion—an increase of 27.2% in derivatives holdings over the year before, of \$18.71 trillion. When the significant derivatives holdings of U.S. investment banks like Goldman Sachs and Salomon Brothers, as well as U.S. insurance companies and other U.S. companies, is added in, total U.S. holdings of derivatives swelled to \$40 trillion. U.S. derivatives are five times the size of the Gross Domestic Product (GDP).

On March 24, the German Bundesbank revealed that the derivatives holdings of German banks had reached 25.9 trillion deutschemarks in 1997, compared to DM 16.8 trillion the year before, and DM 10.4 trillion in 1995. The German volume had grown two and a half times in two years. The German derivatives bubble is now seven times the size of its GDP.

**Figure 1** shows the world derivatives cancer. These bets are future obligations that have to be met, out of the flesh and blood of the world's economies.

It is not possible to believe that the top four U.S. derivatives-holding banks hold only \$5 billion in derivatives in Asia, when these four alone hold \$20.2 trillion internationally. But the \$489 million loss of J.P. Morgan in South Korea, stemming from its dealing with SK Securities, and the potential of \$8 billion failed derivatives contracts by the defunct Peregrine investment firm of Hong Kong, in Indonesia, indicate that a swell of derivatives losses in Asia is to be expected, as the "Asia phase" of the world crisis deepens.

Derivatives failures travel electronically, at the speed of light. Derivatives are connected across markets and across countries. The "Asian" derivatives disasters of the morning, are American and European disasters by lunchtime.

## International Commentary

# Some reality pierces veil of virtual reality

*The first two statements quoted below belong in the category of "out to lunch."*

### IMF Managing Director Michel Camdessus, press conference in Bishkek, Kyrgyzstan, May 27:

With reference to Russia's troubled markets, Camdessus said, "Contrary to what markets and commentators are imagining, this is not a crisis. I believe that with these measures, with the very strong reactions of the monetary authorities to the latest turbulence in the market, the turbulence could normalize soon. I believe and I hope."

### U.S. Federal Reserve Chairman Alan Greenspan, testifying before the House Agriculture Committee, May 21:

"There was, and is, a small but not negligible probability that the upset in East Asia could have unexpectedly large negative effects on Japan, Latin America, and eastern and central Europe, that, in turn, could have repercussions elsewhere, including the United States." Greenspan went on to press for Congress to approve the \$18 billion funding package for the IMF.

### Erik Guyot and G. Pierre Goad, "Off-Balance-Sheet Items Threaten to Balloon Massive Liabilities of Indonesian Companies," *Wall Street Journal*, May 26:

"If you thought the foreign debt Indonesian companies was big at an estimated \$80 billion, think again.

"There's another hefty pile of Indonesian liabilities that aren't included in official statistics: so-called off-balance-sheet items such as foreign-exchange contracts and other derivative contracts between Indonesian and foreign firms."

The authors take the case of the now-bankrupt Peregrine Fixed Income Ltd., which had, for every \$1 it lent, \$10 in foreign exchange contracts or other derivatives. "The total size of Indonesian companies' derivative contracts is almost impossible to calculate," the authors state, "given the wild swings in the value of the rupiah and the hidden nature of many of those transactions."

### José Neme Salum, "Russia, in the 'Eye of the Hurricane' of the World Financial System; a Situation like Indonesia's Is Possible," *Excelsior*, Mexico, May 25:

José Neme Salum interviews *EIR*'s Ibero-American editor Dennis Small; the interview was also reproduced in the

Dominican Republic newspaper *Hoy*, on May 26.

Small was in Mexico for an *EIR* seminar on Lyndon LaRouche's "Science of Long-Term Forecasting." Neme quotes him saying that "Russia is an integral part of the European continent, but also of Asia, and forms part of the stability of both regions. Therefore, in the present phase of the systemic, not cyclical, crisis, of the international financial system, a Russian collapse would have tragic effects across the globe."

Small emphasizes that the social explosions in Indonesia must not be viewed as some kind of "failure by the IMF," since it is precisely such a social meltdown that the IMF and its masters seek to provoke: "Not the stability of economies, but rather a rapid process of destruction of national institutions, in the Jacobin mold of the French Revolution, to achieve the so-called New Age: global order."

Neme quotes Small saying that Russia is "being pushed to its limit by the conditionalities which the IMF has imposed on the former Soviet power. . . . Russia today is in a situation similar to that of Mexico in November 1994. . . . In order to sell their GKO Treasury notes, the Russian government has increased interest rates to attract international speculators. . . . But not even 35% interest rates, offered 10 days ago, could attract capital, and the government had to buy its own notes. . . . Last week, they had to raise their interest rates from 35 to 45%."

Neme explains that "30% of the government budget is

going to pay debt service, when a year ago only 13% was used; it is expected that, for the year 2000, that percentage will rise to 70%. 'This is a cancer that is destroying and consuming Russia,' says Small. 'With all due respect to Indonesia, Brazil and Mexico, Russia is a different matter—it is a major nuclear power which is being driven out of control.' "

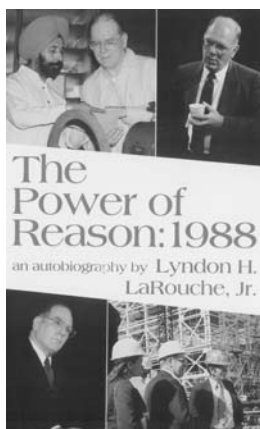
Small elaborates on LaRouche's proposals for great infrastructure projects like the Eurasian Land-Bridge, development of nuclear power, and the colonization of the Moon and Mars. He insisted that Mexico must dare to resist the globalization fanatics, and must acknowledge that the last 25 years of international political economy have been a tragic error. Writes Neme: "Small emphasizes that it is 'a strategic error to say that we cannot go against the current of globalization: the two largest nations in the world are China, with a population of 1.2 billion, and India, with 1 billion. Those two countries are totally opposed to globalization: they don't have convertible currencies, they have exchange and capital controls, and India, as we saw recently, took the sovereign decision to develop a thermonuclear capability to defend itself, under the current destabilizing conditions of the world. They broke with technological apartheid.' "

Small concludes: "The world must dare to travel uncharted paths—not the IMF's way, which takes us to destruction, but a new path, the only one by which we can save ourselves: LaRouche's proposal for a New Bretton Woods."

## Books by Lyndon H. LaRouche, Jr.

The LaRouche case "represented a broader range of deliberate cunning and systematic misconduct over a longer period of time utilizing the power of the federal government than any other prosecution by the U.S. Government in my time or to my knowledge."

—**Former U.S. Attorney General Ramsey Clark**

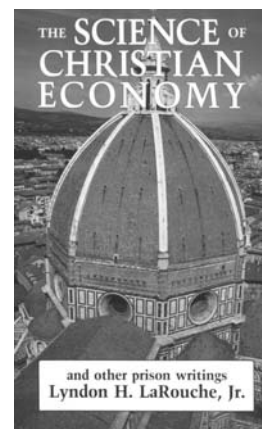
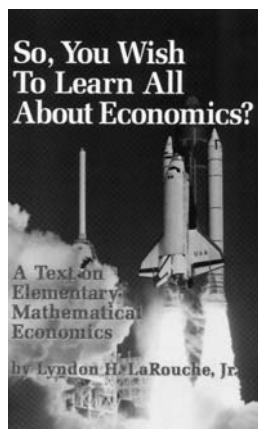


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## Rio Tinto declares war

*The company's savage attack on Australia's coal union is an assault against the nation itself.*

In an extraordinary outburst at Rio Tinto's annual general meeting in London on May 14, Rio Tinto Chairman Bob Wilson accused the Construction, Forestry, Mining and Energy Union (CFMEU) of Australia of costing the company "billions of dollars" through "antiquated work practices" at Rio's coal mines in the Hunter Valley in the state of New South Wales. Wilson charged that CFMEU leader John Maitland "made Arthur Scargill [head of the British miners union in the 1970s] look like a modern trade unionist." British Prime Minister Margaret Thatcher had called upon Rio Tinto to help crush the British coal miners and other unions in the 1970s, which paved the way for the savage Thatcherite looting, and for Thatcher clone Tony Blair to take over the British Labour Party.

For Australia, however, the stakes are much higher, because the trade unions gave birth to the Australian Labor Party (ALP), which built the nation in the first place. With the ALP itself now badly infected with Thatcherism, the unions are the last potential bastion of a commitment to national sovereignty on the continent.

From its earliest days in the great strikes of the 1890s, even before the Commonwealth was founded in 1901, labor called for a national bank modelled on that of Alexander Hamilton in the United States, as the chief weapon to secure sovereignty from the British Empire. (The name of its party was even spelled after the American "labor," as opposed to the British "labour.") Australia's early labor leaders identified their strategic enemy as the City of London-centered "Money Power," as typified by an editorial in

the *Brisbane Worker* of Jan. 5, 1907, the year before the ALP adopted a national bank as part of its non-negotiable "Fighting Platform":

"The Money Power! It is the greatest power on earth; and it is arrayed against Labor. . . . Yes, so far as we are concerned, the headquarters of the Money Power is Britain. But the Money Power is not a British institution; it is cosmopolitan. . . . It dominates the world. The Money Power has corrupted the faculties of the human soul, and tampered with the sanity of the human intellect."

Most illustrative of this "Money Power" is the world's largest mining company, Rio Tinto, with its 51,000 employees in 40 nations, and \$12 billion in turnover last year. Rio Tinto was founded in the 1870s with the profits of Britain's Opium Wars against China, and is today controlled by a mere 120 "accounts," foremost among which are the Queen and the Church of England. The drug ties continue: The second-largest shareholder in Rio Tinto is Prudential Nominees, controlled by the central bank of the world's drug trade, the London-based Hongkong & Shanghai Banking Corp.

Rio Tinto's control over Australia today is breathtaking: Current or "former" Rio executives include the chairmen or deputy chairmen of three of Australia's four major banks; the CEOs, directors, or heads of the crucial "industrial relations" departments of almost every mining company on the continent; and, the heads of the country's dominant cultural and strategic institutions, such as the Australian Institute of International Affairs and the Australian Academy of Sciences.

Rio executives also control dozens of other firms, including the national telecommunications giant Telstra, Qantas airlines, Pacific Dunlop, Ford Australia, Fosters Brewing, Westfield Holdings (a \$7 billion property company), Hudson Conway (which controls the huge Crown Casino in Melbourne), and the Australian Industrial Relations Commission, whose new head was formerly Rio's lawyer, and which has made crucial decisions against labor.

As for the federal government, Rio smoothed Prime Minister John Howard's path to power by giving his chief rival a "golden parachute" to leave politics, and employed Treasurer Peter Costello as its sometime lawyer, while providing a fortune to the several Australian Mont Pelerin Society "think-tanks," from among whose members Howard selected his cabinet. As CFMEU official Tony Maher summed up the case, "The government is the political arm of Rio Tinto."

Rio Tinto is also directing the war against the Maritime Union of Australia, including providing personnel and strategy to the nation's largest stevedore, P&O Ports, whose British mother company, like Rio Tinto, is descended from Britain's 19th-century Far East drug trade. Indicative of the links between the two, is that from 1983 until recently, P&O Australia's chairman, Maj. Sir Rupert Clarke, was the vice chairman of CRA, Rio's chief Australian subsidiary.

The issue for labor is, will it continue its present "trade union only" struggle in the course of the greatest financial collapse in 600 years—in which it is getting inexorably smashed? Or, as it once did, will it fight for the nation as a whole, by fighting for a national bank, and, given the global crisis, for the New Bretton Woods program of American statesman Lyndon LaRouche.

# Business Briefs

## Middle East

### Syria, Jordan sign pact on dam project

Jordan and Syria signed a draft agreement on restarting the Yarmuk Dam project on the Yarmuk River, the Israeli daily *Ha'aretz* reported on May 20. The 40 kilometer river runs along the Jordanian-Syrian border and flows into the Sea of Galilee, in Israel.

The project had been started in the early 1980s, but was halted in 1986 when Israel threatened to bomb it, which caused the World Bank to refuse to finance it. It is now expected to be financed by Arab sources.

The \$420 million project would provide Jordan with 120 million cubic meters of water, and Syria with 70% of its electricity needs.

## National Economy

### Mahathir says, better not to rely on the IMF

Malaysian Prime Minister Dr. Mahathir bin Mohamad said that Malaysia "prefers to face poverty and rebuild its own economy rather than accept the IMF," the Egyptian daily *Al-Ahram* reported on May 10. His comments came in a lecture to the Egyptian Chamber of Commerce, during the G-15 summit in Cairo.

Mahathir described the devastation left by the financial crisis in East Asia. "More than \$1 trillion of purchasing power has been lost, banks and businesses of all kinds went bankrupt, and more than 30 million workers faced unemployment," he said. "Then the governments were blamed for not being open and not following the method of transparency. But these governments themselves were the ones which developed their poor, agrarian nations into industrial tigers." He added, "Malaysia could not avoid the catastrophe which descended on the East Asian states. The value of the currency fell by 50%, and [we] became poorer, turning 25 years backwards. We did not resort to the IMF, and preferred to live in poverty and rebuild our economy."

Mahathir emphasized that "the solution

to our problems is industrialization. Agriculture can achieve only a limited wealth, but industry can achieve an endless wealth and create more opportunities for work."

Agreements were signed to base trade between the two nations on their own currencies. Also, Egyptian TV reported that Mahathir had pointed to the need to create "a new financial order."

Meanwhile, Malaysia is establishing a special agency to "identify companies with assets that are of national interest, and therefore should be rescued," *Business Day* reported on May 8. Like President Franklin Roosevelt's war-time policy of extending credit to industries and farms according to their importance to the national economy, Mahathir is reported to have said that all transactions would be transparent, acting like a "national economic intensive care unit."

## Germany

### Dramatic decline of tax revenue continues

On May 20, the latest semi-annual official estimates on German tax revenues were announced in Bonn. The estimates reflect the accelerating decline in the German economy.

The Social Democratic Party spokesman on financial matters, Joachim Poss, outlined the results before the official announcement, in a discussion with the German economic daily *Handelsblatt*. Poss emphasized that the most important factor in the huge tax shortfalls, is the collapse of overall economic activity.

For example, the Gross Domestic Product in 1998 will be 309 billion deutsche-marks (about \$18 billion) lower, and 1999 GDP will be DM 377 billion lower, than projected three years ago. As a result, 1998 tax revenue will be DM 145 billion lower, and 1999 tax income DM 167 billion lower, than the official estimates of three years ago. Compared to the estimates of November 1997, the new tax projections will have to be lower again, according to Poss, by DM 4.5 billion for 1998, DM 35 billion for 1999, DM 44.5 billion for 2000, and DM 49 billion for 2001.

## Trade

### Asian crisis will hit U.S., says economist

Sung Won Sohn, chief economist and senior vice president of the Minneapolis-based Norwest Corp., and a former senior economist on the President's Council of Economic Advisers, warned that the Asian crisis will intensify and continue for as long as ten years, and that it will hit the Seattle-area economy very hard, in a speech near Seattle on May 21, the *Seattle Post-Intelligencer* reported.

Sung singled out aerospace and agriculture as the two export areas that are already feeling severe impacts. Boeing 747s "are lined up like a row of ducks" at airports in Korea, Hong Kong, and Singapore, he said.

On agriculture, in 1996, of the \$64 billion in U.S. agricultural exports, \$48 billion went to Asia. From the U.S. Northwest, he said, more than \$3.1 billion in products were exported from Washington state, much of it to Asia.

The ripple effects of a slowdown of agricultural exports can be seen in Seattle and Tacoma. Both ports are major centers for shipment of not only Northwest products, but also Midwest grain. Grain terminal operators report that Asian purchases have plunged, resulting in operational cutbacks threatening hundreds of jobs.

## Thailand

### Fight intensifies against IMF policies

"It's time to stand up and get the nation back," proclaimed a banner at an anti-IMF rally outside Bangkok's City Hall on May 24, the *Bangkok Post* and *The Nation* reported. The non-governmental organizations involved in the demonstration demanded that the full details of Thailand's fourth letter of intent with the IMF be disclosed. This group, which is associated with the newly created "Free Thai" movement, opposes the sale of state-sector firms, such as Bangchak Petroleum, to foreigners.



**THE TAIWAN** *Business Weekly* announced in May that it will publish a weekly column based upon news updates from *EIR's Strategic Alert*. *Business Weekly* said that it took the decision because of the escalating international financial crisis.

**SINGAPORE** is facing unprecedented unemployment, the *Straits Times* said on May 23. Trade union head Lim Boon Heng said in a radio broadcast on May 22, that 20,000 workers could lose their jobs this year, double last year's rate. (The population of Singapore is 3 million.) Manufacturing accounted for 75% of the 7,000 jobs lost in the first quarter.

**THE BANK** of New York announced on May 20 that it is withdrawing its \$22 billion hostile takeover bid for Mellon Bank. Meanwhile, the effects of First Union's takeover of CoreStates Financial are beginning to be felt in Philadelphia, where First Union will close 156 branches, eliminating some 1,400 jobs. The bank is also selling 95 branches.

**MARGARET THATCHER**, former British Prime Minister, has joined the 10-member advisory board of the New York-based Tiger Management LLC, the hedge fund run by Julian Robertson. The \$18 billion Tiger is the world's second-largest hedge fund, after the \$20 billion Soros Fund Management.

**PAKISTAN'S** Army Chief Gen. Jahangir Karamat warned that the poor health of the Pakistani economy is a greater threat to the security of the nation than any external threat. He called for stringent measures to revive the economy.

**JAPANESE** exports to other Asian nations in April dropped 18.1%, compared to April 1997, according to data released by the Finance Ministry. In the same time period, Japanese imports from Asia on average fell 14.5%, and imports from Indonesia 34%, despite the collapse in value of the Indonesian rupiah.

In Thailand's northeast, 11 farmers organizations staged demonstrations that drew 20,000 people in Khon Kaen on May 24. They demanded that, if the government can bail out the financial sector, it can help farmers with their debts, too. The groups, spearheaded by the Forum of the Poor and the Assembly of Small-Scale Northeastern Farmers, are demanding that the government issue an executive decree to raise 500 billion baht in loans to help the farm sector, and grant a five-year moratorium on their debt to the Bank for Agriculture and Agricultural Cooperatives. These demands have been submitted to Deputy Prime Minister Sovit Khunkitti. The farmers warned that they will hold a mass rally outside Parliament House on June 24.

The protests are intersecting the worst unemployment in 50 years. Early on in the current crisis, the government warned that unemployment would double, from 1 million to 2 million, during 1998. The figure as of March was already 2.8 million.

## Shipping

### Indonesia crisis worries industry

The shipping industry is worried about the consequences of the turmoil in Indonesia, the May 19 *Wall Street Journal* reported. One-third of world commerce, including 80% of Japan's oil, travels through the searoutes near the 17,000 islands that make up Indonesia.

The Indonesian island of Sumatra forms one side of the Malacca Strait, through which about 400 ships per week pass on their way to north Asia. There have already been incidents of pirates boarding fuel tankers to confiscate and resell the oil. But, more serious than pirates, the article said, would be a nation split apart, where political instability could close these shipping routes. Bilveer Singh from the National University of Singapore warned that "the moment there is an explosion on land, the possibility of sea traffic being disrupted is very high." If rogue elements from the military become involved in the piracy, that would be "a whole different story," he said.

Noel Choong, head of the Regional Piracy Center in Kuala Lumpur, Malaysia, said that there have been three ship hijackings so far this year. "We believe that the prolonged crisis in Southeast Asian countries will increase the rate of pirate attacks," he said.

## Commodities

### World prices fall, as consumption drops

World commodity prices are falling, led by the world financial disintegration in Asia, which has drastically reduced consumption, *Barron's* magazine reported on May 25. The CRB/Bridge Futures Price Index, which covers many commodities, from metals to grains, oil, and livestock, has fallen from 262 in the second quarter of 1996, to 219 on May 22, or 16%. Among the leading categories, over the past 12 months the index of industrial raw materials (metals, etc.), has fallen from 271 to 211, down 22%; the price of livestock has fallen from 282 to 233, down 17%. The fall in prices hits hardest those countries that are producers of primary commodities.

The unraveling of the Asian economies is contributing to the fall: Because Asian meat consumption (cattle, hogs, poultry) had increased, Asia had become a large purchaser of soybeans, as a high-protein animal feedgrain. Soybean prices surged to a 14-year high in 1997, to \$9.04 per bushel. Now, Asian nations are cutting back or eliminating meat consumption. In the recent past, many nations in the Western Hemisphere had increased planting for soybean production. Now, with demand falling, the United States and Brazil, which were exporting 10.5 million bushels of soybeans per year to Asia, will likely only export 8 million bushels this year, a 24% decline. Prices have fallen to \$6.30 per bushel, and *Barron's* says that they could fall to \$5 per bushel.

China, which had been a large importer of copper, is, according to recent reports, selling it, which will depress its price. Asia's import of oil, similarly, has fallen from 9.6 million barrels per day, to 9 million.

## India faces policy dilemmas following nuclear tests

by Ramtanu Maitra and Susan B. Maitra

As the dust settles over India's mid-May nuclear tests and international reactions to the tests become sharper, a consensus is forming among domestic observers that it is time New Delhi cut down on incendiary rhetoric and begin establishing itself as a responsible power. This would require formulation of a new range of policies, and a self-imposed discipline within the ruling elite. Such policies would help develop greater cooperation with neighbors, as well as with larger powers in the region and beyond.

Some security analysts here have urged New Delhi to initiate a dialogue on a no-first-use agreement among India, Pakistan, China, and Russia—the nuclear weapons nations in the region. In order to get to the starting line on that, New Delhi has declared a self-imposed moratorium on further testing of nuclear devices, and the Prime Minister's Office has formally asked Pakistan to agree to a no-first-use policy. But, in the current charged atmosphere, the request has gone unanswered.

In his address to the opening of Parliament on May 27, Prime Minister Atal Behari Vajpayee shed no new light on the path his government intends to take. Meanwhile, within India, the debate over developing a nuclear weapons capability, if not the tests themselves, is picking up steam. Former Prime Minister I.K. Gujral spoke at a rally called by 40 organizations to protest the Bharatiya Janata Party-led government's conducting of the nuclear tests. Demonstrators charged that it was a dangerous ploy to cover up domestic failures, in an attempt to make people forget about the lack of power and water.

Analysts have begun to point out that there is an important distinction between testing and weapons development: The latter is a long and expensive process that will encounter continuing severe opposition from major powers, and perhaps considerable domestic opposition as well. As former Foreign Secretary Muchkund Dubey wrote, India will not be recog-

nized as a nuclear weapon state until it becomes one, and after the rest of the world has lived with this fact for some time. And this would entail: Warheads will have to be developed, missiles developed and tested, the two fitted together, a command and control and intelligence system developed and put in place, and a strategy for use of the weapons adopted. Finally, will come deployment. And at every stage of this process, which would take at least two to five years, India would be faced with the stiffest economic and diplomatic opposition from the nuclear weapons states.

Already, the United States has set three conditions for India to "restore its good international standing": Sign the Comprehensive Test Ban Treaty (CTBT), immediately and with no conditions; join negotiations for the Fissile Materials Cutoff Treaty; and forswear weaponization and deployment. While the first two terms may be acceptable to India, there will be strong opposition to the third.

### Crisis in the neighborhood

Pakistan, a military rival of India since its inception in 1947, came under intense domestic pressure to test its own nuclear device, and thus assure its population that the 120 million-strong country is not ready to surrender to India's "nuclear threat." On May 28, as *EIR* was going to press, Pakistan announced that it had carried out five nuclear tests.

A U.S. delegation, led by Deputy Secretary of State Strobe Talbott, CENTCOM chief Gen. Anthony Zinni, and Assistant Secretary of State for South Asia Karl Inderfurth, had recently been in Islamabad to assure the Nawaz Sharif government that there was another way to send the same message to its people and the world. The delegation reportedly offered Pakistan some \$6 billion in military aid and release of 48 F-16 fighter planes for which Pakistan had paid long ago, to refrain from testing. Pakistan evidently considered the offer inadequate.

Pakistani Foreign Secretary Shamshad Ahmed's sudden trip to China recently, at the latter's request, was also related to nuclear tests on the subcontinent. Ahmed held extensive consultations with Beijing leaders, and from all available information, China had not only asked Pakistan to refrain from testing, but had also asked it to sign the CTBT forthwith. It is apparent that Islamabad was not in a position to agree to the Chinese or the U.S. request.

Aggravating Pakistan's dilemma on testing, was a litany of provocative statements by at least two senior members of the Vajpayee cabinet. Indian Home Minister L.K. Advani suggested that India would now do its best to stop subversive activities within India, carried out allegedly from Pakistan. This statement has been widely interpreted to mean that India intends to undertake "hot pursuit" into the Pakistan-held part of Kashmir. According to Indian intelligence, it is from the Pakistan-held part of Kashmir that the Afghans enter the Indian-held Kashmir Valley to carry out terrorist activities. The statement raised the hackles of the Pakistani hawks.

Some observers believe this is exactly what Home Minister Advani was trying to achieve, namely, to push Pakistan to an early nuclear test, which would in turn invite tough measures from both China and the United States. Some even suggested that a Pakistani test at this juncture would ease international diplomatic pressures on India. Needless to say, such provocations, made wittingly or unwittingly by senior cabinet ministers, could just as easily send the wrong signals to India's other neighbors.

## Chinese-Indian relations

The Chinese responses to India's first tests were cautious, but following two additional tests on May 13, Beijing's statements became decidedly harsher. A follow-up statement issued by the Chinese Foreign Ministry accused India of using the "China threat" to justify its nuclear weapons testing, and claimed that India's action reflected "an outrageous contempt for the common will of the international community." China also accused India of seeking hegemony in South Asia, and urged that "the international community should adopt a common position in strongly demanding India to immediately stop its nuclear development program."

The Indian reaction to the Chinese statements was equally negative at the outset, but now some efforts are being made in New Delhi to get the boat back on an even keel. However, no clear strategy has emerged, and it is evident from Beijing's gestures that the initiative must come from New Delhi.

At the same time, there are indications that China is not ready to downgrade its relationship with India. Indian Ambassador to China Vijay Nambiar, who was called back for consultations, is of the view that Beijing reacted sharply for two reasons: India's official citation of the "China threat" in explaining its nuclear tests, and Defense Minister George Fernandes's, and others', jingoistic trumpeting of that theme.

There is reason to believe that China might not have protested so strongly had India conducted its tests a decade ago,

as observers here generally agree India should have done. There is also a growing acknowledgment in New Delhi that while China's nuclear arsenal build-up did create a weapons imbalance in the region, this happened decades ago, and that India's failure to protest China's buildup was no accident. Further, India was told by Washington years ago that China was helping Pakistan with its nuclear program, but New Delhi did not make that a diplomatic issue.

Defense Minister Fernandes further antagonized Beijing. When Fernandes, who openly opposes India's age-old policy toward Tibet, and who has been identified as a promoter of an international independent Tibet movement, started using the "China threat," and New Delhi issued statements to that effect following the nuclear tests, Beijing issued harsh rejoinders.

There is a growing uneasiness that New Delhi may have resorted to use of the "China threat" to strengthen the nation's security due to a possible policy vacuum surrounding the testing, or perhaps because of a serious misreading of signals coming from the United States. The chaotic discussion in Washington has lent some credence to this latter view.

## Beyond the nuclear explosions

After Washington put in place mechanisms to impose sanctions (as required by U.S. law), President Clinton has reportedly appointed a special action group under National Security Adviser Sandy Berger to work out the specifics. Indian analysts claim that if this group becomes functional, then it will put additional strain on India-U.S. relations.

All these developments indicate clearly that the Vajpayee government has no option but to immediately begin wide-ranging discussions to improve India's relations with its regional neighbors and the United States. Since India has close contacts with Israel in military matters, New Delhi can be expected to also exploit this channel.

It is evident from Washington's actions that the bureaucracy built up around various nuclear regulatory acts and disarmament treaties throughout the Cold War, is still very much in control there, and the bureaucrats stubbornly refuse to change the nuclear regulatory status quo. This is not unlike Washington's continued faith in the failed international monetary system, despite the fact that its inadequacy is causing economic devastation worldwide.

India must also take note of recent reports that the Chinese Foreign Minister, in a conversation with Secretary of State Madeleine Albright, urged the United States to work with China in pressing India to abandon its nuclear weapons program. This means that China now upholds the international nuclear status quo established during the Cold War era. Under such circumstances, India will find it impossible to pursue its proposal to modify the CTBT without worsening relations with China.

Signing the CTBT does not make India a member of the nuclear weapons club—for that, the Nuclear Non-Proliferation Treaty (NPT) of 1968 needs to be modified to include India, and there is no immediate prospect for that—but it

may open the door to a serious dialogue with the nuclear weapons powers.

The key issue for New Delhi is to see that the punitive clauses of the Multilateral Export Control Regime (MECR), which flows from the NPT, are removed. Since 1977, the MECR, which prevents export of dual-use technologies, has hobbled India's civilian nuclear power development. The effect of MECR on India's quest for superior technologies could become severe.

Equally important, India must be extra careful in tinkering with its economy in its efforts to break the U.S. economic sanctions. While it is necessary to dangle attractive contracts before those U.S. companies which are interested in investing in India, certain sensitive sectors, such as insurance, must not be opened up to appease foreign investors. Already, one finds that discussion of foreign direct investment on priority and non-priority areas has stopped. There are also indications that New Delhi may further open up the economy, to the detriment of the domestic manufacturers, under the pretext of breaking the U.S. sanctions. This backdoor approach to further globalization of the economy will in the long run jeopardize national security.

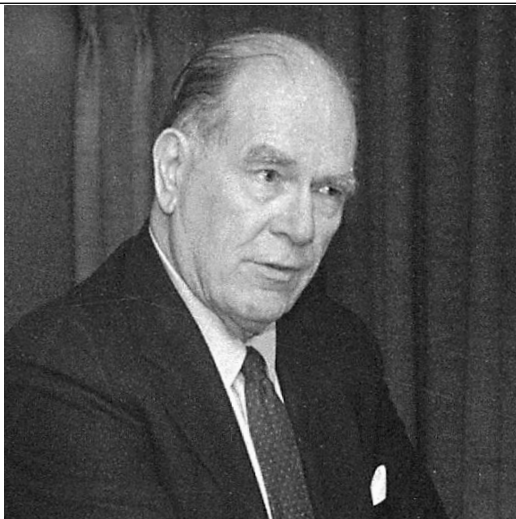
### To break the logjam

New Delhi, now faced with an angry and powerful China, has its work cut out. It should quickly open a flank with

Beijing before the situation is muddled further. This should not prove too difficult. Since the Joint Working Group was formed in 1988, a wealth of high-level contacts have been developed with China, and both sides have acknowledged the great potential that exists in improved relations.

As the former Chinese ambassador to India, now a senior member of a leading Chinese think-tank affiliated with the State Council of China, pointed out in a recent seminar in Delhi: "Regional economic cooperation between China, Myanmar, India, Bangladesh, Nepal, and Bhutan could be carried out in a gradual and step-by-step process, including expansion of border trade with preferential treatment, establishment of sub-regional economic zones, cooperation in science and technology, cooperation in education with more exchange of students, cooperation in air transportation with more short airlines opened to form a network, cooperation in developing international tourism, cooperation in exploitation of water, agriculture, forestry, animal husbandry, and fishery resources," he said.

"Most important, but also most difficult of all, is to construct a new continental bridge in the southwest of Asia. One possibility is to build a railway from the Yunnan Province of China through Myanmar to India. To achieve this goal in the 21st century, joint efforts of China, Myanmar, and India are needed, together with assistance from international institutions and developed countries."



# LaRouche ON RADIO

*Interviews with Lyndon LaRouche  
On the Weekly Broadcast "EIR Talks"*

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# The fate of the Mideast peace process is now in America's hands

*Faisal Husseini has been a key figure in the launching of the peace process in the Middle East. He led a Palestinian delegation to meet with U.S. Secretary of State James Baker III to lay the groundwork for the peace talks between the Palestine Liberation Organization and Israel, and was then named to head the Palestinian team to the Middle East Peace Conference in Madrid, Spain. Mr. Husseini is now the Palestinian Authority minister in charge of Jerusalem. He was interviewed by David Kilber in Los Angeles on May 15.*

**EIR:** Mr. Husseini, can you tell us of your current role and responsibilities in the Palestinian Authority?

**Husseini:** I am a member of the Executive Committee of the PLO, I was elected at the last PNC [Palestinian National Congress], and I have been the Palestinian Authority minister in charge of Jerusalem. Second, I am a member of the Central Committee of Fatah.

**EIR:** I believe you played a major role in the Oslo agreements.

**Husseini:** No, actually, I played a role before that. I headed negotiations with [then-Secretary of State] Mr. Baker for the preparations for the meeting, then I became the head of the Palestinian team for the peace process in Washington. Along with that, maybe, I played a part in making the link between Israeli negotiators in Oslo and the Palestinian negotiators in Oslo, without knowing that we were taking the line which would lead to the agreement. So we started, and were surprised after that to see that there were some fruits from it. . . .

**EIR:** What are you doing on this tour in the United States? What do you hope to achieve?

**Husseini:** Actually this visit is to Canada and the U.S., and I have a series of official meetings in Canada on the peace process and the responsibilities of Canada on the refugee problem, and about the role of Canada in Jerusalem. Here in the United States, it is mainly meetings with Palestinian, Arab, and Jewish organizations.

**EIR:** I heard that you met with the American Jewish Federa-

tion in Los Angeles.

**Husseini:** Yes, I met with the American Jewish Federation. Tonight I have a meeting with the Arab community here, and then tomorrow there will be another meeting, and then I am going to Dallas for the same purpose, maybe there I will have some meetings, also, with Americans. . . . And then, in Washington, I have a meeting with the State Department. All these meetings are either to mobilize people for pushing the peace process forward, or to fineline the governments, especially the United States, to take more courageous positions on important issues, especially on Jerusalem.

**EIR:** The proposal made by the United States, for a 13% further Israeli withdrawal, rejected by Israeli Prime Minister Benjamin Netanyahu, but accepted by Palestinian Authority President Yasser Arafat, is far short of what you expected from the Oslo Accords. U.S. Secretary of State Madeleine Albright mentioned, in an interview with the London *Financial Times* last week, that the Palestinians, she thought, had assumed that they would get more territory than the Israelis ever thought. Can you explain, actually, what the agreement was, in Oslo, on the Israeli withdrawals? How much territory was supposed to go to you?

**Husseini:** Again, the agreement was like this: In the beginning, we will have all the areas of Gaza, plus Jericho. And then, after that, there will be three redeployments . . . making a total of 90%. That is, 90%, because the areas the Israelis are not going to withdraw from are Jerusalem, the settlement borders and locations, and the military locations. Under any kind of assessment, this will not be more than 10%, leaving us with 90%.

**EIR:** How do you evaluate the U.S. position after Netanyahu's rejection of Albright's ultimatum? Do you think that the United States is supporting the Palestinian view more concretely now?

**Husseini:** What I can say, only, is that now the ball is in the American court. It is as simple as that. We accepted; the Israelis refused. First, are they going to be responsible for the peace process, and, if yes, are they willing to work to implement this agreement? And, if there is a problem

between the Palestinians and the Israelis, they will ask for arbitration.

Now, the Israelis are refusing the American suggestion, which was extremely more toward the Israeli suggestion, and not ours. Netanyahu suggested 9% [withdrawal] and the Americans suggested 13%, as opposed to 30%. So, we would like to know, in the end, who is the boss? Who is the boss in the Middle East? Is it Netanyahu, or Clinton?

**EIR:** It's becoming a real showdown, with Hillary Clinton supporting an independent Palestinian state.

**Husseini:** Yes, and we had another move, we hope that it is really the start of something. Clinton, for the first time, addressed an Arab conference in Washington. So, these two things, and the refusal by the Israelis of the American suggestion, puts the ball completely in the American court.

**EIR:** Could you explain to our readers why the Israelis have blocked important infrastructure projects, like the Gaza airport and seaport?

**Husseini:** Simply, when we went into this peace process with the Israeli partners, there were three consequences. The first one, that we are not agreeing with the Israelis on the business of historical rights. There are no more historical rights. It gets down to solving the problem with them in a certain way, which does not depend upon full justice and historical rights.

The second precedent is that their zero-sum game is over. Not everything that the Israelis are to gain, do we lose, and vice versa.

The third matter, which is ruining our relations and our negotiations, is Netanyahu's logic of power, instead of power of logic. He believes that everything we are going to gain, they are going to lose. And, because he believes that any strength of the Palestinians can threaten Israel, coming from the zero-sum game [standpoint], he's against any kind of airport, or any kind of port—even the preparation of the port. [This development] means we will find more work for our workers. We will have more investors. We will build our infrastructure.

**EIR:** How do you judge the subjective state of the Palestinian population in Gaza and the West Bank? Do you think people have any hope that the peace process can be restarted?

**Husseini:** You know that, unfortunately, the situation is like this: You know the governments can sign peace agreements, but if people are not seeing, or feeling, the fruits of the peace, they will not work for peace. And, if the peace is bringing them more difficulties, they will start to abort the peace process. Now, people are asking us, what is this peace bringing us?

**EIR:** What is the economic situation?

**Husseini:** First of all, the Israelis split our markets into two

markets: a small market in Gaza, and another in Jerusalem. Now, no investors are going to put money into such small markets. This is the first thing. The second problem is that the Israelis are isolating these two markets from the external world, making problems for us to export or import goods.

**EIR:** There has been very little credit forthcoming from the World Bank or International Monetary Fund.

**Husseini:** Yes. . . . They are not allowing it to us.

**EIR:** What, if anything, do you think can break the deadlock? Do you think pressure from Clinton would suffice, to force Netanyahu to implement the interim accords?

**Husseini:** Pressure from the United States will encourage the world to adopt the same method, and that will make the Israeli people feel that they might suffer if they don't do something.

**EIR:** What kind of pressure do you think would be effective?

**Husseini:** I believe that, first, you start by taking a clear position on this matter, and supporting the Palestinian position; and, second, to start putting on pressure to stop the delay in implementing the agreements. And, also, to open [up the issue with] the Israelis on the matter of nuclear weapons in Israel. Everyone is angry about India. I would like to understand why no one is talking about Israel. I would like someone to answer this: What are they [the Israelis] doing?

**EIR:** Are you familiar with Lyndon LaRouche's proposals for an Oasis Plan, that is, large-scale infrastructure development, for the region? We were confident in 1993 that if rapid economic development took place, the basis would be laid, in rapidly improving living standards for the Palestinian people, for an improvement in relations between Israelis and Palestinians. This was also our view of the way the Jordanian-Israeli peace would have to work. I would like to know what you think of that. I know it has been very disappointing, in terms of the credit. President Arafat has called for large-scale credit infusion, for tens of billions of dollars for development. Very little has come through, most of it for services, for police, and schools, and so forth.

**Husseini:** I believe I would like to see, even more than that, I would like to see Middle East cooperation to start with Palestine, Israel, Jordan, and Egypt, and after that, to spread to other places. I believe that not having any cooperation, the Middle East will not be able to open the next century in a dignified manner.

[Mr. Husseini's office responded, after the interview, from Jerusalem, after having a chance to look over LaRouche's Oasis Plan, with the following note: "Mr. LaRouche's proposals are ambitious and worth careful consideration. We do not disagree on the concept, but very much believe that in order to put it into action, we need large support from the international community and the U.S."]

# Sandline scandal causes tremors in Tony Blair's 'Cool Britannia'

by Dean Andromidas

A "very British" scandal has broken out over a "very British" coup, which threatens to bring down British Foreign Secretary Robin Cook and one or two other officials of Her Majesty's Government. The issue is whether the British Foreign and Commonwealth Office colluded with the British mercenary firm Sandline International, in an effort to overthrow the military junta in Sierra Leone, in Africa. The scandal is especially embarrassing, because it is in obvious contradiction to Cook's heralded "ethical foreign policy," which is one of the central features of the "New Labour" image. Prime Minister Tony Blair's "Cool Britannia" seems to be feeling the heat for the first time since it won office just one year ago.

Sandline International operates out of the same offices as the mercenary operation Executive Outcomes, as well as Branch Energy and a few other corporations (see *EIR*, May 8 and May 15, 1998). It was part of a network of British paramilitary mercenary and security companies described in an *EIR* feature report (Aug. 22, 1997), entitled "Britain's Invisible Empire Unleashes the Dogs of War." Sandline was at the center of a corruption scandal orchestrated to bring down the Papua New Guinea government of Sir Julius Chan. The current scandal has shed further light on what was written in that *EIR* report, including how this mercenary company worked in direct collusion with the British Foreign Office and Armed Forces.

In commenting on the scandal, Simon Jenkins of the *Times* of London wrote, "Every now and then the British political community goes mad. It rushes to the middle of the pitch [cricket field], tears off its clothes, gouges its eyes, and slashes its vital organs. After a while, and looking rather sheepish, it retreats to the dressing-room and resumes normal composure. Back on the field, two or three mutilated bodies are left in pools of blood." While this description captures the British private boys school culture which makes up so much of what passes for British politics, as a rule, when a British political scandal erupts, one must look elsewhere for the true causes and issues involved.

Tony Blair's coming to power last year was widely seen by the British elites as a continuation of "Thatcherism by other means." Blair's economic policies, indeed, are essentially the

same as the radical free-market policies of former Prime Minister Margaret Thatcher's Conservative Party. Nonetheless, the left wing of the Labour Party, of which Foreign Secretary Cook is a leading member, has been chafing at the fact that "New Labour" looks more like "Old Tory."

Far more important than Labour Party politics, are the strategic issues of Britain's relationship with the European Union, how to reestablish the so-called special relationship with the United States, and how to deal with the global financial crisis.

As one British businessman told *EIR*, "At the end of the day, a few politicians might lose their jobs, but the mandarins of the Foreign Office and the establishment running this country will remain intact." This observation has already, in part, been proven true, since a criminal investigation launched by the British Customs and Excise Department, into allegations that Sandline violated an arms embargo, has been dropped. At the same time, the government has launched an official inquiry into possible "misconduct" by cabinet ministers.

## A very British coup

The scandal was initiated when the *Sunday Observer* revealed that the British Customs and Excise Department was investigating a possible breach of sanctions placed on Sierra Leone after a military coup in May 1997, led by Johnnie Paul Koroma, who had been trained at Sandhurst, the British military academy. Koroma had overthrown the elected government of President Ahmed Tejan Kabbah. The crux of the scandal was the fact that the British ambassador to Sierra Leone had encouraged the deposed President Kabbah to hire Sandline International to aid the overthrow of the Koroma military junta, through the sale of arms and direct military action.

Sandline has tried to show that its involvement in the counter-coup was to reestablish the "democratically elected government of President Kabbah." This tactic was also used by Prime Minister Blair, who invited Kabbah to attend the Commonwealth conference in Edinburgh, while the latter was in exile. Blair has called the restoration of Kabbah "a good thing," for which the British government should take

credit. He dismissed the scandal as a lot of “hooha.”

In fact, Kabbah was restored to power by neither Sandline nor the British government, but by ECOMAG, the regional peacekeeping force led by Nigeria under a United Nations mandate, and supported by the United States. According to sources in Nigeria, the Nigerians made that decision in order to prevent “Africans from killing Africans.” In fact, if Nigeria had not intervened, the weapons which Sandline had purchased, would have gone to the Kamajors militia, which supported Kabbah. That would have simply prolonged the civil war, while enforcing a mortgage on the country’s mineral resources in order to finance the payment of mercenaries and purchase of weapons. These weapons, fortunately, were never dispensed, and are now stored in a warehouse under the control of ECOMAG. But while Blair has heaped praise on the Foreign Office for supporting “a good coup,” his government has led the drive for the international isolation of Nigeria and has pushed for even harsher international sanctions against the government of Gen. Sani Abacha.

*EIR* has documented on several occasions that so-called mercenary or paramilitary operations are in fact creatures of the British foreign policy/financier establishments. In regard to Sierra Leone, *EIR* showed that Sandline’s “corporately unconnected” sister company, Executive Outcomes, received its first contract in that country in 1993, when the country was ruled by Capt. Valentine Strasser; it was paid to fight the Revolutionary United Front (RUF) rebels, who controlled one of the most mineral-rich regions of the country. The funding for that contract came from mining concessions Sierra Leone handed over, carved out of the zone “liberated” by Executive Outcomes. When President Kabbah first came to power at the end of 1996, he cancelled the contract, under pressure from the Clinton administration. Before Kabbah made that decision, he was warned by Executive Outcomes that his government would be overthrown if the contract were cancelled. That prediction came true, and no doubt served as a powerful influence on Kabbah, in his decision to hire Sandline, the “corporately unconnected” sister company of Executive Outcomes.

One important new piece of evidence is a letter from Sandline International’s attorneys to the office of the British Foreign Secretary, outlining Sandline’s involvement in the military operations in Sierra Leone, and its contact with both the British and U.S. governments.

The letter is on behalf of two people: Lt. Col. Tim Spicer, a former commander in the Special Air Services (SAS), and chief executive officer of Sandline International; and Michael Grunberg, who is described in the letter as a consultant to Sandline. What the letter does not say, is that Grunberg is also a member of the board of directors of Branch Energy, a company founded by Tony Buckingham, a former officer of the British Special Boat Squadron. Both Buckingham and Grunberg are directors of DiamondWorks, a diamond-mining company based in Vancouver, Canada, which

in turn owns Branch Energy. DiamondWorks has issued a press release on the recent scandal, in an attempt to correct what it considers misleading articles in the press. The press release states that DiamondWorks and Branch Energy have “no formal corporate link” with Sandline. Nevertheless, Colonel Spicer maintains his office at precisely the same address as Branch Energy, as does Executive Outcomes. DiamondWorks and its subsidiaries have a diamond-mining concession in Sierra Leone. It also has diamond mines and energy projects in Angola, Uganda, and South Africa. In several cases, these mines have served as sources for the payment of the military operations of Sandline International and Executive Outcomes.

The letter describes the government officials with whom Spicer and Grunberg had been dealing on the Sierra Leone contract. These included, first of all, Britain’s High Commissioner to Sierra Leone, Peter Penfold, a diplomat who survived two coups in Uganda and a civil war in Nigeria, and who, in consultation with President Kabbah, “encouraged Sandline International’s involvement.” Thereafter, Sandline held discussions and briefing sessions with the following Foreign and Commonwealth Office representatives who deal with Africa: John Everard, Craig Murray, Linda St. Cook, and Tim Andrews. They also held discussions with Lt. Col. Peter Hicks of the Ministry of Defense and Col. Andrea Gale, the British Army adviser to the United Nations special envoy to Sierra Leone.

The letter details Sandline’s discussions with representatives of the U.S. State and Defense departments, including U.S. Ambassador to Sierra Leone John Hirsch, and State Department Africa specialists Charles Snyder, Dennis Linskey, and Michael Thomas. Also on the list is Allen Holmes, Assistant Secretary of Defense for Special Operations. Holmes was U.S. ambassador to Portugal (1982-85) at a time when Portugal was a major transshipment point for illegal arms sales to Iran, Iraq, and Africa. While the State Department does not deny its contacts with Sandline, it does deny that the purpose was for the arrangement of a coup.

*EIR* wrote in its August 1997 report, that the U.S. Defense Intelligence Agency, in July 1997, hosted a symposium at the Pentagon on “Issues Related to the Privatization of Security in Sub-Saharan Africa.” We wrote that this meeting reflected the British influence within the U.S. permanent bureaucracy. The guest list of more than 70 people included three representatives of Sandline: Spicer, Grunberg, and U.S. Col. Bernie McCabe (ret.). Executive Outcomes was represented by Eeban Barlow and Nic Van Den Bergh. Charles Snyder of the State Department was also there.

Of special interest, the Sandline letter mentions Philip Parham, of the British Embassy in Washington, who functions as the British Foreign and Commonwealth Office’s liaison with the U.S. State Department for Africa policy.

The letter details how, during the military operations which led to the coup, Sandline’s personnel were invited on



board the *HMS Cornwall*, which was stationed off the coast of Sierra Leone on a humanitarian mission. Engineers from the *Cornwall* assisted in the repair of Sandline's Russian-made helicopter.

*EIR*'s report documented that the paramilitary intelligence operations of the 1990s are merely the younger generation of the massive arms deals of the 1980s under the leadership of George Bush and Thatcher. Now it has also been revealed that one of the sources of funds for the Sierra Leone operation was Rakesh Saxena, a mysterious businessman who is currently sitting in a Canadian prison awaiting a decision on whether he will be extradited to Thailand on charges of fraud against the Bangkok Bank of Commerce. One of his accused co-conspirators in this fraud case is Adnan Khashoggi, the Saudi billionaire arms dealer who worked closely with Lt. Col. Oliver North and others in some of the largest Iran-Contra and other arms deals. Of Indian origin, Saxena was to finance arms purchases and pay for the services of Sandline in Sierra Leone, in return for lucrative diamond mine concessions. He was thrown in jail before he could receive his payoff.

Saxena is said to control almost 80 companies, many of which are based in the British Virgin Islands. Sandline was registered in this British territory in 1993, during the time that High Commissioner Penfold was Governor.

It has been reported that the company that shipped the weapons, Sky Air Cargo Services, was at one time called Santa Lucia Air—a firm which was created in the 1970s for shipment of weapons to anti-government guerrillas in Angola and other hotspots. It also shipped weapons to the Contras for Oliver North in the 1980s.

The London *Sunday Times* on May 24, 1998 reported that High Commissioner Penfold was in contact with an American businessman and arms dealer named Roger Crooks. Crooks had been described as the owner of one of the main hotels in Freetown, Sierra Leone. The *Sunday Times* claims to be in possession of a confidential British police document describing Crooks as a "freewheeling Texas millionaire" who had been involved in an international police operation aimed at preventing illegal shipments of arms and explosives. He is also reported to work very closely with Sandline, and leased a Russian-made helicopter, now used by Sandline in Sierra Leone.

*EIR*'s independent investigation has found some other interesting facts about Crooks. According to a U.S. intelligence source who had extensive experience in Central America in the 1980s, Crooks, during this time, was supplying weapons to the Nicaraguan Contras on behalf of North. (Apparently his relationship with North was a bit testy, since they are said to have had a fist fight in Costa Rica.) Crooks allegedly had been trained by the CIA as a covert operations specialist and participated in the CIA's ill-fated Bay of Pigs invasion of Cuba in 1961. In the 1980s, he established ties to Iran-Contra personalities such as Robert Owen, whose corre-

spondence with North documents that the Contras were being financed by drug barons. Another was John Hull, whose Costa Rican ranch was used to resupply the Contras and was a transshipment point for narcotics trafficking into the United States. It was allegedly through his relationship to Gen. Richard Secord that Crooks came into contact with Defence Systems Ltd. and, eventually, Sandline.

Crooks in recent years had turned his attentions to Africa, using Sierra Leone as a base of operations to supply weapons in the various African conflict zones. He allegedly supplied weapons to Laurent Kabila to overthrow Zaire's President Mobutu, and to both sides of the civil war in Angola.

## **Executive Outcomes threatens African stability**

The London *Sunday Express* on May 17 revealed the existence of an intelligence memorandum, apparently prepared in 1997 by Britain's Defense Intelligence staff, detailing the danger to African political stability posed by Executive Outcomes. The document shows that Executive Outcomes was first registered on Sept. 7, 1993 by Tony Buckingham and former SAS intelligence officer Simon Mann, currently Colonel Spicer's deputy chief executive at Sandline International.

The document, as quoted in the *Sunday Express*, states: "Executive Outcomes will dominate the security situation and may also control the bulk of the revenue-producing assets of Sierra Leone.

"There is a real danger that senior Executive Outcomes figures will become key powerbrokers, distorting attempts to return the country to some form of accountability.

"Their indifference to the social development of the country could easily foster rebellion, perhaps furthered by dissident groups outside the country.

"Executive Outcomes' widespread activities are a cause for concern. It appears that the company and its associates are able to barter their services for a large share of the employing nation's natural resources and commodities.

"On the present showing, Executive Outcomes will become ever richer and more potent, capable of exercising real power, often to the extent of keeping military regimes in being.

"If it continues to expend at its present rate, its influence in sub-Saharan Africa could become crucial."

The Defense Ministry document confirms the role of Executive Outcomes in Angola, where it had a contract with the government to aid it in its war with the UNITA nationalists. The document confirms a report appearing in *EIR* on May 8, that Executive Outcomes and Defence Systems Ltd. were playing a destabilizing role in Angola, undermining the U.S.-brokered peace process between the Angolan government and UNITA.

The Defense Ministry report notes that under the terms of the Lomé Protocol, which was supposed to end the fighting in Angola, the use of foreign mercenaries became illegal under

international law. But it says that mercenaries provided by Executive Outcomes have been concealed on the staffs of private industrial security firms operating in Angola. "Recognizing that the Lomé Protocol, if fully implemented, could speedily end Executive Outcomes' operations in Angola, a number of employees have attempted to establish their own businesses," the report says.

These conclusions were submitted to representatives of MI6, MI5, Defense Intelligence, and the Joint Intelligence Organization. The report, if deemed important by the permanent cabinet secretary, would be sent to the attention of the Prime Minister or Foreign Minister. As a work of the British intelligence service, it would be brought to the attention of the Queen, who is briefed once a week on intelligence affairs.

Nonetheless, despite the fears which seem to be expressed in the report, Colonel Spicer provided detailed tactical plans of the proposed counter-coup to an officer named Major Norman, of the very same Defense Intelligence staff which prepared this memorandum.

*EIR* asserted that these paramilitary operations, as a rule, enjoy very high-level political patronage. For instance, Defence Systems Ltd., based at Buckingham Gate, a few meters from Buckingham Palace, was at one time partly owned by the now-defunct Aitken Hume Bank. This bank was partly owned by Jonathan Aitken, nephew of the late Lord Beaverbrook, and had been a leading member of the Conservative Party. In the case of Sandline and Executive Outcomes, this patronage is provided by Life Peer David Steel. Lord Steel, founder of the Liberal Party and an old Africa hand, was also a director of Heritage Oil and Gas, which forms part of the Branch Energy corporate complex. Although his office says that he is no longer a director of the company, he has not cut off contact. In a letter appearing on May 18 in the *London Times*, he references a discussion of the coup with representatives of Sandline on March 3, 1998, a week before Kabbah was brought back to power.

Also sitting on the board of Heritage Oil and Gas is Andrew Gifford of GJW Government Relations, a political lobbying firm with excellent connections in the Foreign Office and the Parliament.

Lastly, *EIR* has documented that the International Institute for Strategic Studies is one of the principal authors of the policy of promoting "commercially viable" mercenary operations. In a commentary in the *Financial Times* on May 19, David Shearer, a research associate of IISS, takes the opportunity of this scandal to argue for the "need to control and regulate private military companies." Shear writes that in a world where the institutions of entire states are disintegrating, "private military companies . . . offer one of the few alternatives for a besieged government like that of Sierra Leone." He concludes by saying that the "decision by the Foreign Office to enter into discussion with Sandline was the most intelligent option."

## Rwanda mourns death of Seth Sendashonga

Seth Sendashonga, leader of the Resistance Forces for Democracy, was murdered in Nairobi, Kenya, on May 16. The Kenyan authorities have arrested a Rwandan businessman, who allegedly confessed to arranging the murder, which was reported to have been carried out by two hit men, one from Rwanda and the other from Uganda. In February 1996, Sendashonga and his nephew were wounded in an assassination attempt by two Rwandans in Nairobi; the attempt resulted in the expulsion of Rwandan diplomats from Nairobi. On May 16, Sendashonga was killed, along with another Rwandan Hutu and the driver of the vehicle taking them from a United Nations building to downtown Nairobi, when the car was sprayed with bullets.

Sendashonga was the Interior Minister in the new government of the Rwandan Patriotic Front, when it came to power in July 1994, but broke with the government in August 1995, accusing the RPF of carrying out the systematic murder of 312,000 Rwandans inside the country since it had come to power. He went into exile in Nairobi, and founded the Resistance Forces for Democracy, with Faustin Twagamirungu, the former Prime Minister of Rwanda, who had broken with Paul Kagame's government in Kigali at the same time.

From Brussels, Twagamirungu charged that Sendashonga had been killed on orders of the Rwandan government: "I am pointing to the RPF and its government. Professionals were sent to carry out this piece of dirty work."

At the point that he was murdered, Sendashonga had agreed to testify before the International Tribunal on Rwanda in Arusha, and was to be called as a witness for the Parliamentary Commission investigation on Rwanda now proceeding in France.

## Eulogy: Rwanda is in a state of shock

by Jean N. Gahururu

*Mr. Gahururu is a member of the Foreign Relations Committee of the Rally for the Return of Refugees and Democracy to Rwanda.*

A friend of Rwanda and of Africa, a world citizen (but no supporter of globalization), asked me to speak of the deep sorrow unanimously felt by the entire community of Rwan-

dans in exile on the death of Seth Sendashonga. Public opinion only knows this community from the way a perfidious media campaign describes them, as extremist Hutus, Interahamwe, evil criminals, dangerous scoundrels, and each and every one a genocidalist, unable to weep over death. And so, it is already being said that the exiles probably assassinated Sendashonga, and now, with crocodile tears, cynically blame it on the regime in Kigali! This is a challenge for the government of Kenya, which, as a state under the rule of law, will certainly guarantee an international investigation in order to clear this cynical charge.

Seth Sendashonga, born in 1951, belongs to what we call the *JFK generation*, in memory of the young Sen. John F. Kennedy's commitment to African independence and then his support, as President, for an education program in our countries, especially by sending American volunteers from the Peace Corps as teachers. Like the majority of Rwandans of his generation, Sendashonga grew up in the American tradition of *government of the people, by the people, and for the people*. I know that he regretted, as do all children of African independence, that the Americans do not always live up to this tradition, a historical reminder of African friendship favorable to the United States.

But what importance does this have for Muriel, Marlène, and Maxime, the three orphans Seth Sendashonga leaves behind? As a father, he willingly fulfilled his role of an understanding and affable partner by replacing his wife, Cyriaque, in the home. Holding a doctorate in natural science, she works all day at a United Nations organization in Nairobi. Cyriaque was a true companion in struggle with Seth ever since they were both exiled from Rwanda in 1976 for political reasons. Few people will remember that this orphan family has lost a very open husband and father, who had no complex about helping the children with their schoolwork, doing the cooking, the ironing, and so forth. For his family members and for many Rwandans, this is not an insignificant detail, given that Seth Sendashonga was a former Interior Minister and might have become, at the very least, minister again.

Rwanda has just lost a *statesman*, to the great sorrow of all his fellow countrymen, unanimously. A statesman, unlike the president of an association, is one who takes into account the aspirations and demands, not only of his friends, but also his political rivals, in order to protect the nation's higher interests. Sendashonga developed such qualities when he was still very young. A brilliant economist, he decided to struggle for *the founding of a state under the rule of law and for the respect of freedom and human rights* in Rwanda (cf. the platform of his political organization, the Resistance Forces for Democracy, FRD).

I would like to console Sendashonga's friends by reminding them that, from an historical standpoint, it is fortunate that good luck (Rwandans, all believers, will of course invoke God, Imana) saved him from an assassination attempt on Feb. 26, 1996. This was an attempt organized by the Rwandan

government and executed by Rwandan diplomats in Nairobi, including Mr. Francis Mugabo, who was caught with the weapon in his hand. Having survived, Sendashonga had time to become reconciled with a good number of his fellow countrymen, including those in the exile community. Indeed, many Rwandans begrudged him several mistakes, some serious, others less so.

For example, I personally did not understand why he organized, in April 1995, the blockade of PAM vehicles carrying supplies to Rwandan refugees living in camps in Zaire. He was Interior Minister of the Rwandan Patriotic Front government at the time, and he stated that it was *immoral to feed people among whom known criminals are hiding*. After resigning from the government in August 1995, he explained to us in detail that he and several other members of government had been more or less taken hostage, and forced to be token Hutus in the government in order to reassure international opinion. I forgave him, and sincerely so. On this same basis of sincerity, the many discussions between Sendashonga and a large number of Rwandan democrats had just led to some interesting proposals for building a Rwanda of reconciliation, which would respect the lives and rights of the human individual, and whose ultimate objective is not revenge, but reconciliation of the Rwandan people.

It was against this backdrop that Sendashonga had agreed to testify before the International Court on Rwanda, and that his name was among the list of witnesses to be heard by the fact-finding Parliamentary Commission in France. This former dignitary of the Rwandan Patriotic Front, who had documented the genocide and massacres of Hutus and democratic Tutsis committed by the Rwandan Patriotic Front from 1990 to today, was determined to dismantle the myth of the good liberator FPR, who went to war to stop the genocide of April 1994. Might that not be the reason he was assassinated?

It is an ontological paradox that Sendashonga, who was so concerned with protecting lives, including those of his adversaries and enemies, lost his own life as a victim of state terrorism. He was killed by the Jacobin terrorists of Rwanda, supported by a certain international community which tends to stand aside when faced with forces subverting the great values and causes of humanity, such as democracy! But we do have the consolation of knowing that he certainly passed away with a smile on his face. His life was both necessary and useful. Just as the Good Samaritan, a firm Christian and believer in the idea that man is created in the image and likeness of God, Seth rendered great services to humanity. And then, other Sendashongas will be born in Rwanda, and will not all die (*ntabapfira gushira*). To that extent, Seth is not completely dead. In Rwanda, everyone knows that *udapfuye, gatindi irapfa*, that is, for someone who is not yet dead, the curse disappears! That is the essential thing to say as a personal tribute to Sendashonga, a statesman respected even by his adversaries.

# Soros sets off 'coca revolt' in Bolivia

*The "native" coca-growers, fronting for George Soros's drug legalization mob, have declared war on the nation. Gretchen Small reports.*

An armed revolt has begun in the Chapare, the center of the drug trade in Bolivia. Led by the Andean Council of Coca Leaf Producers and its chief honcho, Evo Morales, the coca growers, or *cocaleros*, adopted the slogan, "Coca or Death," and vow they will wage war to stop the Banzer government from succeeding in its plan to drive the drug trade out of Bolivia within the next five years.

Morales, recently elected to Bolivia's Congress, declared President Hugo Banzer's anti-drug plan to be "illegal" and an act of "Hitlerian genocide." Since Morales's shock troops began organizing mass confrontations against government coca eradication operations in early April, more than ten people are reported to have died. At one point, the *cocaleros* shut down the highway which links the city of Cochabamba, the largest near the Chapare, with the capital, La Paz. They have threatened to assault military units and oil fields, and Morales announced, from the floor of the Congress itself, that he intends to help the *cocaleros* acquire modern weaponry, so they can fight "man for man, iron for iron" to defend "their" coca.

This is no spontaneous revolt, but a project carefully prepared over years. In 1996, Morales announced his intention to carve out a separate narco-state, declaring that the "Chapare will be a new version of the Mexican state of Chiapas, in the heart of South America." Now, his *cocalero* forces have made it an unconditional demand that the government pull the military out of Chapare entirely, an act which would hand the area over to the only other contending power there: the drug mob.

Bolivia's government has warned that what is at stake here, is the integrity of the national territory itself. "We must make very clear that this is one single country. There are no 'republicquettes,' or no-man's-lands. The government will not retreat in the face of threats which only are blackmail to violate the law," Government Minister Guido Nayar stated on May 2.

## London's Opium War in the Andes

International support for the uprising is well under way. Morales waved around in Parliament the fact that two dozen Swiss parliamentarians sent President Banzer a letter of "concern" over military and police intervention in the Chapare, as

evidence of the foreign pressure which he will mobilize against the government.

He also called a war council of the Andean Council of Coca Leaf Producers (CAPHC), held in Puno, Peru over the weekend of May 9-10, to coordinate actions in the Council's three major theaters of war: Bolivia, where the CAPHC uprising is supported by the Free Bolivia Movement party, which is a steering committee member of the Cuban intelligence-run continental terrorist apparatus, the São Paulo Forum; Peru, where CAPHC members overlap the old MRTA/Shining Path control networks; and Colombia, where CAPHC's ties are to the São Paulo Forum's Revolutionary Armed Forces of Colombia (FARC) itself. Morales himself, as *EIR* has documented, is an active member of the São Paulo Forum, serving as its public spokesman for drug legalization under the guise of "anti-imperialism."

The Puno meeting also began preparing a new theater of action: Representatives of Ecuadoran "peasants" attended as "special guests."

How was Morales able to mobilize so many Swiss parliamentarians to his cause so quickly? Why is he so confident of foreign support? Here lies the key to the actual strategic danger which the Chapare operation entails. The controllers of this war are not "American Indian natives," but work for London's Dope, Inc. itself. London has opened a new flank in its Opium War against the Americas, with the goal of destroying the Andean countries—Colombia, Venezuela, Ecuador, Bolivia, Peru, and Chile—as a platform from which to launch a final assault on the United States itself.

Four years ago, a bunch of European-based drug legalizers working in the global legalization project whose chief financier is George Soros, set up a project called "Coca 95," as the cover under which an extensive international support structure was constructed to defend the Andean-wide coca revolt. The people running "Coca 95" are fanatical drug advocates, who wish to reestablish free trade in every narcotic on the face of the earth: cocaine, heroin, marijuana, and synthetics—those invented, and those yet to be devised.

Even as Morales spoke of creating a new Chiapas in the heart of South America, Soros's European-based team bragged that they intend to line up the European Union with

the *cocaleros*, expressly as a geopolitical flank against the United States, through which to finally break the United States's refusal to accept London's global drug legalization plans. In August 1996, the Coca 95 newsletter, *Cocanews*, ran an editorial urging that "if Europe really wants to present an alternative to U.S. policy, it will have to summon up its courage . . . to confront U.S. economic and geopolitical interests in the region." In the same issue, CAPHC adviser Alex Contreras Baspineiro proposed that "the European Union . . . become a significant counterweight to the U.S. position, which is centered above all on the aspect of national security."

"Will the coca fields of the Chapare thus become battlefields between the EU and the U.S.A.?" he asked.

### 'With Dignity!'

Coca leaf, the raw material from which cocaine is extracted, is grown primarily in three countries of the Andes: Peru, Colombia, and Bolivia. For two decades, Bolivia was the second-largest producer after Peru, but both countries have now been surpassed by Colombia. One of Dope, Inc.'s problems is that in the past five years, the Fujimori government has reduced coca cultivation in Peru by more than 40%, and the Bolivian President who took office in August 1997, Gen. Hugo Banzer (ret.), has committed Bolivia to total eradication during his five-year term.

When Dope, Inc. first established its base in Bolivia in the 1970s, the country's role was largely to simply grow coca. By 1997, the drug trade had invaded every aspect of national life, and posed, as the new government recognized, "a serious threat to national security, the health of society, and social peace." In January 1998, the Banzer government issued a 90-page report, in Spanish and English, titled *With Dignity!*, which outlines the government's strategy "to liberate the country from the drug traffic circuit within the next five years." The premise of the strategy is, simply, that either the drug trade is driven out of Bolivia, or Bolivia will not survive as a nation. And, in order to save itself, Bolivia needs the aid of the international community.

*With Dignity!* states: "The phenomenon of drug trafficking in Bolivia has reached a critical point: Either it is destroyed immediately, and once and for all, or Bolivian society will have to live with it forever, with all the internal and external connotations that that implies. . . . The government is aware that such a challenge is extremely complex and difficult to attain, but it is also aware that not taking this responsibility would mean failing future generations. The fight against this scourge should be a definite and frontal fight. Efforts that go halfway will not lead to positive outcomes," but, rather, "will divide Bolivian society, and such a rupture could lead to fatal consequences for Bolivia of the 21st century."

According to their (probably conservative) estimates, some 80,000 people are today involved in the coca economy

FIGURE 1

### Bolivia's coca-growing regions



in Bolivia, 57,000 directly and 23,000 as adjuncts. Ninety-five percent of the coca grown in the primary growing region, the Chapare, goes to the production of cocaine. No longer are the coca producers merely growers: The majority are now also involved in the refining and trade of coca paste (the intermediate product from which cocaine is then extracted). The national parks have become new centers of cultivation; cocaine laboratories are being established in Bolivian cities; drug use by Bolivians, especially the young, is increasing; and drug money is corrupting "major and minor institutions, from sports associations to all branches of the state," the financial system, and the judiciary.

The government argued that, to reverse this, the population must be mobilized, and a unified state policy adopted, which attacks drugs on all fronts: eradication of coca, and the provision of alternative development; interdiction, with a special focus on seizing the precursor chemicals without which cocaine cannot be produced; prevention and rehabilitation; passing laws against money-laundering, and the establishment of anti-drug courts, so that the ground gained in interdiction is not lost in the justice system.

With tens of thousands of families now involved in the drug trade, the war cannot be won without developing the country. The government designated the coca-growing areas, and so-called "expelling zones" (areas from which impoverished people migrate, in search of employment), as target

areas where basic services—energy, potable water, sanitation, health care, education—must be provided, and technical aid for irrigation systems and agro-industry made available. Among the goals set for these five years: building 3,000 kilometers of roads, laying 500 kilometers of electricity lines, providing 100% of the population with basic services. Overall, a modest program, relative to Bolivia's tremendous agricultural and industrial potential, and one which, the government estimates, will require \$190 million a year in foreign financial aid.

### Jeffrey Sachs's shock troops

One of the key individuals personally responsible for driving Bolivia so completely into the hands of Dope, Inc., is Harvard economist Jeffrey Sachs, the man whom George Soros would later hire to advise the governments of Poland, then Russia and other eastern European countries, to similar destructive effects.

Sachs directed the economic program implemented by the Paz Estenssoro government (1985-89), working through then-Planning Minister Gonzalo Sánchez de Lozada. Sachs's program guaranteed debt payments by shutting down the national economy, most particularly, the state mining company, Comibol, to the benefit of the drug trade. In his 1988 study, *Bolivia: 1952-1986*, Sachs admitted that he knew exactly what he was doing: "To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls in Comibol. . . . Comibol has reduced its employment from about 30,000 workers in 1985, to just 7,000, as of 1987. Many of these workers are still unemployed, or only marginally employed, or have gone to the coca-growing region to find work. The mining towns themselves have been decimated" (emphasis added).

Some say 50,000 miners lost their jobs under the Sachs team, and that 30,000 of them migrated, primarily the Chapare, to become coca-growers.

The decimation of the economy reshaped the institutions of Bolivia, and directly created today's Chapare crisis. It was in 1988, that Morales first came to prominence as a *cocalero* leader in the Chapare. Historically, mining unions had formed the backbone of the Bolivian Labor Council (COB), but today, the former miners make up the majority of the *cocaleros*, and it is the *cocaleros* who politically dominate the COB.

In a 1997 analysis of insurrectionary potentials in Ibero-America, São Paulo Forum strategist James Petras identified this dramatic restructuring of Bolivia's labor movement as critical for the Forum's overall strategy. The "miners turned peasants" hitched their organizational skills to Evo Morales's indigenist agenda (land, cultural autonomy, and "traditional spiritual values"), to create a force in the heart of South America, which is united under the standard, "coca-growers versus the Empire." Their ultimate enemy is "the U.S. empire," with its anti-drug military and police aid, wrote Petras.

(Petras, based in the sociology department of the State University of New York at Binghamton, is a self-described "professional international agitator," regularly featured at Forum events.)

The miners brought more than "organizational skills" to the *cocaleros*: As Soros's Human Rights Watch/Americas admitted in a May 1996 report on the Chapare, the former miners are also experts in handling explosives.

### The arguments of the user . . .

Morales, for all his posturing as the leader of the poor peasants of Bolivia, proves to be but a front for an operation bought and paid for by the Queen of England's favorite speculator, mega-billionaire George Soros.

In June 1994, representatives from 15 non-governmental organizations (NGOs) of 11 European countries met in Brussels, to establish a project called "Coca 95." Its goal, they claimed, was to stop global eradication programs against coca, and remove coca from the 1961 United Nations Single Convention's list of proscribed drugs, on the grounds that coca is allegedly a "traditional" product, central to "the Andean worldview," which contains "medicinal" properties. The Coca 95 project was financed in part by the European Commission.

The project still continues, now called "Coca 97/98," and it is run out of the Antwerp, Belgium headquarters of the European NGO Council on Drugs and Development (ENCOD). The NGO hydra which forms the project is detailed in the accompanying article and flow chart.

The Coca 90s project's express purpose is a fraud. Coca 95 was simply a new flank in the international drive to legalize the drug trade, designed, like the campaign to legalize "medical marijuana" and a hemp industry, to break the back of public resistance to drug legalization. And it is run by the same Soros crowd which runs those campaigns.

The chief "intellectual" strategist of Coca 90s is British anthropologist Anthony Henman. Henman, a founding member of the Soros-financed Drug Policy Foundation's International Anti-Prohibitionist League, consultant on drugs to the World Health Organization and the European Parliament, was paid by the French government and the European Commission to carry out "an investigative project" on cocaine in Europe in 1996.

Henman coordinates his coca/cocaine legalization project closely with Ethan Nadelmann, the chief honcho at Soros's personal dope center, the Lindesmith Center at the New York headquarters of Soros's Open Society Institute. Henman and Nadelmann both worked on the project, because as Nadelmann told this author in 1996, "it takes some savvy" to get through coca reform.

The Coca 90s team are fervent supporters of legalizing any drug around. In one of the project's early newsletters, CAPHC member Bartolomé Cáceres polemicized that coca

supporters must also support investigations into the benefits of opium poppy and cannabis, which have also been wrongfully “condemned and proscribed.” ENCOD’s October 1997 newsletter, for example, was ecstatic over the defeat of a Swiss referendum which sought to shut down a government heroin distribution program. The Swiss heroin program, the coca team wrote, had proved that “the providing of good quality heroin, in well-measured doses, made the [addict’s] physical health improve, because, as the project has shown, heroin can be consumed for long periods without causing health problems.” The time has come, they wrote, “to take steps towards the controlled legalization of drugs, which should also include mechanisms to regularize the obtaining of raw materials from the developing countries.” A January 1998 newsletter urged members to ensure that once “the universal right to production and consumption of all drugs” is recognized, then “the benefits of the traffic are distributed” fairly.

There is something perversely humorous about these coca “professionals.” One study on the “benefits” of coca promoted by the Coca 90s project, written by CAPHC member Rosa Urrunaga, claimed that coca is the Andes’ second greatest gift to the world after the potato, because, included in its long list of beneficial properties, it is an aphrodisiac, a hallucinogen, an “anti-stress” medicine, a narcotic, a psychedelic, and a great placebo for hypochondriacs!

The most lunatic of all is Henman, who insists that coca advocates drop the line that there is a distinction between coca and cocaine, and admit that coca and cocaine come from the same family, “and that their effects are distinguished not by class, but by intensity.” Traditional coca-leaf chewing in the Andes just shows that there are ways of absorbing small doses of cocaine that are “positively beneficial to the human organism.”

In *Drug Policy 1989-1990: A Reformer’s Catalogue*, published by the Soros-funded Drug Policy Foundation in 1989, Henman argued that there can be no “moral discrimination” over what form of cocaine is ingested, whether through chewing coca leaves, or ingesting coca paste or cocaine; individual users should simply decide what is the best means for rational use of these products, he wrote, citing his experience that coca paste as a daily stimulant is a disaster, but used as a complement to drinking binges, seems to work just fine.

“Put another way,” he wrote, “the prevention of drug problems in any society—whether traditional or modern—must of necessity go the route of proposing the ‘right’ way to use a drug, rather than attempting the futile task of scaring people away from using drugs at all. Within such a perspective, there is undoubted space for formulations which stress the relative advantages and disadvantages of different preparations of a given drug, or of different routes of ingestion. These are not moral arguments, however, nor even properly medical arguments. They are the arguments of maximal plea-

surable effect, or of minimal physical harm and psychic distress. They are, in short, the arguments of the user.”

### Where the dopers meet the ‘cocaleros’

The primary function of the Coca 90s project, however, has been to provide a cover for building up the CAPHC insurgency in the Andes, including logistics, financing, and political support. The newsletters of the Coca 90s project defend the FARC uprisings in Colombia, protest that the 1995 arrest of the Cali Cartel chiefs was really a “silent coup d’état by the U.S. against the Colombian state,” and even put in a good word for Peru’s (defeated) Shining Path terrorists, insisting that Shining Path has “radically modified” its policies, and is now “less authoritarian” toward the peasantry.

Since 1995, Coca 90s has financed at least six European tours for CAPHC leaders, where the *cocalero* crew arranged financing and political support, established networks, and put into place an international operation to crush any government which attempts to eradicate their business, the dope trade. Touring eight European countries in 1995, Evo Morales was built up into an “international name,” the best-known Bolivian “poor peasant” leader. (A Netherlands-based dope group, the Institute for Resource-Sharing on Drugs and Human Rights, even nominated Morales for a Nobel Peace Prize, for his “drug pacifism.”) In 1997, Morales turned to the Coca 90s project for help in financing an August 1997 meeting of the CAPHC in La Paz, ENCOD reports.

CAPHC and its backers told European governments that any aid to the Bolivian government would simply be used for repression, demanded help against the violation of their “human right” to grow coca, and demanded that the Europeans, unlike the United States, provide aid for the “peasants,” even if they did not eradicate coca.

Now, the showdown has begun. On April 1, the Banzer government implemented a critical measure of *With Dignity*’s eradication program: phasing out, over the course of 1998, the policy of directly paying *cocaleros* per hectare of coca eradicated. The policy had made coca-growing a doubly lucrative business, in which, according to the government, most of the \$85 million paid out over the years to over 34,500 *cocaleros* for eradication, was used simply to plant new coca bushes. Thus, no net reduction in the area under cultivation ever resulted. The Banzer government, therefore, ordered a three-stage phase-out of the system of individual compensation, and its replacement by one of community compensation, in which the amount subtracted from individual payments is invested in the development of the communities where the *cocaleros* live.

When that program began on April 1, the two flanks of the *cocalero* operation went into action: insurgency in the Chapare, and the mobilization of the foreign network, to cut off aid to the government, so that it will not have the resources to carry out its strategy.

# Command structure of the Coca 90s Project

Behind the **Andean Council of Coca Leaf Producers (CAPHC)** stands a network of often-overlapping, interlocked international non-governmental organizations (NGOs), many heavily funded and/or run by George Soros. The leading strategist of this coca project is British anthropologist **Anthony Henman** (see previous article), who coordinates closely with **Ethan Nadelmann**, the head of the **Lindesmith Center**, the legalization project located at the New York headquarters of Soros's **Open Society Institute**.

Principal tentacles of this NGO octopus include:

**European NGO Council on Drugs and Development (ENCOD)**. Headquarters: Antwerp, Belgium. Coordinates legalization network across Europe. Publishes a monthly Internet newsletter, *Drugs and Development*, available at [www.worldcom.nl/tni/drugs](http://www.worldcom.nl/tni/drugs).

ENCOD functions under the "Drugs and Democracy" project of the **Institute for Policy Studies-linked Transnational Institute (TNI)** of Amsterdam. Established in 1996, the "Drugs and Democracy" project put together a network of "researchers" in 16 countries, dedicated to attacking "the consequences of the militarization of anti-drug policies." The "Drugs and Democracy" team includes:

The **Andean Commission of Jurists (CAJ)**. Headquarters: Lima, Peru. A drug legalization lobby working under Soros's Lindesmith Center and **Human Rights Watch/Americas**, which has been at the forefront of the CAPHC operation. The CAJ co-sponsored, with CAPHC, the March 1996 seminar promoting coca legalization, at which Henman was the featured speaker.

Colombia's **Center for Research and Popular Education (CINEP)** is also part of the CAPHC/ENCOD coca project (see below).

**Washington Office on Latin America (WOLA)**, a human rights NGO which is also on the payroll of George Soros. WOLA's board of directors includes Human Rights Watch/America's **José Miguel Vivanco**, two staffers from the **Inter-American Dialogue**, and **Louis Goodman** of American University's "Bush Manual" anti-military project. WOLA received a grant from the Soros-funded **Drug Policy Foundation** in 1996, to finance its "Advocacy on Drug Policy in Latin America" project. The Lindesmith Center includes WOLA briefs on the Andes drug wars as a prominent feature of its Internet library (see below).

ENCOD was in on the founding of Coca 95, and today is its lead coordinator. Members of ENCOD's network active in supporting the CAPHC include:

**Arbeitsgruppe Schweiz Kolombien (ASK)** (Swiss-Co-

lombian Working Group). Based in Basel, Switzerland. ASK National Secretary **Peter Stirnimann** penned an editorial for the ENCOD newsletter hailing the Swiss government's heroin distribution project. ASK co-sponsored at least one of CAPHC's European tours.

**Gruppo Abele** of Italy. Maintains a "brotherhood" program between the municipal council of Bellavista, Italy, and Lunas Negras, a community "located in a coca-producing area" of Bolivia; it co-hosted at least one of CAPHC's European tours.

**Society for Endangered Peoples (GfbV)**. The Society's **Tomás Montoya** coordinates ENCOD preparations for the June 1998 United Nations General Assembly's Special Session on Drugs, and the Society brought CAPHC Propaganda and Culture Secretary **Omayra Morales Ramírez** as their delegate to the 40th Session of the Narcotics Commission of the UN Economic and Social Council, in March 1997. As an anthropological association dedicated to busting up the nation-state through ethnic separatism, it played a leading role in the Coca 90s project from the start, sponsoring a conference in Vienna in September 1995 for CAPHC leaders to speak on "Indigenous Peoples, Drug Trafficking and Development," and then sponsoring another seminar, also in Vienna, on coca's "value," during a November-December 1997 CAPHC tour.

**CIMADE**. Headquarters: France. Finances **Acción Andina**, another of CAPHC-related NGOs (see below).

**Frères des Hommes (Fdesh)** (Brotherhood of Man) of Belgium and Luxembourg. Financiers of **Acción Andina**. The Brotherhood's **Fabienne Grosjean** of Luxembourg accompanied the ENCOD-arranged Feb. 15-March 2, 1998 tour by European parliamentarians of Andean countries.

**Accueil Jeunes** (Youth Welcome), Belgium. Coordinated Brussels part of CAPHC's November 1997 tour with **Oxfam-Solidarity** and ENCOD.

**LADOC**. Headquarters: Amsterdam. Set up exposition on coca.

## Branches in the Americas

ENCOD names as its two primary counterparts in Ibero-America, the Andean Council of Coca Leaf Producers and **Acción Andina**. The two are effectively the same animal:

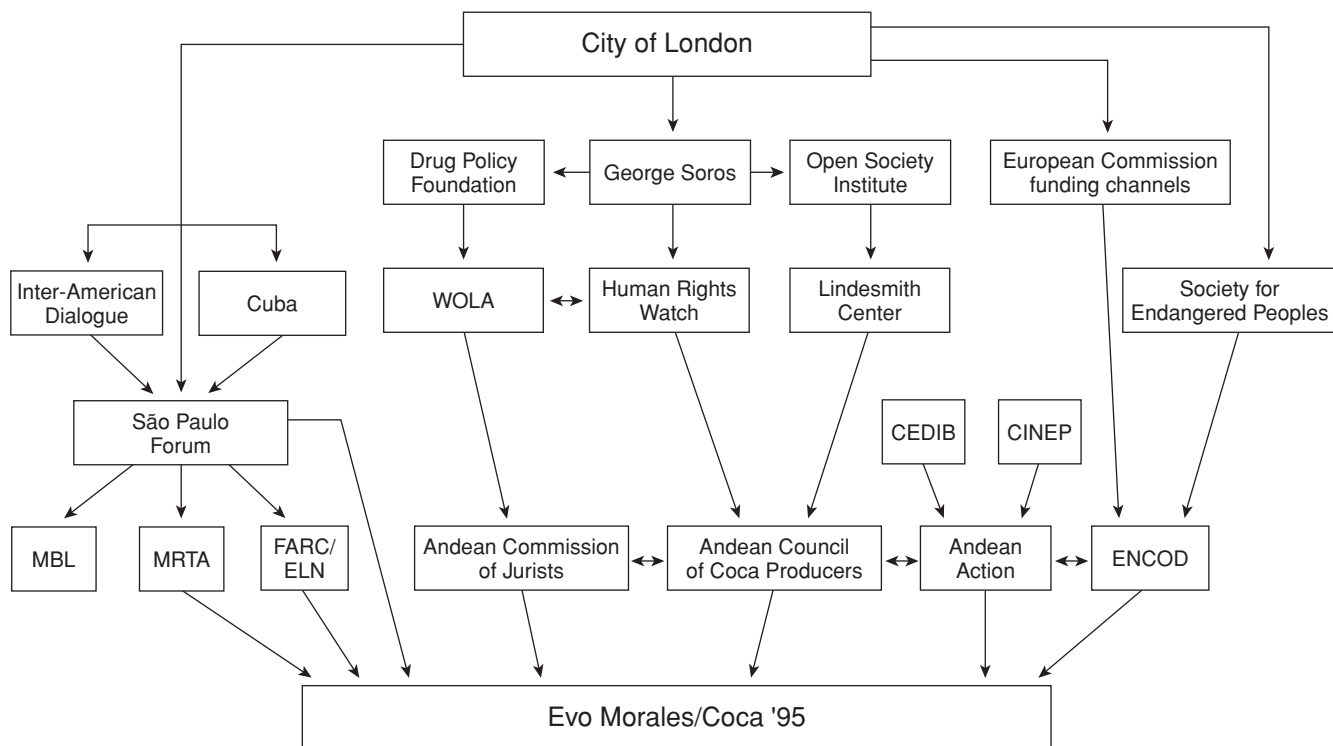
**Acción Andina (AA)** describes itself as "a platform which groups institutions and researchers from the Andean area" dedicated to stopping the war on drugs. Founded in 1992, AA is formed primarily by two other Andean organizations, and one Amsterdam-based group:

**Center for Research and Popular Education (CINEP)**. Headquarters: Bogotá. This is a Jesuit-run group which has taken the lead in promoting the "El Salvador model" of a United Nations peace accord with the narco-terrorists in Colombia, and demanding the take-down of the Colombian military. The CINEP official taking the lead in the CAPHC's Coca 90s operation is **Ricardo Vargas Meza**, a Colombian



FIGURE 2

**Who's running the coca legalization campaign in the Andes**



sociologist who heads CINEP's drug policy "research," edits the AA magazine, and leads its "human rights and violence" work. Coca 90s/ENCOD brought him to Europe in late 1997, during which time ENCOD sent Vargas to the UN's anti-drug commission as their representative.

**Centro de Documentación e Información Bolivia (CEDIB).** Headquarters: Cochabamba, Bolivia. Maintains close links to the Netherlands. The founder and director of CEDIB is **Maria Lohman**, a Dutch woman who has become a nationalized Bolivian. **Theo Roncken**, a Dutch psychologist based in Bolivia, is a researcher and frequent writer for CEDIB, and coordinates AA's secretariat. Together with AA and the **Red Andina de Información (RAI)**, CEDIB set up a project called **Cocapress**, which issues a monthly electronic newsletter.

**International Coca Research Institute (ICORI).** Headquarters: Amsterdam; branch in La Paz, Bolivia. ICORI's director is a Bolivian doctor, **Tomás Ríos**, who is also a member of AA. Bolivian psychiatrist **Jorge Hurtado Gumucio** represents the ICORI in Bolivia, and directs the "scientific-medical" work of AA.

One of AA's leading members is **Roger Rumrill**, the Peruvian "drug expert" journalist who turns up wherever coca is on the agenda. An adviser to CAPHC, founder of an Amazonian institute called Oro Verde, and co-director of the Peru-

vian magazine *Agronoticias*, Rumrill directs "Development and Environment" for AA. He was the first to announce the Coca 95 project, and has been published in *Cocanews*.

**'Human rights' for drug planes?**

The zeal of this octopus of NGOs in defending the drug trade reaches almost humorous proportions. In early 1998, TNI's Drugs and Democracy program, working with AA and WOLA, set up a "research and advocacy" project dedicated solely to closing down the United States-coordinated Andes air-bridge interdiction program, because, as they admit, it has successfully disrupted the "air bridge which connects the coca growers and coca paste manufacturers in Peru and Bolivia with Colombian cocaine refiners and distributors."

A task force was set up, headed by TNI staffer **Martin Jelsma** in Amsterdam, and CEDIB's Theo Roncken in La Paz, whose assigned task was to put together arguments to counter the clear evidence that the program is effective. **Coletta Younger** at WOLA was mandated to organize a conference in Washington, D.C., in June 1998, to present the results. Also on the anti-air-bridge team are CAPHC's **Ricardo Soberón** (also with Soros's CAJ); the CINEP's **Ricardo Vargas**; **Jayne Brener** at Brazil's **Instituto Giovanni Falcone**; **Adriana Rossi** of Argentina's **Centro del Sur** in Rosario; and **Frank Smyth** of Washington, D.C.

# International Intelligence

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## ***Norwegian 'aid' groups help fuel Sudan war***

A report which was produced by the Danish firm COWI Konsult (which, according to *EIR*'s sources in Denmark, is a major World Bank contractor for projects in Africa), claims that the Norwegian organizations Norsk Folkehjelp and Kirkens Noedhjelp have been contributing to prolonging the war in southern Sudan by funnelling humanitarian aid to John Garang's Sudanese People's Liberation Army (SPLA) rebels.

The report, which was prepared for the Norwegian Foreign Office before the mid-May visit by Norwegian Development and Human Rights Minister Hilde Johnson to Kenya and Sudan, states that "Norsk Folkehjelp has provided the SPLA soldiers with food, put cars and houses at the SPLA's disposal, and built schools for the children of the SPLA officers." The report also states that the organization is said to have been "more preoccupied with treating wounded soldiers at the front than providing care for the civilian population."

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## ***Netanyahu taking heat at home and abroad***

The leading candidate to become Israel's new chief of the General Staff, Maj. Gen. Matan Vilnai, spoke out on May 17 about Prime Minister Benjamin Netanyahu's decision to pass him over for Maj. Gen. Shaul Mofaz. Vilnai's outburst is unprecedented in Israel, where, as *EIR* had forecast, Netanyahu is reshuffling the military and security leaderships to carry out his "nuclear Armageddon" strategy. The peace camp and secular groups are mobilizing against the projected appointment of Brig. Gen. Yaakov Amidror to head Military Intelligence. Amidror recently referred to secular Jews as nothing but Hebrew-speaking Gentiles."

Netanyahu's efforts to bury the Oslo peace accords have come under fire as well. Former Prime Minister Shimon Peres (Labor) said: "For the past two years, the peace process has collapsed under the reign of

Netanyahu. Economic growth has disappeared, that was created by the peace process, and Sheikh Yassin [of Hamas], whom Netanyahu freed, roams about freely raising money for terrorism. The time has come for Netanyahu to stop blaming the previous government for all his failures." Tel Aviv Mayor Roni Milo, an anti-Netanyahu Likud member who is running for prime minister, was quoted by press: "Instead of talking about the collapse of peace, Netanyahu should keep his promise to withdraw 13% and continue the peace process."

Equally trenchant, were the remarks of Jordan's King Hussein on May 23, saying Netanyahu showed no "respect for the Palestinians and no commitment to . . . UN Resolutions 242 and 338, and the Oslo and Hebron accords." Regarding Netanyahu's recent threat to "set Washington on fire," the King said: "I believe that the last time that Washington was on fire was during the revolution against the British colonial power, when British troops burnt down the White House."

Meanwhile, Singapore's government has rejected a visit by Netanyahu, in order to avoid a public denunciation of his policies.

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## ***Mubarak, Chirac push for new Mideast peace effort***

Egyptian President Hosni Mubarak, in talks with French President Jacques Chirac in late May, proposed the convening of an international conference to restart the deadlocked Middle East peace process. He told Chirac that he had been asked by the Group of 15 developing countries, which had just concluded its summit in Cairo, to contact international groupings, especially the leading Western powers, to try to arrange a serious dialogue.

In their joint call, the two Presidents reiterated their commitment to the "peace process begun in Madrid," on the basis of "honest implementation" of UN resolutions 242, 338, and 425," and the land-for-peace formula. "This, according to our points of view, should lead the Palestinians to establish their independent state and to have the right to self-determination. . . .

"Given the above, the collective will of the international community became clear, as the peace process in the Middle East is highly prioritized with the hope of working out the Arab-Israeli conflict by the end of this century.

"In this regard, we stress the responsibility shouldered by all international powers, particularly the United States, the European Union, and the Russian Federation. Therefore, we call on these powers to painstakingly work to overcome obstacles hindering the resumption of the peace process at all tracks."

The proposed conference would occur in two stages, the first without the Israelis and Palestinians. The French Foreign Minister was quoted by the Israeli daily *Ha'aretz* on May 20 that, "it is impossible to hold a summit of peacemakers with Benjamin Netanyahu present. That is why two stages are necessary."

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## ***Milosevic moves against Montenegro President***

Serbian dictator Slobodan Milosevic has set the stage for a provocation against neighboring Montenegro, which, with Serbia, makes up "Yugoslavia." Montenegro is set to hold parliamentary elections on May 31, which the coalition of President Milo Djukanovic hopes to win. Djukanovic has been sharply critical of Milosevic's ferocity against ethnic Albanians in Kosova. On May 19, Milosevic ordered the majority of the Belgrade Federal Parliament, which he controls, to oust federal Prime Minister Radoje Kontic and to replace him with former Montenegro President Momir Bulatovic, Djukanovic's main adversary in the elections.

Djukanovic's response was swift, and bordered on secession from Yugoslavia: On May 20 in the Montenegrin capital, Podgorica, he labelled Bulatovic's government "illegitimate, illegal, and un-Yugoslav." The Podgorica Parliament voted in an emergency session not to recognize Kontic's ouster, and called it illegal, since the swing votes came from six Montenegro deputies whose mandates from the Montenegro Par-

**THE EUROPEAN UNION** has threatened to ban Israeli exports for violating the trade treaty between the EU and Israel, which included exporting goods labeled "Made in Israel" that were produced in Jewish settlements in what the EU considers to be militarily occupied territory, not part of Israel. The EU also accused Israel of palming off Brazilian oranges as "Jaffa" oranges, in order to retain preferential tariffs.

**SHIMON PERES**, speaking on the formation of a \$50 million Peace Technology Fund, spoke up for Palestinian President Yasser Arafat's call for a Palestinian state. Israel's last sane Prime Minister said, "As an Israeli father and grandfather, I am convinced that to remain a Jewish state, Israel needs a Palestinian state, and we have to say it clearly and do it right away."

**THE BRITISH** government will send Derek Farchett, the Foreign Office Minister in charge of the Middle East, to Iran, on the highest-level diplomatic mission since the Iranian death sentence against author Salman Rushdie, who lives in Britain, was pronounced. Britain has had no embassy in Tehran since the *fatwa* against Rushdie's *Satanic Verses* was issued.

**IRAQ'S** President Saddam Hussein has conveyed a message to Pope John Paul II, through Deputy Prime Minister Tariq Aziz, who met with the Pope on May 19: "We need the support of the Holy See, to get the embargo against our country lifted," Aziz told the press later.

**MYANMAR'S** anti-government activist Aung San Suu Kyi's top adviser, Tin Oo, was arrested by Thai police, and he admitted to conducting activities aimed at the overthrow of the Myanmar government. Thai police raided a safehouse for members of the All Burma Students' Democratic Front. George Soros's Open Society Institute is a champion of the ABSDF, which has been accused of involvement in bombings in Yangon.

liament had been rendered invalid on May 15.

Milosevic also turned down an invitation from Serbian Orthodox Patriarch Pavle to meet with him and the Montenegrin President on May 21. Montenegrin Metropolitan Amfilohije and Bishop Artemije from Kosova charged Milosevic with "consciously or unconsciously helping those who want to destroy the joint state of Serbia and Montenegro." Artemije added that Milosevic "has suicidal tendencies, to which he has subordinated the fate of the Serbian people." Both of Milosevic's parents, who were of Montenegrin descent, committed suicide.

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## ***Six Mekong states sign anti-narcotics pact***

Meeting in Hanoi on May 14-15, Myanmar, Cambodia, China, Laos, Thailand, and Vietnam signed three anti-drug agreements encompassing demand reduction among high-risk groups, improvement of drug abuse data-collecting systems, and cross-border cooperation for reduction of opium poppy cultivation. Implementation of the three accords will cost \$4 million.

In addition, a task force on cross-border trade was set up under a UN-sponsored regional drug cooperation scheme launched in 1995. The countries are also committed to work closer with health officials in information sharing, education, and addiction treatment, to curb the spread of HIV/AIDS through intravenous drug use. The UN International Drug Control Program has 12 projects in the region, worth \$15 million.

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## ***Surgery in New Zealand: Cut off the patient***

In a callous move by the Mont Pelerin-infested New Zealand government, more than 25,000 people will miss out on publicly funded hospital surgery, forcing them to fund their own surgeries or arrange to "medically manage" their conditions. A new rationing system for elective surgery, called "clinical priority assessment criteria," de-

veloped by Dr. Sharon Kletchko, will replace the present waiting-list system on July 1, dropping from the list those waiting for "minor" surgery.

The national director of the Health Funding Authority's new waiting-times project, Dr. Paul Malpass, said that one-quarter of the 100,000 people on current waiting lists will be dropped and referred back to their primary physicians; another quarter will be booked for surgery within six months, while half will be transferred to a residual waiting list, a gray area, where they will be "monitored."

Typical of New Zealand's managed-care system was the case of heart patient Colin Morrison, 42, who died after waiting four months for a triple coronary bypass. The average wait for heart surgery at his level of urgency, where he lived in South Island, is more than 22 months, compared with 5 months in Auckland, on the North Island. Between 1993 and 1996, hospital waiting lists grew from 62,000 to 94,000, and even nudged 100,000 in December 1997.

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## ***Hungary votes out socialist Gyula Horn***

Hungary's socialist Prime Minister, Gyula Horn, suffered defeat in the May 24 parliamentary elections. The second round of voting for the Hungarian Parliament was a blow to the socialist-liberal coalition, and a notable increase of votes for the anti-socialist opposition, which implies the end of the era of Prime Minister Horn. Horn, who was Foreign Minister in the waning days of communism, became Prime Minister after the early 1993 elections that followed the death of Prime Minister Jozsef Antall.

Horn's Hungarian Socialist Party (MSZP) received 137 seats, its coalition partner, the Liberal Alliance of Free Democrats (SZDSZ) 24 seats. The main opposition group of the liberal Young Democrats (FIDESZ) received 144 seats, and the Independent Party of the Small Landowners (FKGP) 49 seats. Pending final results, it is generally expected that FIDESZ and FKGP will form a majority coalition for a new government.

## Secret Stasi files: Will the truth ever come out?

by Jeffrey Steinberg

During Jan. 13-16, 1986, Tiny Rowland, the British monarchy's own "Butcher of Africa," hosted a closed-door London strategy session with a high-level delegation from the East German Ministry of State Security, the notorious Stasi. The East German team was headed by Gen. Dieter Uhlig, the top aide to Alexander Schalck-Golodkowski, the head of Commercial Coordination ("KoKo"), the agency within the Stasi that was responsible for arms, drugs, and other contraband smuggling. Schalck-Golodkowski reported directly to Markus Wolf, the Stasi's head of foreign operations. Uhlig was the director of IMES GmbH, one of the most important of the KoKo fronts, an "import-export firm" housed in the port city of Rostock, which was created in 1982 to facilitate arms shipments to the Middle East, Central America, Africa, and other hot spots.

What was this senior Stasi man doing in London, conferring with the top management of Lonrho, the Club of the Isles' number-one African raw material cartel? And what was in it for Tiny Rowland?

Despite a long, checkered career of thievery, Rowland was, and still is, well-known as a controlled asset of several British intelligence services, dating back to his World War II shenanigans with the Double-Cross Committee, which penetrated and ran Nazi fifth-column operations in the United Kingdom. He had decorated the board of Lonrho with such notables as MI6's Nicholas Elliot, House of Windsor in-law Angus Ogilvie, and City of London bankers Sir Edward DuCann and Duncan Sandys. Some of Rowland's seed money came from one of the Queen's own "discreet" bankers, Harley Drayton. Margaret Thatcher's government was also almost certainly "in the loop" concerning the Lonrho-Stasi confab. Sir Edward DuCann, a Tory Member of Parliament and top political adviser to the Prime Minister, was Lonrho's chairman.

The outcome of the London session was memorialized

in a series of secret Stasi documents, which following the collapse of the East German Communist regime in 1989, fell into the hands of a West German parliamentary committee, and were, eventually, made public. The documents include a contract, signed by Rowland and Stasi official Wolfgang Bruckner, itemizing a number of joint African business deals, and a 20-page travel report by General Uhlig, detailing the meetings in London. The papers reveal a tremendous degree of British-East German collusion, including the planned overthrow of at least two governments, and flooding of the African continent with weapons.

In the *Investigation* that follows this article, Angelika Beyreuther-Raimondi reports from a conference in Berlin on the status of the intelligence archives of the former Warsaw Pact states. You will discover that there is a great degree of collusion—a veritable East-West "gentlemen's agreement"—to bury some of the darkest secrets of the Cold War era. Many citizens of the former Warsaw Pact states are furious that they are being denied access to the secret police files, detailing decades of persecution against them, their friends, and family members. On the more strategic level, the burying and/or destroying of crucial archive material is aimed at hiding the fact that, at the height of the Cold War, collusion in drugs, weapons, and genocide was in full swing.

We begin this survey with a more detailed look at the Rowland-Stasi episode.

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### Tiny Rowland and the Stasi

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When the Stasi's chief black marketeer arrived in London on Jan. 13, 1986, Tiny Rowland certainly rolled out the red carpet. An attachment to the 20-page trip report by "Comrade Uhlig," naming the "discussion partners," revealed that

among the people with whom he conferred were: Edward DuCann, chairman of Lonrho, and the head of a Tory parliamentary faction who “maintains very close relations with the present British government, including with government leader Thatcher.” Another participant was A.H. Ball, also a Tory leader. Uhlig noted that Ball’s “father was head of MI5 shortly after the war and until 1961.” In fact, Joseph Ball was one of Rowland’s patrons throughout the latter’s early 1960s takeover of Lonrho.

General Uhlig informed his seniors in East Berlin: “During the negotiations with the Lonrho concern on January 14 and 15, 1986, in London, a relationship was established with Dr. Ashraf Marwan through Mr. Rowland. . . . Dr. Ashraf Marwan is married to President Nasser’s daughter. According to Rowland, he is said to have been head of the Egyptian secret service under Sadat. In addition there is a very close relationship with the Libyan revolutionary leader Ghaddafi, which was established as early as President Nasser’s time. . . . The close family relationships established at that time are maintained by Dr. Ashraf Marwan. According to Rowland, Dr. Ashraf Marwan enjoys access to Ghaddafi at any time. He is said to be in a position to solve problems in this way.” Rowland also told Uhlig that Marwan maintained offices in Cairo and had close ties to President Mubarak, and could be “useful to the G.D.R. [East Germany] in carrying out certain commercial projects.”

Uhlig added that “a meeting with Adnan Khashogy [sic] took place, also as a result of intervention by Mr. Rowland,” and plans were set for the “Arab millionaire” Khashoggi to travel to East Berlin in the last week of February 1986, to consolidate some large financing agreements.

While Rowland was offering to place his Middle Eastern “cards” in the hands of East Germans, the main focus of the three days of wheeling and dealing—at least, those matters covered in the Uhlig memo—was Africa. Rowland and his Stasi counterpart sealed a large number of commercial joint ventures, covering much of the map of the African continent, including several weapons deals. In a revealing note, Uhlig observed that “in its conceptual approach Lonrho views Africa as a single country and not as a continent containing many countries”—i.e., that Rowland rejects the idea of sovereign nation-states on the African continent.

Rowland provided Uhlig with a detailed and frank profile of Lonrho’s political/insurgency operations on the African continent. He spelled out which African heads of state were on his payroll, including Zimbabwe’s President Robert Mugabe. He boasted that the head of Lonrho’s Kenyan operations was the nephew of Kenyan President Daniel arap Moi. During the visit, Rowland arranged for a senior East German official to visit Kenya for a private meeting with the President. Up until Rowland’s intervention, no East German citizen had been able to obtain a visa from Kenya. During one of the meetings with General Uhlig and a second Stasi official, “Comrade Bruckner,” Rowland placed a phone call to the private office number of Ghana’s Prime Minister P.V. Obeng, and put

Bruckner, also a friend of the Prime Minister, on the line for a brief discussion.

Uhlig was briefed by Rowland on Lonrho’s role in supporting the Ugandan insurgency of Yoweri Museveni, an arrangement that also involved the Frelimo government of Mozambique, which provided training (by East German military personnel) for Museveni’s forces. “Lonrho is said to have repeatedly made one of its airplanes available to fly Museveni to Maputo, as well as to fly equipment and munitions to Museveni.” Rowland said that Museveni would soon be in power in Uganda, and Lonrho’s influence there would skyrocket.

Uhlig noted that “Rowland thinks Colonel Garang is a future President of Sudan. He emphatically portrays the need for helping Garang further. . . . Without Garang there could be no solution to Sudan’s domestic problems. In this Rowland is pursuing the goal of reactivating the Lonrho assets in Sudan, Xenana sugar plantations, which are now being nationalized.”

### **Another agenda?**

The Rowland-Uhlig sessions took place six weeks before the assassination of Sweden’s Prime Minister Olof Palme, on Feb. 28, 1986; at the time, Palme was in the process of discovering a huge East-West weapons pipeline, violating the UN weapons ban against warring Iran and Iraq. The arms pipeline was, in part, run through Uhlig’s IMES GmbH. Following the arrest of a Swedish arms dealer who had been the local contact point for IMES, there was alarm among the international arms smugglers, on both sides of the Iron Curtain, that hundreds of billions of dollars in weapons and explosives trafficking, which was financing intelligence operations East and West, might be blown.

At the time of the session, London sources have reported, Dr. Marwan was running a string of “private security” fronts for Rowland, which engaged in a wide array of covert operations. An electronics expert, hired by Marwan and Rowland, was arrested in January 1986 for the assassination of Gerard Houreau, the Seychelles opposition leader, who had crossed swords with Rowland and some of his “business” associates, including South African intelligence operative Craig Williamson. The assassination occurred in London.

In September 1996, two former South African secret police officials, Col. Eugene de Kock and Gen. Dirk Coutzee, testified under oath that Palme had been murdered by a group of South African operatives that included Craig Williamson and James Anthony “Ant” White. At the time of the assassination, White was the chief of security for Rowland’s Baira corridor pipeline in Mozambique.

In the early 1990s, a former top Stasi official, Herbert Brehmer, had publicly admitted that he had coordinated a disinformation campaign, aimed at blaming the Palme assassination on the European Labor Party and Lyndon LaRouche.

With Rowland security personnel and Stasi disinformation experts implicated in the Palme assassination, one cannot help but wonder: Was Palme’s elimination an additional agenda item in the January 1986 London sessions?

# Time to ensure justice for the victims of Communist rule

by Angelika Beyreuther-Raimondi

Eight years after the fall of the Berlin Wall, how are citizens of the former Communist countries of eastern Europe reappraising their own history? Supporters and opponents of the past totalitarian regimes still live side by side, and often know about one another's past. While there are demands for a thorough reevaluation of this history, there are also calls for finally closing the book. "The Heritage of Dictatorship and Internal Domestic Peace" was the theme of a conference held in Berlin on May 1-3, co-sponsored by the Konrad Adenauer Foundation and the Berlin-Brandenburg Evangelical Academy, the latter led by Ulrike Poppe, a civil rights activist in former East Germany. The conference dealt with the cases of Germany, the Czech Republic, Hungary, Latvia, Romania, and Poland.

Reports issued by the state security organs of the various countries on the way that criminal law has judged the crimes of the past, on the rehabilitation and compensation of the victims, and on the access that citizens have to documents about them, show that the course taken thus far is not considered adequate. Without access to the documents of the Communist era, it is difficult to make a scientific assessment, and, with the passage of time and increasing economic difficulties, media reports and public interest decrease. Has there actually been a change in the elites in these countries, or have things remained essentially the same, behind a new facade? In this report, and the interviews with conference participants that follow, we begin to answer this complex question.

The mountains of documents in the formerly Soviet-occupied countries are a very important heritage of the dictatorships. Yet so far, only Germany and the Czech Republic have set up institutions which are conducting an orderly examination of the papers of the formerly Communist security organs. In no other countries of the Soviet bloc, do citizens have comparable access to documents about them, and thus the possibility to demand the facts, including about the "means of subversion" used for years, sometimes decades, against them, their families, and friends.

## Germany: the Gauck Authority

Germany has set up a National Commission for the Documents of the State Security Service (Stasi) of the Former Ger-

man Democratic Republic, which is named after its director, former Pastor Joachim Gauck. This "Gauck Authority" is considered to be the model for dealing with the Communist-era documents, as all the conference participants confirmed. Most of the participants knew Pastor Gauck from conferences in their countries, in which he had reported on his work. It is simply not tolerable, Gauck said at one such conference in Warsaw, that "the state knew more about me than I did myself."

The Gauck Authority has become a big institution, with almost 3,000 employees, since the law was passed in 1992 governing Stasi documents. In addition to its central administration, the Authority has three departments—Archives, Information and Education, and Research—which publish scientific works on the dimensions, structure, and work methods of the Stasi.

Just how great public interest is in this conquest of the past, is shown by the fact that, so far, 3.9 million applications have been submitted, of which 1.43 million are for access to documents by private persons; 1.18 million have already been processed. And 2.47 million applications for information, often regarding public service, have been submitted, of which 2.26 million have been processed.

Although, in 1989-90, large numbers of documents were destroyed in Germany, and the foreign secret service of Markus Wolf was even able to dissolve itself, there are still highly interesting documents filling 180 kilometers of bookshelves, including 40 million boxes and hundreds of thousands of pictures and audio material. About 80 km of material is stored in the Berlin central archives, much of it in bundles or loose pages, some of them torn. From the whole mass of undestroyed written material, about 58 km were taken out of the archives of the former Ministry for State Security (MfS). Many kilometers of documents had to be put in order, or pieced together like a jigsaw puzzle. Now, half the unordered material is available for research, not counting the 16 km of documents which, during the 1989 revolution, were shredded and are now stored in large sacks.

## The Czech Republic

Dr. Miroslav Lehky, of the Office for the Examination



*Berlin's Brandenburg Gate, October 1990. The fall of the Berlin Wall and the demise of Communism opened up the opportunity for rule of constitutional law in the former Soviet bloc. A crucial aspect of that process must be the orderly release of secret files of the Communist secret services; but that has been blocked in many countries, by those wishing, for one reason or another, to wipe out any trace of the high crimes and misdemeanors committed during the Cold War years.*

and Documentation of the Crimes of Communism in Prague, reported to the conference on the process in his country. On Nov. 17, 1989, the 40-year-old dictatorship collapsed. Already at the end of 1989, the constitutional provision on the leading role of the Communist Party had been officially removed; but only five years later, on Jan. 1, 1995, was the first institution established comparable to the Gauck Authority. The director until recently was Dr. Vaclav Benda, a dissident and former spokesman for "Charter 77."

In 1996, the "Law on the Discovery and Individual Access to Personal Documents of the State Security Services on Individual Persons" was passed. Many documents had been destroyed in 1989-90, by security officers who were tried and convicted in 1992. Compared to what happened in East Germany, the document-shredding in the Czech republic was not so thorough and systematic, Lehky said; the documents were not centrally stored and their destruction was carried out, fortunately, in "a Czech manner and in Czech disorder."

In 1991, the so-called transparency law was passed, whereby former state security officials and high-level Communist cadres would be barred for five years from access to sensitive positions in government (in 1996, this was extended to ten years). This controversial law, according to Dr. Lehky, "was a purely defensive act, which was to protect society and democracy from a counteroffensive by the old cadres," since in 1991, the old cadres started "slowly and pragmatically" to sabotage the transformation process. Despite difficulties, this law has "been proven necessary and inevitable for the transformation of society from dictatorship to democracy." Here, too, Germany and the Czech Republic are models, as no other country has similar laws.

Despite this comparatively good situation in the Czech Republic, no one should have illusions that it is possible "to establish complete justice, and punish and document all the crimes of Communism," said Lehky. What can be achieved, is to prove guilt and responsibility in individual cases. And this is very important, because respect for law must be renewed in the citizenry, and that will happen only "if a crime remains a crime, even when the crime was perfectly covered by political power." This, he said, is the most important task of reappraisal of the Communist past, for the benefit of citizens in the present and the future.

Just how difficult all this is to implement in practice, emerged from the conference discussion. The same problems Lehky complained of in his country, appeared almost everywhere: For example, 50% of the old judges are still active, and in the state administration, the percentage is even higher. In the Czech Republic, people sometimes play for time, knowing that neither criminals nor their victims will live forever. And the new judges and attorneys have limited experience.

What about the possessions of the former Communist nomenklatura? At the beginning of 1990, the new Czech Parliament passed a law, as one of its first measures, on the confiscation of properties belonging to the Communist Party and related organizations, and a law on rehabilitation. That opened the way for annulling unjust convictions and giving compensation to victims, although it was, as Lehky said, unfortunately only symbolic.

It was possible, as in all the countries of the former East bloc, to get around the law. Of 12.5 billion estimated possessions of the Communist Party, only a couple of hundred could be found.

According to Dr. Oldrich Tuma, of the newly established Institute for Contemporary History, a change did take place among the Czech political elite, if one is talking about a few hundred people: government ministers, parliamentarians, senators, and leading party personalities. In the Parliament, there are only two members who were also parliamentarians during the Communist regimes. And in the Army, the change in leading personnel was rigorously carried out, and the newly appointed Chief of the General Staff is a graduate of Western military schools.

However, the new economic elite, the new owners of companies and top managers, are, according to Tuma, often those who exercised power in economic and sometimes political offices during the earlier regime—a logical development, considering that these were the people who, at the time of the revolution, had the advantage of financial means, contacts, and experience.

### **Closing the book on Poland's past?**

Poland's first non-communist Prime Minister, Tadeusz Mazowiecki, stated in 1989, that a big X should be drawn across Poland's past, declaring it a closed book. Still today, none of the victims of the Communist secret services in Poland have access to documents, there is no transparency law, and there has been no light shed on various political murders, such as that of Father Popieluszko. Prof. Dr. Sauerland, a dissident from Solidarnosc, argued, during the Berlin conference, for the establishment of something like a Gauck Authority in Poland, so that, among other things, those who were *not* informal collaborators of the state security services, would have the means to prove this, in the face of rumors and accusations against them.

The security service of the Interior Ministry had over 3 million documents, and military counterespionage had another 400,000. After the "clean-up operations," which lasted until February 1990, an estimated 40-50% of those papers, especially those related to leading personalities, were missing. On Sept. 4-5, 1989, for example, an order was issued to destroy documents regarding surveillance of the Catholic Church and Solidarnosc.

As early as 1956, archives with documents from the Stalinist era, had been destroyed. After 1989, the security service of the Interior Ministry, that is, the office defending the state, took over control of the documents. The party documents were handed over to the state archives, and placed under lock and key for 30 years, counting from the day of the initial opening of a document. Personal data on former secret service collaborators who worked in espionage and counter-espionage, are considered state secrets.

### **Battle for justice and history in Hungary**

Two Communist terror waves swept over Hungary, in 1948-53 and following the 1956 uprising. Between 1945 and 1953, about 10% of the population was condemned and pun-

ished, while in the 1956 revolution, 24,000 people were killed or wounded. Four hundred people were later hanged for their role in the uprising, and thousands were imprisoned. These facts have to be kept in mind, when one looks at the reappraisal of the Communist past in Hungary today: Since 1990, three legally binding decisions have been issued against the perpetrators of these crimes.

Dr. Laslo Varga, director of the Budapest Archives, linked the political shift in Hungary to June 16, 1989, when the executed leaders of the 1956 revolution were solemnly reburied, before hundreds of thousands of people. "The battle for democracy was thus stamped with the fight for justice and history," he said. Thereafter, however, the issue of reappraisal became the subject of partisan conflict, and nonpartisanship became impossible, according to Ferenc Koeszeg, member of the Hungarian Parliament and director of the Hungarian Helsinki Committee.

In Hungary, Dr. Varga said, people at the top were often replaced, but then the person who was second in command would work his way in. Today's Prime Minister, Gyula Horn, was the last Foreign Minister under the Communist dictatorship, and had a typical party career. The president of today's Parliament was the last Interior Minister, who was responsible for the elimination of secret service documents in the transition period. With the exception of three Free Democrats, said Varga, all the ministers had a normal career in the party or in the youth movement. Very seldom in Hungary have state attorneys, judges, or police been fired since the transition.

Seventy to eighty percent of today's managers in Hungary, were active in the Communist period, according to Koeszeg. Today they are working for foreign firms. In the notorious "spontaneous" privatization of 1988-90, media outlets were sold to Western publishers for less than their real worth, on condition that the Communist editorial board would remain intact. Thus, Bertelsmann of West Germany bought up the former Communist Party newspaper and employed the staff; Springer bought up the Communist provincial papers, etc.

What would a change in the elites look like, numerically speaking? asked Dr. Varga. There is a secret party report from 1984, which said that the hard-core dissidents numbered 200, the active Communist supporters 2,000, and the passive supporters, 20,000.

In Hungary, the archive law and the law to protect state secrets were passed in 1995, and the state security documents are practically inaccessible. The names of unofficial collaborators are classified as state secrets. The methods of the state security are also to remain secret. There has been only one book written on the activity of the Hungarian security service, and it deals with the end of the 1950s, the early 1970s, and 1988-89. "Summarizing," Varga said, "our scientific understanding of the Communist dictatorship in Hungary is very modest."



## First democratic regime in Romania since 1937

The first democratic government in Romania since 1937 entered office in 1996. Parliamentarian Dr. Gheorghe Ceaușescu, of the Civic Alliance, who belongs to this new team, spoke out at the Berlin conference, criticizing the fact that longtime Romanian dictator Nicolae Ceaușescu was supported by the West up to 1989, and that in the end it was the sons of the nomenklatura who received scholarships in the West. In the universities, the old professors have remained in place.

In Romania, there are no legal foundations for access to documents, and it is not even clear what is still extant. Regardless, said Professor Ceaușescu, a legal regime must be established urgently, otherwise there is the danger that rumors, aided by falsified papers, could be circulated against individuals. There is a big fight going on in Romania about this, as the bill for creating a National Committee for the Study of Securitate [secret police] Archives is being debated in Parliament.

## Latvia: 50 years an occupied country

Latvia was occupied and annexed by the Soviet Union, following the Molotov-Ribbentrop Treaty of Aug. 23, 1939, and was occupied for 50 years. The Soviet and German occupations were linked to enormous material damage and human losses. Between 1939 and 1949, an estimated 500,000 people died, about one-fourth the population. The majority of the national elite was killed or fled to the West. The country was russified and made a part of the Soviet Union.

Immediately after the restoration of Latvia's independence, in August 1991, the work of the Moscow-aligned Communist Party was declared illegal. However, political activity was not denied former Communists, and thus a former party affiliation did not have any negative effect on individuals, in the economic or political realm — to the contrary.

What about the new elite? Paulis Klavins, a parliamentarian and State Secretary from Riga, gave an impressive example: A Latvian judge had condemned a dissident in the Soviet period to seven years' imprisonment and deportation. Now, the dissident has a right to exoneration. However, the exoneration proceedings are to be carried out by the same judge who sentenced him in the first place!

In Latvia, the changing of the elite will take one or two generations, Klavins said. There was no outstanding opposition to the Communist government; there were only those who thought differently. The people in the courts, schools, and administration are the same who were there in the Soviet period. Alluding to those numerous West German judges and bureaucrats, who, though of retirement age, stayed on after the revolution to shape the administrative shift in the newly liberated eastern German states, Klavins said, "We had no West German pensioners who could be sent here, as they were to East Germany." Klavins added, "We will try to educate citizens. We will try to resist. How and for how long we will succeed, is not clear."

Klavins was in 1993 the director of the office which dealt with the files from the former Latvian security service. He painted a gloomy picture of the situation: The files are now in Russian hands, and could be used anytime to blackmail Latvian citizens. There is in Latvia a file on agents with 7,000 names, and every citizen is supposed to have the right to know whether he is listed there or not; but since the working files are missing, this list of agents is not very informative, since there is no way of knowing what the persons did or did not do.

## Will justice prevail?

What conclusions are to be drawn from this stock-taking? There are some in Russia as well as in the West who have no interest in looking back at the Communist past and in opening the files of the old regimes. There are too many hints in the papers of the former Communist regimes and their security services, of their own involvement in various atrocities.

The demand for a thorough accounting is not a matter of blind anti-Communism, or settling accounts with the past. It is a question of the right that men have, who lived for decades under arbitrary, totalitarian conditions, to live, now and in the future, in a state of law. Therefore, it is necessary for each of these states to develop an independent, patriotic elite, in whom the deeply insecure citizens may place their trust. The citizens must be given the opportunity to develop their consciousness of law, that certain simple facts must be rectified, or, as one conference participant put it, "that a crime remains a crime, even if the crime was completely covered up by political power."

Today it is almost everywhere the case, that society does not want to have anything to do with the terrible, irreversible injury done to victims. It is shameful that the victims often have to fight for their own credibility. They have waited in vain for any generous and just compensation, yet this is necessary, for the sake of justice.

Even if the files are incomplete, nonetheless access to them is required for historical and individual reappraisal, and also provides the opportunity to limit political manipulation and blackmail. In Germany, the broad access to files, according to Annegret Stephan, head of the Magdeburg Center for the Victims of Political Violence, has another important aspect to be considered, namely, that you can trace many different forms of resistance: "In the files there is also a lot of civil courage to be found."

These states must bring to light the truth about Communism, and transmit it to future generations; otherwise, speculators like George Soros will finance and influence a new elite.

If the crimes of Communism are not punished, according to Hungarian parliamentarian Ferenc Koeszeg, then those crimes can be cast in a relativistic light. He reported on how Communist songs have come back into fashion among some liberal circles in Hungary, and asked, "Can you imagine what it would be like, if liberals in Germany were to sing Nazi songs?"

## How to re-create a constitutional state

*Dr. Miroslav Lehky works with the Office for Investigation and Documentation of the Crimes of the Communists in Prague, Czech Republic. He spoke at the conference “The Heritage of Dictatorship and Domestic Peace,” and was interviewed by Angelika Beyreuther-Raimondi.*

**EIR:** Is it true that only Czechia, among all the other former East bloc countries, has founded an institution like the German Gauck Authority to manage archive material and investigate former officials of the Communist regime?

**Dr. Lehky:** Yes, it’s true—unfortunately so. It would be a great help, if such institutions as in Prague and Berlin also existed in other countries. It would be a great help also for the people in other countries, because it was Moscow’s centralized strategy, the highest power in the East bloc to move in a coordinated way against freedom, to violate human rights, and so forth.

Secondly, there is a mass of documentary material, not only in the Czech Republic, but also in Germany, and, as we have heard, in Latvia, and so forth, which has either been destroyed or still exists somewhere, and if there were international coordination and cooperation in this area, it would be possible, given the centralized coordination of the Communists, to better piece this mosaic together. That would be a practical help, a practical result. Unfortunately, up to now, such institutions exist only among us and in the Federal Republic of Germany.

**EIR:** The Czech secret service was very effective in its work. Is it your impression that the files are relatively complete, or have a larger number of them disappeared or been destroyed in your country as well?

**Dr. Lehky:** In my view, the KGB has copies, especially of the most important material. These copies were regularly made for the Moscow leadership, because the KGB coordinated everything that had to do with the intelligence services. Copies of those files, which were destroyed in our country, most likely still exist somewhere. It is probably only a question of time until we find them. . . .

**EIR:** You mentioned in your speech that some 100 indictments have been handed down.

**Dr. Lehky:** Not indictments, but accusations. Accusations have been made in those cases, where it is quite evident, that a specific perpetrator did this and that, that he committed crimes, and where we have clear evidence and documentation on that, or where witnesses exist—i.e., where we have recorded the testimony of these witnesses.

According to our regulations, that is where our authority ends, and then, we give our files to the prosecuting attorney. He has the means to corroborate all of this. Then the prosecutor brings the indictment and hands the case over to the court. Since Jan. 1, 1995, when our office was given the authority I mentioned, five persons were found guilty in court. And we have raised accusations in approximately 98 cases. But these are cases which we have not yet given over to the prosecuting attorney. Another 200 cases are still in the phase of documentation.

**EIR:** In your speech, you said that, in order to re-create a constitutional republic, a sense of law must be revived among citizens.

**Dr. Lehky:** It is an illusion to expect that one or two people, or the government, or the law, can make a constitutional republic. You know, the law is only an instrument, but a concrete power must stand behind the law, the society. For example, literally the same laws apply in Czechia that were in force in the Austrian-Hungarian monarchy. The monarchy, the first Czech Republic, and after them, the Communists, used the same laws to condemn people. Law, right, justice—these are all quite different things, quite different conceptions.

That is very important for the younger generation. We know that the Communists were perhaps naive in the 1950s, and they were primitive and brutal, and so forth. But I was astonished, and it was a shock for me to be at an interrogation, involving a border incident in 1986. It involved a border guard who is about 30 years old today. He was responsible for shooting a civilian, a citizen of the Federal Republic of Germany, on German national territory. We asked him various things, and it was astonishing to me that he answered: “Just let things be, I have other worries, I have a family and children. Just let things ride.” A relatively young person.

How is that for a state of mind? There is no sense of responsibility, no sense of guilt.

But that is important for a democratic society. Then I posed him the following question: “Will you say the same thing to the prosecuting attorney from the Federal Republic of Germany? Will you say the same thing (and you’ll have the chance, if you wish), will you say the same thing to the wife of the person you shot? ‘Let things ride?’ This woman has two children!”

It was my impression at the time, and that is what is important, that this was the first time that this young man ever heard such a thing, and that he thought about it. That is the core of the issue of the constitutional republic.

## Changes since 1989 in the Czech Republic

*Dr. Tuma is an historian at the Institute for Contemporary History in Prague, Czech Republic founded after the collapse of communism. He spoke with Angelika Beyreuther-Raimondi at the conference on "The Heritage of Dictatorship and Domestic Peace."*

**EIR:** Can you explain the change of the political elite in your country since 1989?

**Dr. Tuma:** Yes, the political elite, the politically active people, are mostly new people. Even, as I stressed, within the Communist Party itself. Those leading figures of the present Communist Party are people who are quite different compared to the Communist Party before 1989. So, even in the party, which still is Communist, it was necessary to make this change of personnel. As far as political elites are concerned, the change is very extensive.

**EIR:** And what about the industrial and economic management-level people? Despite the fact that you had Vaclav Klaus as the Prime Minister for a long time, and he is well known as the so-called "star pupil" of the free-market economy, there are still the old networks alive in the economic field.

**Dr. Tuma:** What I would like to say, is that there are people with a Communist past in the economic elite. But they are not in the same positions, and the structures are different. But those were the people, who, when the privatization began in 1991, had money, had connections with the information—those people who either belong to the old Communist managerial elite, or were even just political functionaries of the Communist Party apparatus. And they started quite new careers in private business or as managers in the partly state-owned companies, but mostly in the private companies; and, also, very often, in the companies owned by foreign capital, because the foreign capital considered them experts, with the experience and the knowledge, and the know-how.

It doesn't mean that the old networks exist as they used to be; of course, the structures changed, but many people with a Communist past, members of the Central Committee of the party, are now in positions which you can describe as the economic elite.

**EIR:** What is the structure in the banking sector?

**Dr. Tuma:** These are also those people. For instance, the present Prime Minister of the Czech Republic, Josef Tosov-

sky, is a person with a Communist past. He was member of the Communist Party during the Communist period; he was even chief of the only Czech bank in the 1980s to have a branch abroad, in London, the Zivnostenska Banca. He was director of this Zivnostenska Banca in London. This was quite an important function, and, obviously, not just anyone could be sent there, and probably only a real expert on banking. He was a governor of the Czech national bank, and now he is Prime Minister. Maybe he is an exception in the political elite, a man with a Communist past. But as far as public opinion is concerned, he is a transitional figure—he will serve as Prime Minister for a few months, and the public accepts him mostly as an expert on economy, not as a real politician.

**EIR:** The political change in the Czech Republic is the most complete, compared to the other countries we talked about.

**Dr. Tuma:** Compared to other countries. Well, Germany is a different case, the former East Germany; but yes, in Poland or in Hungary, you have very deep political changes, but still people in the Hungarian government, or the President of Poland, are people with a Communist past, and this is something, which probably wouldn't be tolerated in the Czech Republic. . . . Those people basically disappeared from political life. This doesn't mean from public life—they have influence—but they use their influence for themselves, not to promote the old ideas.

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## The problematic issue of Poland's files

*Dr. Banaszak is a jurist and a professor of constitutional law at the University in Wroclaw, Poland. Angelika Beyreuther-Raimondi spoke with him on May 3.*

**EIR:** The revolutions in the former East bloc countries took place with a great deal of initiative from Poland. That is why it was surprising for me to learn that there is no institution yet, which lets Polish citizens have access to their secret police files, and that Poland seems to be lagging behind other countries in working through its communist past.

**Dr. Banaszak:** First let me quote from the Bible: The first may also be the last. But, quite seriously: At the beginning of the Mazowiecki government, there was the “rough stroke” policy, which means that we drew a line, a stroke of the brush or pen that marks off the past, and we built the future anew. . . .

In the 1993 elections, the left came back to power. The reason for that was not that they had the majority of votes, but because the 5% threshold [to enter Parliament] was introduced. The conservative parties received [cumulatively] 35% of the vote, but no one party managed to get over 5%, and therefore could not enter Parliament. The ex-communists received 20% of the vote, and that made them the strongest party in Parliament—it was not that Poland had suddenly voted for the ex-communists.

But in this election, you can also see that it was not important to people, whether someone had been an agent or not: People elected an individual because they saw that he had adapted to new conditions, that now he spoke eloquently about the constitutional state, about the market economy, and he also took action in this direction. It is no accident, that the party elite transformed itself into a financial elite, which is the same phenomenon as we have heard about from Romania. . . .

Poland has had two generations living under circumstances which are very different from those in East Germany or Czechoslovakia. We had private agriculture, private craftsmen, private merchants, and Poland was well adjusted to the market economy. That is why hopes were so great that we would be able to take the [state-sector] businesses into our own hands.

What happened after 1989? Suddenly, the European Union was closed off to us in those very areas where we were competitive: agriculture, steel, coal. Then, of course, we tell

people, “Yes, you just talk a lot about market economy. But what is happening? The French farmers block Polish trucks with Polish meat from entering France. Where is this free-market economy?”

So people saw that the communists were a lie, but the free-market economy is not always the truth, either. And, then many people voted for the ex-communists, because they would say, maybe, they will find a “third way,” i.e., less than a totally free-market economy. We can observe the same thing in Slovakia and in Belarus—these hopes, which lead nowhere. . . .

**EIR:** What is happening with the files of the old regime, the party files, the state dossiers?

**Dr. Banaszak:** The first important thing is to allow citizens to see the files—all citizens. That is not the case now, but soon it will be possible. Why is that so important? This is something, which cannot only be important for the elite. There must be a “lustration” [ritual cleansing].

I’ll give you an example, the Oleksy case and even the head of state, [Lech] Walesa, were accused of having been agents. [Prime Minister Jozef Oleksy was forced to resign in January 1996 after allegations were made against him the previous month.] So, you can say, theoretically, he is an agent, but there is no proof; and then comes Oleksy and he claims that it is just a lie. Whom should I believe? Why can’t a constitutional republic prove these things through the legal system? Okay, we do not have all of the files; but, in the files we do have, we do not have Oleksy as a spy, and we do not have Walesa as a spy. Much has been altered in these files, and there was enough time to do that. Of course, this is all problematic. But, if we ignore the files completely, then that is a victory of the former secret service, because they will become important again, and they will appear as witnesses, and they can continue their manipulations.

**EIR:** Careful use of the files is naturally important, because they were forged and manipulated, and the Russians have used the files as blackmail material.

**Dr. Banaszak:** You have cited an important reason for the lustration. If we do not do that, foreign nations can always interfere. Any country can interfere in our politics; if we do not “lustrate,” then that can always happen. That is why access to the files is important. How can an individual prove that he was not a collaborator of the Stasi, if he has no access to the files? . . . Access to the files provides the possibility to defend oneself against lies about collaboration with the Stasi.

**EIR:** When will the draft legislation be passed?

**Dr. Banaszak:** Soon, I hope, but when? The next question is whether the President will veto it. The President, an ex-communist, is playing a game here. He said that we would not “lustrate” former Polish spies, i.e., agents in the West, because that would threaten our national security. . . .

## Hungary's files are still under wraps

*Dr. Varga is an historian and director of the Budapest City Archive. He spoke with Angelika Beyreuther-Raimondi at the May 1-3 conference on "The Heritage of Dictatorship and Domestic Peace" in Berlin.*

**EIR:** What is the City Archive? Do you manage the files from the old system?

**Vargas:** We have files which concern more than just the city. In a sense, we are a State Archive, because we have everything which pertains to Budapest, whether that is the city or the country. We store the files of the Budapest court, for example, where most of the political trials were prosecuted. That is one of the reasons I have been interested in this subject.

In 1995, a commission was constituted, with archivists and historians, whose task was to investigate just what still existed of the files of the Stasi [Hungary's communist secret police]. We found out what we know today about the Stasi files. We worked for four months and then offered our report, and only one book, as I said [in my conference speech], has been published on this subject in Hungary. The political parties had no interest in opening the files. Before the change in 1994, when the transparency law was passed [which allows "discovery" of party officials' political past and prohibits them from serving in political office], the Constitutional Court found parts of this law to be unconstitutional. At first, the Constitutional Court said that former victims, civilians, have a right to information. The discovery law had no provision for the concerned persons to have access to the files.

That is what the Constitutional Court demanded after the fact, and that was supposed to have been settled by September 1995, and then approved by Parliament. As it happened, it was only settled half a year later, long after the date set by the Constitutional Court. The Parliament is obligated to keep to the deadlines which are set by the Constitutional Court, but it often does not fulfill this obligation. That characterizes the situation: What happens in practice is often worse than whatever is written in the laws. If you look at how the Stasi files were treated, then you see that, to this day, everyone talks about how communism in Hungary was liberal: "gulash communism," you could travel, and so forth. But too little is said about the fact that it was the same system, the same Stasi, the same dictatorship.

Once we have investigated what was the same, then it makes sense to talk about the differences.

**EIR:** In Hungary, there were far fewer unofficial collaborators of the Stasi than in East Germany. But you said that the methods of Hungary's State Security were more effective and more modern than in East Germany.

**Vargas:** The Stasi in East Germany operated such, that they covered all areas, they observed everything, even if it was meaningless. The situation in Hungary up to 1956 and the beginning of the 1960s was similar, but it turned out that such an approach was not effective. Among us, there were some 1.2 million people targeted by the Stasi, but we have a population of only 10 million. It was perfectly clear that the Stasi could not possibly manage so many dossiers. And, they were repeatedly accused by the party of not taking on the right, or the real enemy thoroughly. So, they changed, and picked targets, where they knew exactly what to observe.

So, there are many people who were not under Stasi surveillance, and that naturally meant a certain freedom. If you didn't get into politics or otherwise make yourself prominent, then you could have a private life. To be sure, that was a big difference from East Germany, but there was no difference in the system. That is why I say that the Stasi in Hungary was more modern and much more effective.

**EIR:** In 1995, a law was passed to protect state secrets. The archive files, according to this law, were then sorted out by the successors of the Stasi, as to which were to remain secret, and the ones that were not then accessible. Is that right?

**Vargas:** The lawmakers have prescribed that all files which were established before 1980, have to be reviewed for a new classification within 12 months, and that deadline was passed in the summer of 1996. According to the law, all files which were not given a new classification, are open. But in practice, classifications are still being made by the National Security authority and other institutions.

**EIR:** Do citizens or do the victims have access to the files?

**Vargas:** Yes and no. Officially, they do have access, but this access is quite limited, because the files, which were compiled after 1980, are state secrets. If people are able to obtain anything at all, they are only allowed to read the files, but they cannot take notes or make copies. Since September, we have had an "Office for History," which was proposed by the Ministry. I wrote a report, or tried to write one, and I demanded that we establish a Hungarian "Gauck Authority"... [But] I would not compare Germany's "Gauck Authority" with [the Office for History], because our office has the opposite task in practice. It is supposed to release as little information as possible; yet it is in the Constitution, that everyone must have access to his own information. That was what the Constitutional Court demanded, but in practice, it is quite different. . . .

## Romanians want a new type of society

*Dr. Ceausescu is a member of the Parliament in Bucharest and also vice president of the Civic Alliance, a coalition of several parties, which is now part of the coalition government in Romania. He spoke with Angelika Beyreuther-Raimondi.*

**EIR:** You said that there was a reactionary government in Romania up to 1996. Is there a change of political elites now?

**Ceausescu:** We are now attempting to build a new type of society. There is a struggle in all of these countries against a system, and the system still exists, and we are fighting against this system. In Romania, the situation is the worst, because the same people were actually in power up to November 1996 as had been in earlier governments. It was more an adaptation, than a real change. Now there is a real change. But a real change of elites will happen only with the new generation. The youth have to be prepared so that they really bring the country back into Europe. That is how I think about this change of elites. There was of course a communist elite, and it wants to remain in power and in the leadership of society. . . .

**EIR:** Today Mr. Klavins, from Latvia, said during the conference, that only 7,000 names can be found in the secret police files in Riga, and that the rest have been removed to places east of Moscow. Are the files that were in Bucharest really still there?

**Ceausescu:** No one can know that, and the people who do know can't say anything, because they do not have access. These files are secret for 50 years. So they can't say anything. So, we just do not know. We only know that much has been destroyed. In [communist dictator Nicolae] Ceausescu's time, files on party members who were also unofficial collaborators of the Securitate were destroyed on a regular basis. So we only have the files of the non-party members. . . .

**EIR:** The Iliescu government was practically a continuation of the old policy.

**Ceausescu:** Yes, of course. [President] Iliescu studied in Moscow in the early 1950s, probably also had connections to the KGB; and during the Hungarian uprising in 1956, when Romanian students showed their solidarity with the Hungarians, he was personally responsible for having students arrested, with the result that they were thrown out of the univer-

sity. So he has a lot on his conscience. . . .

**EIR:** You reported that students had demanded the end of communism in 1989-90.

**Ceausescu:** On Dec. 21, 1989, when [Nicolae] Ceausescu was still in power, in Bucharest, I saw it with my own eyes.

**EIR:** Then people were put under massive pressure, people were killed.

**Ceausescu:** Yes, so that people would stay home, so that they would not go out on the streets, not make contacts, not organize demonstrations. "Stay home, it is dangerous, these terrorists shoot!"

**EIR:** And this pressure continued until 1996?

**Ceausescu:** Yes, and there was also pressure on the miners who came in June 1990 [when President Ion Iliescu mobilized pro-communist miners to come into Bucharest and violently break up demonstrations]. I can tell you, you don't see, even in the worst horror films, what you saw on the streets then. Iliescu said in 1990 that we should build an original democracy. What was destroyed when the miners came? They demolished the university; so, it was directed against the students. The headquarters of the democratic parties were also demolished, as well as the editorial offices of the democratic newspapers. The TV news reported that the miners found drugs and weapons in the party headquarters, and counterfeiting machines. Well, when you find these kinds of things, drugs in a party's headquarters, then that party is finished. . . .

An "original democracy with one party," that is what he had in mind, and he was in an alliance with the extremist parties, with the Greater Romania party, an extremist party, anti-Semitic, against the Hungarians, against democracy, against everything. . . .

**EIR:** Now there is a new government. Is it a priority to clarify the past?

**Ceausescu:** I think that is a priority, because reforms cannot be made only in economics. Of course, we do have to do something in the area of economics, so that people are a bit better off, we have to see that. But, we have to begin with this. The law on access to the files is moving a bit too slow, in my opinion. . . .

**EIR:** Do you think this whole history has to be rewritten?

**Ceausescu:** Absolutely, . . . especially because there are certain things in Romania, for which there are probably no precedents: in the prisons, in the extermination camps. People were tortured for so long and so brutally, there, until they were turned into henchmen. That was an experiment they carried out there: such experiments! Hardly anything is ever said about the people who were there. Horrible, unbelievable things have been learned from other prisons, but something like this, it seems, no one wants to remember.

## Most Latvians live below the poverty line

*Mr. Klavins is a member of the Latvian Parliament and State Secretary in the Defense Ministry. He was among the speakers at the conference on "The Heritage of Dictatorship and Domestic Peace," during which he gave an interview to Angelika Beyreuther-Raimondi.*

**EIR:** You said in your speech that your country is dying.

**Klavins:** Yes, that is the statistics. They prove that the death rate in recent years, is twice the birth rate. The general economic situation affords only a small percentage of our people a secure income and well-being: These are businessmen, entrepreneurs, and people who earn large (and perhaps undeserved) income from state-run firms. But 80% of the people live below the subsistence level, and a large number of them are pensioners or handicapped. Also in this category, are the people who do not work in factories, that is the entire educational workforce—all teachers are underpaid—the medical professionals—from doctors to nurses—as well as the judges. That causes problems in the courts; there are too few jurists, not all judges' positions are filled. Good lawyers are not available in the district attorney's office or in the courts; they go into private practice.

**EIR:** How do the Russian economic sanctions affect you?

**Klavins:** At first, the Russians threatened economic sanctions. When they noticed that that was not appreciated by the West, they rescinded them quickly, but continued them in practice. It didn't operate through a ministry, but very simply, at the border, certain goods are not let in. So, you cannot import goods anymore. Or, other tricks are played: For instance, all documents must be notarized and presented in Russian, such international documents as drivers licenses, customs documents, and so on. And so, with these things, one can affect whole areas of the economy, which, of course, causes unrest in the country. And, it affects the Russian-speaking population, many of whom work in the factories. One could survey exactly who is being affected by these sanctions. . . .

And why? Even during the Tsars, there was a Russification policy. During 50 years of Soviet occupation, the Latvian population was culled by deportations; many, of course, were killed in the war, or fled east or west, or overseas. And, now by the artificial industrialization: Latvia is an agricultural country; in spite of the fact that it was economically irrational,

factories were built, such that everything had to be brought in from outside—energy, raw materials, and manpower. That is completely uneconomical, but thereby one could increase the Russian population, and what they did was to increase the population of Russian-speaking peoples from Russia, Ukraine, and Byelorussia to 46%, and reduce the Latvian population to 54%; of the Russian-speakers, 30% are from Russia, and the rest from the other republics. Russian was supposed to be the dominant language, which it was until independence. Now we see that it is Russian policy that these people should be recognized as citizens. But, among those who are eligible to be naturalized citizens, only 7% elect to do so. . . .

**EIR:** What is the situation with the secret police records in the three Baltic states?

**Klavins:** The situation with the records is as follows: The KGB transferred documents from Estonia and Latvia to Russia as early as 1988-89. What remained in Latvia, is in Riga, that is a file of agents; that is, "agents" is the designation for unofficial collaborators, who are compelled or who signed on. We don't have their working files, so we can't tell what they did or didn't do. Anyone can file a request and find out whether he was listed as an agent or not. We cannot say, who betrayed whom; that is not possible at this time.

In Lithuania, there were more KGB files left over, and the Lithuanian state spends more money for the documentation center, and to employ more people in the processing. . . .

**EIR:** You also talked about the change of elites in your country.

**Klavins:** The change came about through many factors. First of all was the economic heart attack in the Soviet Union, in the centralized economy, which all countries went through. Secondly was Gorbachov's realization that the state could no longer be held together by force, that one must allow the possibility of free thought and free discourse, that is, perestroika and glasnost.

An important factor on our side was what our citizens have suffered. The fuse were the dissidents, who immediately uttered thoughts about independence, at first, not as political demands, but rather in memory of the victims of Stalinism. . . .

When independence was achieved, and the elections for the Supreme Soviet brought the People's Front to power, when the Latvians, and also the Russians, the old citizens who had striven for independence, as these people came into power, then the first stage was reached; so that one could begin to change the laws, and achieve independence and self-determination. This was not yet completed, when it was almost lost again, had the August 1991 putsch succeeded. Only after the final collapse of the putsch was independence de facto achieved. Only afterwards did we establish the Defense Ministry. The first elections in an independent state were conducted in 1993. . . .

## Newt Gingrich pushes the Mideast toward war

by Dean Andromidas

Newt Gingrich, Speaker of the U.S. House of Representatives, has taken his crusade against the Clinton Presidency to the Holy Land. The prophet of the Conservative Revolution, Gingrich led a Congressional delegation to Israel over the Memorial Day weekend, arriving in Jerusalem on May 23, where he did everything possible to undermine President Bill Clinton's attempt to break the stalemate in the peace process. Gingrich's antics may backfire, but his actions at every turn pushed the region toward war.

Gingrich led one of three Congressional delegations, comprising no fewer than 26 U.S. Representatives and Senators, to commemorate the 50th anniversary of the founding of the state of Israel. Less disingenuous observers considered Gingrich's pilgrimage as an effort to garner financial support from the pro-Likud wing of the American Zionist Lobby, and, more importantly, from the Christian fundamentalists; these latter form the major base of support for Gingrich and his Conservative Revolution cohorts in Congress, and await a Mideast-centered "Armageddon" to herald the "end-times rapture" at the Millennium.

Gingrich's arrival was like manna from heaven for Israeli Prime Minister Benjamin "Bibi" Netanyahu, who has justifiably come under heavy criticism within Israel and internationally for his sabotage of the Middle East peace process. Netanyahu has refused to accept a proposal put forward by the Clinton administration, for a second troop withdrawal from 13% to 15% of the area of the West Bank. Israeli withdrawal was stipulated in the Oslo peace accords. Netanyahu had only recently returned from a tour of the United States, where he met with Jewish leaders, and spent a day parading around Capitol Hill with Gingrich and other GOP leaders. In a January 1998 visit to Washington, Netanyahu had staged a high-visibility rally with Jerry Falwell and Pat Robertson.

The dynamic between Netanyahu, on the one hand, and the Congressional right wing, on the other, was perhaps best captured by Nahum Barnea, a political commentator for the daily *Yediot Aharonot*. "Netanyahu has no peer when it comes to understanding the American arena. He knows that U.S. officials, from [U.S. Secretary of State Madeleine] Albright down are angry, yet helpless. But he also knows he can always beat them because he owns the U.S. Congress."

As for Gingrich's competence to deal with the Middle East peace process, chief Palestinian negotiator Saeb Erekat assessed Gingrich's abilities thusly: "This man is absolutely ignorant of what is happening here, and his words and actions reflect this." Gingrich "does not know anything about the issues or the sensitivities here. He is more extremist than most Israelis. . . . What he says and does undermines the forces of peace on both sides."

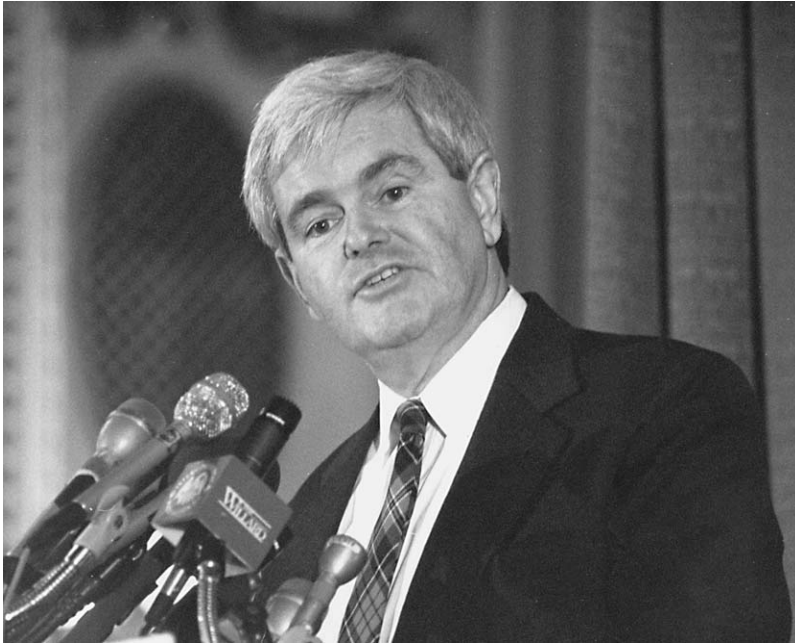
### **Egging Netanyahu on**

According to unnamed official Israeli sources cited in the May 25 *International Herald Tribune*, Gingrich and other members of the Congressional delegations urged Netanyahu to go even further than he deems wise or necessary in waging a frontal assault against the Clinton administration and its Middle East policy. The officials said that the Israeli leader was told he would be backed to the hilt in any showdown with President Clinton, and that the legislators were prepared to do everything in their power to ensure that he won such a confrontation.

Gingrich was quick to deny that he had made such assertions, claiming, "You never say that. When we're out of the country, we try to work with the administration."

Nonetheless, he then proceeded to undermine President Clinton's Middle East policy at every step. Speaking before





*Israeli Prime Minister Benjamin Netanyahu (right) and U.S. Speaker of the House Newt Gingrich (above). White House spokesman Mike McCurry commented, with studied understatement, that Gingrich's provocative remarks in Israel show that "he has a ways to go when it comes to proficiency in diplomacy." In fact, the Speaker's statements have brought Israel and Palestine closer to a new explosion of violence, undermining the foreign policy of the U.S. government.*

the Israeli Knesset (Parliament), Gingrich declared, "We in Congress stand with you today in recognizing Jerusalem as the united and eternal capital of Israel." While this is a sentiment held by many Israelis, the notion of a "united Jerusalem" including occupied East Jerusalem, which is considered illegal by the United Nations, is one of the most sensitive issues in the peace process. In comments following his speech, Gingrich accused the Palestinian Authority of "inciting violence" and of "suggesting violence," which, he said, is responsible for the deadlock. He also backed Netanyahu's bogus demands for "peace with security," saying, "Israel alone must determine its security needs. We cannot allow non-Israelis to substitute their judgment for the generals who Israel has trusted with its security."

Gingrich even planned to visit a site that had been proposed for the new American Embassy in Jerusalem, as well as touring the Old City, which could have brought him into the midst of the illegal Jewish settlements at the center of Israeli-Palestinian conflicts that have often led to violence. These plans drew a sharp response from Erezkat, who charged that Gingrich was "playing with fire." Apparently fearing that Gingrich could trigger a new outbreak of violence, U.S. National Security Adviser Sandy Berger convinced him to change his plans.

Nonetheless, Gingrich eventually drove by the proposed embassy site with Jerusalem Mayor Ehud Olmert, as well as by the Har Homa housing site, which is one of the most

controversial of the new settlements in East Jerusalem. In addition, he took a helicopter tour of the West Bank, with Israeli Infrastructure Minister and leading war-hawk Ariel Sharon as guide.

Simultaneous with Gingrich's tour, the fanatical Ateret Cohanim settlers group attempted to establish at least nine illegal settlements in the Muslim quarter of the Old City of Jerusalem. Ateret Cohanim is the most radical of the settler organizations, and it is seeking to rebuild the Solomon's Temple on the Temple Mount, an endeavor which would first require the destruction of the Al-Aqsa Mosque, one of the most holy sites in the Islamic world. Better known as the Temple Mount crazies, the success of this cult in their effort to destroy this mosque could trigger a new Middle East war, but would fulfill the "Armageddon" yearnings of the radical Christian-right groups in the United States.

The visit did cause a violent outbreak between protesting Palestinian parliamentarians and Israeli police, on the same day that Gingrich was to visit the proposed U.S. Embassy site.

### **The loudmouth Speaker**

Gingrich's most amazing statements were reserved for President Clinton and Secretary of State Albright. He accused the President of blackmailing Israel, saying that on Israel's 50th anniversary, the President's message was, "Let us blackmail you on behalf of Arafat." As for Albright, Gingrich charged, "I think it is wrong for the American Secretary of

State to become an agent for the Palestinians.” Later, he denied saying it, and even claimed he had coordinated his trip with the White House.

In reaction to Gingrich’s comments, White House press spokesman Mike McCurry said, “His suggestion that the Secretary of State is loyal to anyone but the people of the United States of America is offensive, and highly offensive.” When asked whether he was expressing the feelings of the President in these comments, McCurry replied, “That’s my statement on behalf of the President’s view. Now, we will try to learn more about this. The statement was reported to us, you know, as it was made by the Speaker last week in the region.”

State Department spokesman Jamie Rubin declared, “There were some rather stunning reports over the weekend about Speaker Gingrich’s reported willingness to provoke the Israeli government to disagree with his own government. And if true, those would be rather stunning comments that would undermine the efforts we’re trying to make to advance America’s national interest and the national interests of the United States.

“Similarly, I found particularly appalling and outrageous his suggestion that the Secretary of State of the United States was an agent for the Palestinians.

“The Secretary of State is pursuing policies, at the direction of the President, that are designed to advance the national interests of the American people. She is an agent for the American people, and any suggestion that she’s an agent for anyone else is extremely provocative, unjustified, and outrageous suggestions.”

As for Gingrich’s claim to have coordinated his trip with the White House, McCurry said the suggestion was “a little misbegotten.”

## Gingrich the racist

Gingrich’s fulsome embrace of Netanyahu’s views is, in reality, as anti-Israel as it is anti-Clinton, and flies in the face of opposition to Netanyahu across party lines in Israel. Other voices tried to convince the Speaker that the reality of the Middle East is much different than the “virtual reality” which often prevails inside the U.S. Congress. In fact, when Gingrich spoke before the Knesset, the Israeli Arab members of the Knesset, who represent some 1 million Arab citizens of Israel, walked out in protest. Taleb A-Sana, of the Democratic Arab List, yelled at Gingrich, “It is a disgrace that a racist like you comes to speak here.”

Israeli President Ezer Weizman, in a meeting with Gingrich and other members of the Congressional delegation, said, “The government must very quickly decide about the [West Bank] withdrawal, because a continuation of the current stalemate could spark an explosion.” He underscored the necessity to “sit down with Arafat and find a solution, because if we don’t find a solution, something will blow up.” As for Arafat’s commitment to fighting terrorism, President Weizman pointed out that “these past 18 months we have enjoyed

relative calm.” He added, “Yasser Arafat is fighting terrorism, more than I thought.”

In another meeting, Labor Party Chairman Ehud Barak assured Gingrich that a 13% withdrawal would have absolutely no negative impact on Israeli security. He said, “Had it been any other Prime Minister, we would already be past the second pullback and deep into the final status talks without giving up any security.” Going further, he said that even super-hawk Sharon would have agreed to a second withdrawal. “If I were Prime Minister and Sharon were serving under me, then, too, he would find a way to get the pullback carried out. This is food for thought,” Barak said.

On the last day of Gingrich’s visit, in a move labelled a “stinging rebuke” by the Israeli daily *Ha’aretz*, the members of the Knesset from both the opposition and government parties, voted in favor of introducing legislation which would repeal the direct election of the Israeli Prime Minister. If passed, this would without doubt signal the fact that Netanyahu’s days are numbered.

Despite the fact that Palestinian Authority President Arafat considered cancelling his appointment with Gingrich and the Congressional delegation, the meeting went ahead, primarily because other Congressmen, who were more open to the Palestinian point of view, were part of the delegation.

Palestinian Planning Minister Nabil Shaath stressed that the meeting with the entire delegation was “the first real dialogue with Congress at a very senior level and here in Palestine.”

Palestinian Education Minister Hanan Ashrawi, who termed Gingrich’s antics “extremely provocative,” stressed that the meeting went ahead because it was important “to make clear to Gingrich that there is a Palestinian side and there are issues that cannot be meddled” with.

It is important to note that prior to this meeting with the Congressional delegation, Arafat had just returned from Saudi Arabia, where he won support for convening an extraordinary Arab summit, aimed at redefining policy, in light of the imminent collapse of the peace process. Such options as breaking all ties with Israel, or suspending normalization until Israeli policy shifts toward peace, are expected to be discussed if such a summit is held.

Gingrich proceeded on to the Kingdom of Jordan, where the delegation met with King Hussein. The King reportedly stressed to Gingrich “the importance of respecting signed accords between the two sides and putting them into implementation.” The King said that attaining peace on the Israeli-Palestinian front was an “essential step in building a comprehensive, just, and durable peace.”

As to Gingrich’s claim that he was just “trying to be helpful” during his trip, McCurry told the White House press corps: “If Speaker Gingrich believes he is helping the peace process by making provocative statements that appear to side with one party against another party, then he is demonstrating that he has a way to go when it comes to proficiency in diplomacy.”

# Satellite flap aimed to destroy Clinton's cooperation with China

by Marsha Freeman

Over the past few weeks, screaming headlines accusing President Clinton of approving the giveaway of U.S. space technology which will improve Chinese missiles that are aimed at the United States, have been echoed by the President's enemies on Capitol Hill, threatening the policy of engagement with China that has been initiated by this administration.

Experts familiar with commercial, civilian, and military space technology are astonished at the brazenness with which the press and Republicans in Congress have lied about, and obfuscated, the issues involved in this hoked-up "scandal." Do not be taken in. There is no threat to "national security" resulting from this administration's efforts to increase commercial and scientific cooperation with China.

## Clinton's China trip

In fact, the campaign to disrupt the U.S.-China relationship, and the effort to find a saleable basis on which to attack the President, began immediately after it was made public that President Clinton would be making a state visit to China in late June.

In March, top administration officials involved in military and nonproliferation issues travelled to China for discussions on the agenda for the President's visit. On March 18, *Washington Times* reporter Bill Gertz disclosed a classified memorandum, which he said purportedly revealed that the administration was considering a "proposed missile deal" with China.

In reality, what was under consideration was an offer by the administration to remove U.S. sanctions imposed in 1989, and to allow China to launch U.S.-built satellites, by granting a blanket Presidential waiver, eliminating the case-by-case waiver that is now required. The administration also proposed to increase the number of permitted space launches by China. Earlier, a team from the National Aeronautics and Space Administration (NASA) had gone to Beijing, to discuss cooperation in Earth observation and other space science research.

In exchange, the memorandum proposed that China formally join the Missile Technology Control Regime (MTCR), which restricts export of missile technology; China had earlier pledged it would adhere to the Regime, but has not formally signed it. China, the memo proposed, would establish "effective MTCR export controls," and not transfer technology under the agreement to non-MTCR regimes.

Gertz complained that if China joined the Missile Technology Control Regime, it could gain access to MTCR-controlled U.S. exports, in exchange for adhering to the broad restrictions on exporting missile technology involved in the agreement. Also, Gertz claimed, if China were to join the MTCR, it could have input into MTCR policies. The Clinton administration, including the Arms Control and Disarmament Agency and the National Security Council, determined that U.S. interests would be best served by having China sign the MTCR.

The hysteria on Capitol Hill because of alleged missile-technology transfer to China, has spilled over to other administration proposals for cooperation. On May 14, the House Science Committee demanded that the U.S. proposals to upgrade space science cooperation in Earth remote sensing, weather, and environmental programs, now be carefully scrutinized. The committee has demanded that NASA head Dan Goldin present all documents exchanged among the space agency and the arms control agency and State Department, regarding the proposal to share information with China's Ministry of Science and Technology, even though, as was pointed out by a committee staff member, the United States shared such information with the Soviet Union, even after it invaded Afghanistan.

## Lies and obfuscation

The campaign that the anti-Clinton fanatics and the anti-China lobby tried to get under way as soon as the China trip was announced, finally got off the ground in mid-April, when the *New York Times* joined the fray. At issue was the approval given by the administration for Space Systems/Loral to launch a satellite on a Chinese Long March rocket in February, at a time that the firm was under investigation by the Justice Department for supposedly giving away missile technology secrets to the Chinese, during an investigation of a 1996 launch failure.

This has been portrayed in the press and by Republicans as "the big Clinton missile technology giveaway," supposedly driven by contributions to the Democratic Party by Loral's chief, Bernard Schwartz.

But, consider the following:

There have been allegations in the press, that when Loral

and Hughes engineers investigated the failure of the Long March rocket in February 1996, they illegally gave the Chinese navigation technology. Loral head Schwartz has stated that the Chinese found that the failure in the rocket was caused by a soldering failure — not exactly high-tech. The American engineers concurred.

But, it seems, according to space analyst John Pike of the Federation of American Scientists, by chance, the piece that came loose was in the avionics of the guidance system, which then could not keep the rocket on course. And this is apparently where the allegation of transfer of guidance technology comes from. If this is the story, which it seems to be, it is as if a worker who came in to fix a broken pipe in a nuclear power plant, left knowing how to make a bomb. Perhaps the Loral and Hughes engineers suggested to the Chinese how to do better soldering.

It is further alleged, that this supposedly illegal transfer of “guidance technology” will help the Chinese improve the accuracy of their nuclear-armed missiles. According to Pike, while it is possible that some information did pass to the Chinese in the course of the rocket investigation, “there is no ‘secret ingredient’ to American rocketry that could produce startling breakthroughs for the Chinese.”

“For nearly three decades,” Pike told the Senate Governmental Affairs Committee on May 21, “the Chinese have maintained a small arsenal of ICBMs capable of targeting American cities.” Unlike satellite launchers, however, the accuracy and reliability of Chinese missiles is not of great significance, because they are designed to destroy cities, not point targets, such as hardened-silo-based U.S. missiles. There are actually greater technical demands on the commercial satellite launches in terms of both reliability and accuracy.

“There is no indication” that American technical information has been used by the Chinese to improve their ICBM force, Pike said. “There is no indication that this has in fact happened, there is little reason to anticipate that it will happen, and even less reason for American concern should it happen.”

There have also been allegations—for example, by Scripps Howard News Service writer Lisa Hoffman, printed in the *Washington Times* on May 26—that President Clinton’s granting of a waiver to launch a Loral satellite this past February, was to garner political campaign contributions, and served to “retroactively approve technology transfers by Loral to China after the February 1996 explosion of a Chinese rocket carrying a \$200 million Loral satellite.”

This is an outrageous statement. In fact, after the incident in 1996, when the Chinese were given the Loral/Hughes accident report before it was cleared through the State Department, the Clinton administration promulgated stricter and more specific regulations to prevent that from happening in the future.

As has been stated repeatedly by White House spokesmen, the policy that President Clinton has followed in granting waivers to American satellite manufacturers to enable

them to launch on Chinese rockets, was recommended by Ronald Reagan, and made policy by George Bush. Waivers are granted when the launch is deemed to be in the national interest.

As Pike pointed out at the Senate hearing (which he otherwise characterized as a “kanagaroo court,” and a new McCarthyism against the President), “On balance, the course taken in this decade with respect to the Chinese launch vehicle has had diverse benefits, and manageable risks. This set of policies has strengthened the American satellite industry.” In addition, he pointed out, “it has engaged the energies of the Chinese aerospace industry, and perhaps moved them toward seeing space development, rather than missiles, as the central focus of their growing role in the world.”

### **China should join us in space**

President Clinton’s policy toward China, similar to his policy toward Russia, is to engage China in cooperation on projects of joint interest and mutual benefit. The best place to start is in science and technology, which are the cornerstones of any nation’s economic development.

The attitude of Sen. John Glenn (D-Ohio) is instructive. Few would characterize Glenn as “soft” on nonproliferation. The Percy-Glenn nonproliferation bill, from late 1970s, created a regime for the United States to follow which is even more restrictive than the international Nuclear Non-Proliferation Treaty. Glenn authored the law, passed in 1994, under which sanctions are now being imposed on India and Pakistan, for having tested nuclear devices.

In November 1996, Senator Glenn made a trip to China, and, in a press release reporting back on his meetings with China’s leaders, he stated that he and President Jiang Zemin discussed Chinese participation in the International Space Station, which will be a multi-year project, now involving 15 nations.

Glenn recently stated: “We are constantly talking about our differences with China. Here is an example where we could work together, find common ground, and strengthen our relationship. Bringing China into the international effort to peacefully develop new opportunities in space makes a lot of sense to me. It brings America and China closer together and makes for a much broader coalition of nations trying to harness the research and development potential of space to make life better here on Earth.” Glenn also reaffirmed his strong stand against nuclear and missile proliferation, and said he was “in no way advocating any softening of Washington’s positions in these areas.”

The Senator pointed out that since 1979, the United States and China have established many working relationships, “including some 30 joint programs involving non-military science and technology.” He said that his new initiative for Chinese space station participation “is a natural extension of that, and one that can pay dividends in space, and in bilateral relations here on Earth.”

# Congress told: Hold hearings on DOJ abuses

by Debra Hanania-Freeman

Shortly before Congress adjourned for Memorial Day, a high-powered delegation, representing the broad coalition of forces demanding the clean-up of the Department of Justice, steamrolled its way through meetings with at least 60 Congressional offices. The delegation, sponsored by the Schiller Institute, included: James Mann (D-S.C.), a former member of Congress, and the co-chairman of the Independent Commission to Investigate Department of Justice Misconduct; JL Chestnut of Selma, Alabama, the noted civil rights attorney who served as co-chairman of the Independent Commission; State Rep. Harold James (D-Phila.), chairman of the Pennsylvania Legislative Black Caucus; State Rep. Ben Swann (D), chairman of the Massachusetts Legislative Black Caucus; Pennsylvania State Rep. Tom Armstrong (R); Alabama State Rep. John Hilliard, who also served on the Independent Commission; Louisiana State Rep. Charles Hudson (D); Connecticut State Rep. John Martinez (D); Arkansas State Rep. Ben McGee (D); former South Carolina Sen. Theo Mitchell (D), a national leader in the fight against the FBI's targeting of African-American elected and public officials; and former Virginia State Rep. Dr. William Ferguson Reid, who was the first African-American to have been elected to that body since Reconstruction.

They arrived in Washington in the middle of a highly charged environment, dominated by pronouncements by House Speaker Newt Gingrich of impeachment proceedings against President Clinton during the month of July, and by the growing hysteria around "Chinagate."

The bipartisan delegation delivered the same message to every office: They insisted that, in the midst of a global financial crisis, the permanent prosecutorial bureaucracy inside the DOJ, which has, for years, operated out of control as a "political hit squad" against elected officials, civil rights leaders, and political activists, had to be cleaned out.

Concretely, they urged those members of Congress who have not yet signed on as co-sponsors of H.R. 3396, the Citizens Protection Act of 1998, known as the McDade-Murtha bill, to quickly do so; and they told those who are already sponsors, that they must act to ensure broad, public hearings on the bill, prominently featuring testimony on the LaRouche case and the "Operation Fruehmenschen" cases, if the Congress is to be effective in getting to the heart of DOJ corruption and misconduct.

Former Congressman Mann and attorney Chestnut were eloquent in describing the shocking and systemic abuse they

uncovered when, in 1995, their Independent Commission held public hearings to take testimony that Congress was too afraid to hear. They summarized the evidence they had gathered concerning the judicial railroad of Lyndon LaRouche and his political movement, and the racist "Operation Fruehmenschen" prosecutions of hundreds of African-American officials, as well as the famous OSI cases, particularly the Demjanjuk case. Other members of the delegation, many of whom have themselves been victims of Operation Fruehmenschen, recounted their own experiences, and the experiences of others with whom they have served.

Mann, in particular, stressed that although the McDade-Murtha bill represents Congress's most direct assault on the DOJ permanent prosecutorial bureaucracy, still, without sufficiently in-depth hearings, the bill, even if passed, would be largely ineffective.

## Gingrich throws up roadblocks

The potential significance of such hearings has not gone unnoticed by allies of the DOJ's permanent bureaucracy, including Newt Gingrich. Given the fact that the bill enjoys bipartisan support, with close to 150 co-sponsors, it will be difficult to block hearings.

One possible tactic, anticipated by Reps. Joseph McDade (R-Pa.) and John Murtha (D-Pa.), would be to refer the bill to committee for hearings (Gingrich has, indeed, referred it to the Judiciary Committee), and then to stall hearings, in expectation that the legislative calendar would kill the bill by default. Another alternative would be to allow hearings, but limit testimony to create the appearance that the undeniable pattern of prosecutorial abuse is attributable to a few overzealous individuals, rather than a conscious policy, orchestrated by a politically motivated permanent bureaucracy.

Representative McDade, who authored the legislation, is determined to see to it that comprehensive hearings occur. He is currently working to reach the threshold number of 218 co-sponsors—a majority in the House—which would give him power to personally determine the bill's fate. Most often, when legislation is co-signed by a majority, its principal sponsors choose to by-pass committee hearings, and bring the legislation directly to the floor for a vote. In this case, however, McDade has repeatedly stated that his objective is to force hearings.

The delegation persuaded a number of members to agree to co-sign the legislation during their visit. They left Washington committed to use the Memorial Day recess, when most Congressmen go to their home districts, to find additional co-signers, and to achieve their objective: public hearings, prominently featuring testimony on the LaRouche and Operation Fruehmenschen cases, among others, leading to the dismantling of this virtual political death squad. As the group mapped out their strategy, one of them remarked, "I wonder if McDade realized, when he introduced this bill, that the survival of this nation might rest on how it would be handled?"

# Citizens Protection Act hearings must focus on LaRouche case

by Bruce Director

When Congress holds hearings on the Citizens Protection Act of 1998, co-sponsored by Reps. Joseph McDade (R-Pa.) and John Murtha (D-Pa.), there is no better case to examine which demonstrates the paradigm of Justice Department misconduct, than the politically motivated frame-up of Lyndon LaRouche and his associates. A full Congressional hearing into the LaRouche case will not only serve the objective of securing passage of H.R. 3396, and help to clean up prosecutorial abuse, but it will speed up the process of exonerating LaRouche, whose leadership is urgently required to deal with the systemic world financial crisis.

As former U.S. Attorney General Ramsey Clark, who was one of LaRouche's attorneys, has stated, the LaRouche case "represented a broader range of deliberate cunning and systematic misconduct over a longer period of time utilizing the power of the Federal government than any other prosecution by the U.S. government in my time or to my knowledge."

The McDade-Murtha bill proposes to establish standards of conduct for Justice Department employees, and specifically defines 10 areas of conduct that would be defined as punishable.

Six volumes of evidence of prosecutorial misconduct in the LaRouche case are already on file with the U.S. Fourth Circuit Court of Appeals, and attorneys associated with LaRouche continue to compile more. But, a summary review of the LaRouche case shows that virtually all 10 areas were violated by Department of Justice employees in this case. We include a small sampling of such evidence here.

## **Punishable offenses**

We analyze below the provisions of H.R. 3396 (the numbered sections in bold are quotes from the bill; the paragraphs which follow are an analysis of the prosecutorial abuses involved in the LaRouche case). The bill would make it punishable offense for prosecutors to:

### **1. in the absence of probable cause seek the indictment of any person;**

At all times the Federal government knew that LaRouche and his co-defendants were innocent of the false charges for which they were convicted. The LaRouche case arose for politically motivated reasons, when, upon the instigation of Henry A. Kissinger, in January 1983, the President's Foreign

Intelligence Advisory Board (PFIAB) authorized the Justice Department to conduct an investigation of LaRouche, "under the guidelines or otherwise." The language of the PFIAB memo, alleging that LaRouche was funded by "hostile intelligence agencies," was false and known at the time to be false by DOJ officials. Nevertheless, DOJ officials undertook an investigation under Executive Order 12333, in collaboration with the National Security Council and other Federal agencies. DOJ actions in this regard included illegal wire-tapping, illegal break-ins, planting evidence, and other crimes.

The subsequent indictment of LaRouche and his associates was a product of this politically motivated action—no probable cause that any crime had been committed. To cite but one example of the political-national security overlay to the LaRouche prosecution: When 400 Federal and state officers raided the offices of LaRouche's associates in October 1986 based upon a search warrant, and stripped them of every document and computer file, the bounty was taken to a top-secret military installation and no access was permitted for several weeks.

### **2. fail to promptly release information that would exonerate a person under indictment;**

Throughout the LaRouche case, DOJ officials have suppressed documents in their possession that would prove LaRouche and his co-defendants innocent. These documents include internal FBI and DOJ memos, witness interviews, and other material that contradicts government witness and prosecutors. Since the trial, attorneys associated with LaRouche's legal defense have pursued release of these documents under the Freedom of Information Act. Of the several hundred thousand pages of documents in possession of Federal agencies, only a portion has been released, and those have been heavily redacted. Were this full file to be released, it would prove beyond all doubt that LaRouche and his associates were totally innocent of the charges.

### **3. intentionally mislead a court as to the guilt of any person;**

While there are many such instances in the LaRouche case, perhaps the most egregious is the fraud upon the court committed by DOJ officials when they brought an illegal bankruptcy against three publishing companies associated with LaRouche.

By the fall of 1986, the government wanted to charge LaRouche and others with conspiracy to borrow money from supporters with no intent to repay. According to court records, the government was concerned at the time that if the companies that had borrowed the money made payments on the loans, an indictment and conviction would be impossible to ram through. On April 21, 1987, officials of the DOJ presented, *ex parte*, a petition for involuntary bankruptcy in the U.S. Bankruptcy Court for the Eastern District of Virginia, ending all possibility of loan repayments. DOJ officials then used the lack of loan repayments as evidence of LaRouche's guilt at trial. Two and one-half years later, Bankruptcy Judge Martin Van Buren Bostetter ruled that the government's bankruptcy petition was illegal, and that Federal prosecutors had committed a "constructive fraud" on the court and had acted in "objective bad faith." Without the bankruptcy, no conviction of LaRouche could have occurred.

**4. intentionally or knowingly misstate evidence;**

At LaRouche's trial, DOJ officials repeatedly lied about the evidence. For example, prosecutors repeatedly told the jury and the judge that the companies mentioned in the indictment had \$30 million in unpaid and completely defaulted debt, which was taken with no intention to repay. Yet they knew from their own investigations that this was false. They knew that the loans were political, and were subject to frequent rollovers and extensions, or conversions to contributions. They also knew that DOJ employees had taken actions which were designed to completely undermine the revenues to the LaRouche movement, thus frustrating the ability to repay or service the loans. Prosecutors also used informants to plant evidence which they later used in court against the defendants. When this misconduct was uncovered in the first LaRouche trial in Boston, Massachusetts, Federal Judge Robert Keeton found the government guilty of "systemic and institutional misconduct."

**5. intentionally or knowingly alter evidence;**

FBI Special Agent Richard Egan destroyed years of evidence of loan repayments which had been submitted to a Boston Federal grand jury.

**6. attempt to influence or color a witness' testimony;**

In order to make their case, DOJ officials relied on former political associates of LaRouche. Prosecutors portrayed these individuals as conscience-stricken people who were coming forward to tell the truth. In fact, prosecutors considered these people "brainwashed" and utilized the services of professional "deprogrammers" to help shape their testimony. DOJ employees, when interviewing political supporters of LaRouche, told lurid and false tales about LaRouche and his associates in order to convince them they had been victims of a crime. In some cases, when these supporters refused to say they had been defrauded, they were threatened by DOJ agents.

**7. act to frustrate or impede a defendant's right to discovery;**

The defendants filed a 63-page pre-trial motion for discovery which sought disclosure of 181 categories of exculpatory evidence. The government claimed such evidence was either irrelevant or didn't exist. Documents obtained under the Freedom of Information and Privacy Act, and post-trial investigations conducted by LaRouche's defense team, have proven DOJ claims to be false. Several documents obtained under FOIPA specifically state that DOJ employees should conceal evidence from the defense. For example, a January 1989 document states that the FBI "imposed limits regarding the extent of information which should be divulged" to the defendants. A December 1987 memo shows that Federal prosecutor John Markham sought to avoid receipt of materials containing exculpatory evidence.

**8. offer to provide sexual activities to any government witness or potential witness;**

To date, no evidence of this category of misconduct has been discovered in the LaRouche case.

**9. leak or otherwise improperly disseminate information to any person during an investigation;**

From the very beginning, DOJ employees and agents participated in planting defamatory news stories with the intent of demonizing LaRouche, as part of the prosecution's strategy. In early 1983, DOJ agents participated in a series of meetings at the home of New York investment banker John Train, along with media representatives from NBC-TV, the *Wall Street Journal*, *Reader's Digest*, and other news organizations. At these meetings, a nationwide defamation campaign was discussed, with the express goal of creating a prosecution of LaRouche.

Participants in these meetings later broadcast or published defamatory news stories with the assistance of DOJ personnel. For example, in 1984, Pat Lynch, a participant in the Train meetings, broadcast a defamatory story on NBC's "First Camera." She later testified that she obtained non-public information from DOJ officials while preparing the broadcast. In 1986, Lynch and Assistant U.S. Attorney John Markham collaborated in broadcasting a false allegation that LaRouche was involved in the Feb. 28, 1986 assassination of Olof Palme, the Prime Minister of Sweden. (It was later disclosed that this lie originated with Division X of the East German secret service, the Stasi.) Prosecutors worked with CBS-TV's news magazine, "West 57th Street," to air a vicious defamation of LaRouche and his associates on the eve of jury selection for the Boston trial. This happened not once but twice—jury selection was cancelled for reasons unrelated to the initial "West 57th Street" broadcast, and the broadcast was aired again, weeks later, when jury selection actually began. Throughout the investigation, prosecutors engaged in a repeated pattern of leaks of grand jury information and falsehoods about LaRouche.

**10. engage in conduct that discredits the Department.**  
All the above.

# IRS corruption fuelled operations of 'Get LaRouche' task force

*The following testimony by the Schiller Institute was submitted to the Senate Finance Committee, which held four days of hearings on abuses by the Internal Revenue Service (IRS), on April 28 to May 1. The testimony was submitted on May 22.*

During four days of recent public hearings by this Senate committee, the American public was presented with stunning evidence of political targetting and other criminal misconduct by officials of the Criminal Investigative Division (CID) of the Internal Revenue Service. The April 30, 1998 testimony of former Sen. Howard Baker, who also served as President Reagan's Chief of Staff, was particularly chilling, as was the April 29, 1998 day-long testimony of three small businessmen, who found their enterprises decimated, their finances ruined, and their personal lives shattered, as the result of the outright criminality of IRS agents. At one point, Sen. Daniel P. Moynihan queried the three men about the role of Federal prosecutors and the U.S. Department of Justice in their ordeals. Senator Moynihan correctly pointed out that, once the IRS action moved into a phase of grand jury deliberation and criminal prosecution, the IRS was necessarily abetted by U.S. Attorneys and officials in the Criminal Division of the Main Justice Department in Washington. He pressed for the Webster Commission probe into abuses by the IRS to be broadened to include the inter-relationship between IRS agents and Federal prosecutors.

The Lyndon LaRouche case, which is the subject of this testimony, has been described by former U.S. Attorney General Ramsey Clark as "about as close as a case gets to the potential perfidy of justice. . . . In what was a complex and pervasive utilization of law enforcement, prosecution, media, and non-governmental organizations focussed on destroying an enemy, this case must be number one. There are some, where the government itself may have done more, and more wrongfully, over a period of time; but the very networking and combination of Federal, state, and local agencies, of Executive and even some Legislative and Judicial branches, of major media and minor local media, and of influential lobbyist types, the ADL [Anti-Defamation League of B'nai B'rith] preeminently; this case takes the prize."

Indeed, the LaRouche case represented far more than a runaway action by rogue agents of the IRS. In the LaRouche case, the IRS played a pivotal role, in a concert of action,

involving prominent and powerful political figures, typified by former Secretary of State Henry Kissinger; elements of the national security establishment; politically driven U.S. Attorneys and high-ranking officials of the Criminal Division of the U.S. Department of Justice; elements of the national media, who committed the equivalent of witting perjury, by transmitting, through television and the print news media, slanders and fabrications, provided by the IRS and the Department of Justice, to mislead the American public and create a climate conducive to a railroad prosecution of an entire political movement.

Again, to quote former Attorney General Clark: "The purpose can only be seen as destroying—it's more than a political movement, it's more than a political figure; it is those two. But it's a fertile engine of ideas, a common purpose of thinking and studying and analyzing to solve problems, regardless of the impact on the status quo, or on vested interests. It was a deliberate purpose to destroy that at any cost."

As the accompanying chronology will show, the political targetting of Lyndon LaRouche for frame-up and jailing—or worse—began in earnest in August 1982, when Kissinger wrote a personal note to then-FBI Director William Webster, demanding that the FBI and Department of Justice take action against the LaRouche political movement. Throughout the autumn of that year, there was correspondence among Kissinger, his attorneys, and officials of the FBI and Department of Justice. Kissinger's lawyers were, in effect, coached on how to frame their complaints against LaRouche, to trigger a national security probe of the LaRouche movement, using broad authorities prescribed in Executive Order 12333, which was ostensibly aimed at combatting foreign espionage, international terrorism, and international narcotics trafficking—none of which applied to LaRouche or his associates.

By January 1983, Kissinger's efforts resulted in a formal authorization, from members of the President's Foreign Intelligence Advisory Board, for an EO 12333 probe of LaRouche's finances.

The Kissinger-instigated action led to a decade-long nightmare, culminating in two events:

- On Oct. 6, 1986, more than 400 Federal, state, and local law enforcement officers (including, prominently, officials of



the IRS Criminal Investigative Division) staged a dawn raid on the publishing offices of Lyndon LaRouche. The ostensible purpose was to execute two search warrants, and four arrest warrants against individuals who had never been previously charged with anything more serious than a speeding ticket. The raiding party, it was later learned, was backed up by armored personnel carriers, helicopters, fixed-wing aircraft, and, for good measure, special counter-terror units of the U.S. military. Fortunately, cooler heads prevailed, and a Waco-style bloodbath was averted, although court testimony later revealed that there were Federal law enforcement officials who were anxious to trigger such an outcome. Wildly fabricated “informant” information, which led to the near-bloodbath, was provided, in large part, by individuals working closely with the lead IRS agent in the Federal-state “Get LaRouche” task force.

- Between January 1989 and 1992, Lyndon LaRouche and a dozen of his political associates were framed up and sent to Federal and state prisons on a range of white-collar and tax charges; a tax-exempt foundation and three commercial enterprises were illegally shut down by a fraudulent Federal bankruptcy action that the courts later ruled was “constructive fraud upon the court.” Lyndon LaRouche was sentenced to 15 years in Federal prison. Several LaRouche associates, prosecuted in the Commonwealth of Virginia, were sentenced to up to 77 years in state prison—for first-offense white-collar crimes!

As you will see below, the Internal Revenue Service played a central role in this travesty of justice. In addition to this written testimony, the Schiller Institute will provide the committee with background documentation on all of the matters highlighted here. Among the material to be provided is:

- the statements, quoted above, from former Attorney General Clark. Clark delivered those comments during testimony at a two-day public hearing, on Aug. 31-Sept. 1, 1995, before an independent commission co-chaired by former Congressman James Mann of South Carolina, and JL Chestnut, one of the foremost civil rights lawyers in America today.
- the correspondence between Kissinger, his attorneys, former FBI Director William Webster, and other senior officials of the Justice Department and the FBI, all of which were obtained under the Freedom of Information and Privacy Act (FOIPA). A memorandum from the President’s Foreign Intelligence Advisory Board (PFIAB), also obtained under FOIPA.

### **IRS abuses in the LaRouche case**

To summarize the pattern of abuse and criminal misconduct by agents of the IRS in the LaRouche case, IRS officials:

- targeted LaRouche for politically motivated reasons and allowed political opponents of LaRouche to utilize the power of the IRS for their political aims;
- systematically leaked confidential taxpayer informa-

tion and false allegations to the media and private individuals;

- allowed its agents to illegally gather information on LaRouche and his political associates without any investigative authorization;
- issued baseless assessments of taxes to LaRouche and companies associated with his political efforts, which were indefensible in a court of law;
- engaged in all the above types of activities for the stated purpose of creating financial harm to companies and individuals who were political associates of LaRouche.

The following summary of illicit IRS actions in the LaRouche prosecution has been constructed from independent investigations, FOIPA documents, and the public record of court proceedings. It represents the information concerning IRS abuses which could be obtained by these limited means. Only through further investigation of the events listed below could Congress assure itself that the IRS is no longer employed as an instrument of political prosecution.

**September 1982-January 1983:** Henry Kissinger initiates action against LaRouche. The President’s Foreign Intelligence Advisory Board takes formal action.

**1983-1984:** A series of meetings is convened at the Manhattan apartment of New York investment adviser John Train. According to Michael Hudson, a participant at the meetings, the purpose of the meetings was to “coordinate national magazine stuff about you guys, and work with Federal law enforcement to deny you funding and tax exemption, is the delicate way to put it.”

Other participants include Roy Godson, then a consultant to the National Security Council and PFIAB; John Rees, a longtime FBI informant; representatives of the ADL; representatives of Freedom House, a private research organization headed by PFIAB chairman Leo Cherne; financier and propagandist Richard Mellon Scaife; NBC producer Pat Lynch; Dennis King, a paid propagandist against LaRouche funded by the ADL and the Smith-Richardson Foundation; and reporters and editors from the *Wall Street Journal*, *Reader’s Digest*, *Business Week*, and the *New Republic*.

One participant in the Train salon, Chip Berlet, has stated that he was introduced to many other individuals at Train’s apartment who were identified only as “gentlemen with a government connection.”

At the time, the Fusion Energy Foundation (FEF), a leading proponent of beam weapons ballistic missile defense, was a tax-exempt foundation under the Internal Revenue Code. FEF was considered by LaRouche’s political opponents to be a major source of respectability and funding for LaRouche’s ideas. According to Hudson, he was put into contact with the Baltimore regional office of the IRS to further the slander and unwarranted prosecution campaign outlined at the Train salon meetings. That office had purview over tax-exempt organizations. In response to FOIPA requests, the IRS disclaims that it has a file concerning these events or any file at all concerning

the Fusion Energy Foundation.

**November 1983-March 1984:** NBC producer Pat Lynch, a participant in the Train meetings, produces two major smear pieces on LaRouche, a declared Presidential candidate, which air in January and March 1984. According to its sworn responses to civil discovery requests in a subsequent lawsuit, NBC received non-public IRS investigative information about LaRouche. The broadcasts promote the idea that LaRouche should be investigated by the IRS. Other than a one-line reference to contacts with Lynch, IRS documents released under the FOIPA contain no information about these events.

**November 1984:** Boston U.S. Attorney William Weld launches a grand jury investigation of LaRouche's Presidential campaign based on allegations of credit card fraud. These allegations are first aired by Boston NBC affiliate WBZ, in collaboration with the FBI, and receive national media attention.

**February 1985:** Following a request for IRS investigation of LaRouche by IRS Agent Larry Lucey of the Criminal Investigation Division of the Richmond District, the IRS Richmond director orders that any investigation of Lyndon LaRouche's non-filer status be handled as a civil examination matter. LaRouche stated several times during his campaign that he had not filed taxes. LaRouche's attorneys had advised him that, based on the unusual circumstances in which LaRouche lived and worked, because of repeated threats to his life by terrorists, he had no taxable income. However, a civil audit of LaRouche, as recommended by the Richmond director, was never undertaken. Such an audit would have readily resolved any actual issues concerning LaRouche's income tax liability.

**November 1985:** Following a year of grand jury testimony covering every aspect of the finances of the LaRouche movement, Boston U.S. Attorney Weld seeks a national tax investigation. The central allegation concerns whether it was proper for associates of LaRouche to claim independent consultant status for paid political organizing activities. Following a February 1986 law enforcement conference called by Weld to discuss "prosecutive theories" against LaRouche, the national tax task force approach is rejected by other prosecutors.

**September 1985-June 1986:** The IRS, through CID agent Larry Lucey, employs the Loudoun County Sheriff's Department and Loudoun Sheriff's Deputy Donald Moore as confidential informants in a rogue investigation of LaRouche. No criminal investigation of LaRouche by the IRS had been authorized at the time of these activities—in fact, authorization had been specifically declined.

Sheriff's Department personnel stated that the purpose of their investigations was to destroy LaRouche's electoral aspirations. During the course of their IRS-sanctioned activities, the Sheriff's Department illegally obtained Social Security numbers on members of LaRouche's political movement

when they registered to vote, and engaged in black bag jobs, bank account monitoring, and warrantless electronic surveillance against LaRouche and his associates. Deputy Donald Moore admitted many of these activities to an FBI informant, Douglas Poppa, in 1994, subsequent to LaRouche's trial and conviction. The ADL was at all times working with Moore and the Loudoun County Sheriff and, in all probability, also functioned as a confidential informant to the IRS.

**February 1986-August 1986:** The participants in the Train salon launch an unprecedented wave of black propaganda and dirty tricks against LaRouche and his associates. In an international effort, later proved to be the work of the East German intelligence services, LaRouche is accused of involvement in the assassination of Swedish Prime Minister Olof Palme. In the wake of the victories of two LaRouche associates in the Illinois statewide Democratic Party primaries for governor and lieutenant governor, there are numerous illegal leaks of information from the Boston grand jury and the IRS which receive nationwide airing in the *Wall Street Journal*, *Reader's Digest*, the Associated Press, the *Washington Post*, *Newsweek*, and NBC.

A central lie repeated throughout the propaganda campaign concerned LaRouche's alleged "lavish" lifestyle, on which he paid no taxes. In reality, LaRouche lived on rented properties during this period and had no lavish lifestyle, a fact which the IRS well knew. Prominent among the defamations during this period were NBC TV news broadcasts in April 1986 for which the IRS provided information, and which ended with the assertion that there was "an open IRS investigation of LaRouche and individuals associated with him."

**June 1986:** Newly appointed U.S. Attorney Henry Hudson declares LaRouche to be an investigative priority in the Eastern District of Virginia. He creates a task force which includes the IRS. The declared purpose of the task force is to "create as much probable cause as possible" for search warrants against LaRouche and entities and individuals associated with him. Thus, after a two-year investigation and illegal operations, the government has to create a task force in order to obtain a broad license to fish for any crime it can fabricate against LaRouche.

**September 1986:** Boston U.S. Attorney Weld is appointed to head the Justice Department Criminal Division.

**September 1986:** The IRS falsely tells the Associated Press that the Fusion Energy Foundation's tax-exempt status has been revoked, and releases other information about the FEF to reporter William Welch. As a result, AP, in a national wire, claims that solicitors for the FEF are committing tax fraud by stating that the FEF is tax exempt. After threats of legal action, the IRS claimed that it had made a "mistake" concerning FEF's status when discussing the FEF with reporter Welch and that the FEF was, indeed, tax exempt. As previously noted, in response to FOIA requests, the IRS has

disclaimed that it has any file on the Fusion Energy Foundation.

“Law enforcement sources” bragged to the *Washington Post* during September 1986, that the massive negative publicity in the wake of the Illinois primary victories by two LaRouche associates had devastated the LaRouche movement financially.

**Oct. 6-7, 1986:** IRS agents, along with FBI and Bureau of Alcohol, Tobacco and Firearms agents and Virginia State Police, participate in an armed raid on offices of entities associated with LaRouche. Documents obtained during the raid are initially taken to a military facility for examination as a result of top-secret negotiations with the Pentagon.

**April 1987:** The United States government launches an unprecedented bankruptcy liquidation of Campaigner Publications, Caucus Distributors, and the Fusion Energy Foundation, the principal publishers of LaRouche’s ideas. IRS Agent Lucey, who was subsequently described in government documents as the “elder statesman” of the Federal criminal task force and the “resident expert” on LaRouche, plays an active role in assisting the civil bankruptcy action. The bankruptcy action is later dismissed as illegal by Federal Judge Martin Bostetter, who likened it to a “constructive fraud” upon the Court. The bankruptcy ends any ability to repay the loans at issue in the subsequent Federal indictment of LaRouche for loan fraud.

**June 1987:** LaRouche is indicted for conspiracy to obstruct justice in Boston as a result of Boston U.S. Attorney Weld’s two-and-one-half-year investigation.

**May 1988:** The Boston criminal case ends in a mistrial amid hearings airing major prosecutorial misconduct. In a written decision, Federal Judge Robert Keeton characterizes law enforcement misconduct in the LaRouche case as “systemic.”

**February 1987-Oct. 14, 1988:** Following examination of voluminous financial records seized during the October raid and grand jury investigation, the U.S. Attorney concludes that no tax-evasion charges can be brought against LaRouche or the companies paying LaRouche’s expenses, because such charges lack prosecutive merit. Instead, a conspiracy charge is brought against LaRouche and unnamed co-conspirators, a charge which the U.S. Attorney describes as “novel.” The conspiracy alleged is that LaRouche conspired to conceal his income from the IRS. In addition, LaRouche is charged with a loan fraud conspiracy and as an aider and abettor in the obtaining of other fraudulent loans. LaRouche’s trial occurs only days after his indictment. Major defenses, including any reference to the fact that the Federal government brought about the bankruptcy which halted loan repayments, are banned by the trial judge. And, given that LaRouche’s jury has been saturated with propaganda about his alleged lavish lifestyle, the conviction on the nebulous conspiracy charges is a foregone conclusion.

**January 1989-1991:** The IRS commences civil enforce-

ment actions against individuals and companies associated with LaRouche, as part of a strategy, in the wake of LaRouche’s conviction and jailing, to drive the LaRouche movement out of existence. These actions again are widely publicized by NBC national news. The most prominent IRS actions involve assessments against PGM, the financial management company associated with the LaRouche movement, and against LaRouche personally. The IRS initially claims that PGM owes \$2,773,882 in unpaid taxes, an assessment the IRS knows to be without merit.

Recently, after years of litigation and legal fees incurred by PGM, in which the IRS repeatedly took indefensible positions in the tax court, the IRS has now agreed, after a review of documents which had been available to it all along, that PGM has no tax liability.

The IRS has taken a similarly outlandish position with respect to LaRouche personally. Originally, the IRS claimed that LaRouche owed \$5,844,074 in taxes, interest, and penalties. After years of litigation, the IRS now states that the figure is \$353,444. LaRouche disputes the entire amount. That case is presently scheduled for trial in the tax court.

In conclusion, the Schiller Institute wishes to thank the Senate Finance Committee for the opportunity to present this testimony. We will be happy to provide the committee with any further documentation that may be required in the course of the ongoing investigation into abuses by the IRS.

## Videos Provide Evidence of DOJ Corruption

In August-September 1995, a group of distinguished state legislators and others, with the aid of the Schiller Institute, pulled together independent hearings “to investigate misconduct by the U.S. Department of Justice.” They examined three types of cases: Operation Fruehmenschen against black elected officials; the LaRouche case; and the cases brought by the DOJ’s Office of Special Investigations (OSI), including that against John Demjanjuk.

Two videos are currently available:

- DOJ Misconduct: 4 Case Studies (104 minutes),**  
order number SIV-95-002, \$35.
- LaRouche Case (60 minutes),**  
order number SIV-95-005, \$25.
- Or, **both videos** for \$50.

**Order from:** **Schiller Institute, Inc.**  
P.O. Box 20244, Washington, D.C. 20041-0244.  
Telephone orders (toll-free): 1-888-347-3258.  
Visa and MasterCard accepted.

# FBI-DOJ suffer major defeat in Houston 'Fruehmenschen' case

by Harley Schlanger

The May 20 declaration by Federal Judge David Hittner of a mistrial in the FBI-Department of Justice (DOJ) "sting" case against five prominent minority officials in Houston, was a major defeat for the DOJ "permanent bureaucracy." After five days of deliberation following a trial which lasted two months, the jury declared itself to be "hopelessly deadlocked," leading to Hittner's decision.

The Houston sting followed the pattern of hundreds of FBI-DOJ operations over the last 40 years, in which minority elected and government officials were illegally targeted. These cases fall under "Operation Fruehmenschen," a racist doctrine guiding FBI prosecutions of minorities, which was first publicly identified by former Rep. Mervyn Dymally (D-Calif.), in the U.S. House of Representatives in January 1988. At the time, Dymally was chairman of the Congressional Black Caucus.

Dymally read into the *Congressional Record* excerpts of an affidavit from an FBI agent, who said that the FBI routinely investigated, "without probable cause . . . prominent elected and appointed black officials in major metropolitan areas throughout the United States. The basis for this policy was the assumption by the FBI that black officials were intellectually and socially incapable of governing major governmental organizations and situations." The affidavit was supported by a report by Dr. Mary Sawyer, which documented the charges of selective prosecution of African-American officials.

Yet, despite this evidence, the Congress did nothing, and the illegal FBI-DOJ targeting practices continued.

## Schiller Institute hearings

The "Fruehmenschen" doctrine was put under a microscope in hearings organized by the Schiller Institute in Tyson's Corner, Virginia on Aug. 31-Sept. 1, 1995, during which current and former officeholders from throughout the United States came to tell their stories. While the major focus was on the "Lost Trust" cases in South Carolina, which were later overturned on appeal, and the ten-year vendetta run by Hickman Ewing (who is now a top assistant to special prosecutor Kenneth Starr) against U.S. Rep. Harold Ford, Sr., of Tennessee, the pattern from state to state was unmistakable: The DOJ and FBI had been conducting a lawless reign of terror, which destroyed the careers of minority officials who were gaining seniority in state and local governments.

In addition to the evidence presented at these hearings of the continuation, and even acceleration, of Fruehmenschen prosecutions, the panelists were briefed on the DOJ-FBI vendetta against Lyndon LaRouche, which provided them with a rare look "up the ladder" of the DOJ, to discover the chain of command behind these actions. By studying the case against LaRouche, and then looking at the parallel command structure behind Fruehmenschen, and the Office of Special Investigations "Nazi-hunting" persecution of retired Cleveland auto worker John Demjanjuk, it was made clear that the source of the problem is the "permanent bureaucracy," which runs the DOJ Criminal Division.

The Mann-Chestnut Commission (named for its co-chairs, former U.S. Rep. Jim Mann (D-S.C.) and prominent civil rights attorney JL Chestnut of Selma, Alabama) made a commitment to expose the usually nameless individuals who run this permanent bureaucracy. Most prominent of these are John C. Keeney and Mark Richard, with more than 40 years and 30 years tenure, respectively, in the DOJ Criminal Division, who were central figures in the cases examined.

Toward this end, the campaign to exonerate LaRouche escalated. More than 800 state legislators and 25 former Congressmen have signed a call to President Clinton for his exoneration. Thousands of videotapes of these hearings have been circulated, and the evidence of DOJ corruption has been presented on campuses throughout the United States, and at conferences of civil rights organizations, trade unions, and municipal and state governmental organizations. An example of the fruits of these efforts was a resolution calling for investigation of the Fruehmenschen and LaRouche cases which was passed at the annual convention of the National Caucus of Black State Legislators.

## Tide turning against DOJ corruption

Much of the success of the DOJ-FBI targeting in the past has been achieved by isolating the victims, aided by a steady deluge of media slanders against "corrupt" politicians. Add to this isolation the prohibitive cost to the targeted officials of taking on the DOJ (which spends taxpayers' dollars liberally in these stings and prosecutions), and threats directed by prosecutors against family members and friends, and it becomes clear why many innocent victims accepted plea bargains.

But this is changing, as the Houston case, and recent devel-

opments in Maryland, demonstrate (see *EIR*, May 15, “Baltimore Coalition Mobilizes Against ‘Hit Squad’ in the DOJ”). While the DOJ continues to assault minority officials, some of these officials are rejecting plea agreements and taking on the DOJ. They are beginning to discover support in their communities, as a backlash against DOJ prosecutions is developing. The Gestapo tactics employed by Kenneth Starr against President Clinton, and the recent coverage of Congressional hearings exposing the IRS’s brutal tactics, have added fuel to the growing hostility against prosecutorial abuse.

In Houston, despite months of press coverage favorable to the prosecution, and repeated judicial rulings against defense attorneys, the jury rejected FBI-DOJ claims that city officials engaged in a bribery conspiracy involving a vote on a city-subsidized convention center hotel. The jury was divided on all 11 counts, with some counts finding the jurors split evenly, or voting seven to five for the prosecution. (All 12 votes are needed for conviction.) On only one count did the prosecution win ten votes.

One twist on the Fruehmenschen scheme in Houston was that the targets included prominent Hispanic officials. The case was opened, according to the FBI, when the agency responded to a vague charge made by a political opponent, that then-City Councilman Ben Reyes “could be bought.” The FBI created a front company of “Hispanic investors,” who said they wished to make investments in Houston, beginning with the convention center hotel. They went to Reyes, and offered to set up a minority subcontracting operation, to work with local developer Wayne Duddleston, who put together one of the two bids on the project.

While rejecting any of Reyes’s suggestions of non-minority councilmen who might be interested, the FBI “investors” hired former Port Commissioner and lobbyist Betti Maldonado, and then, through her and Reyes, offered contributions to Councilmen Michael Yarbrough and former Councilman John Peavy, who are African-American, and Councilman John Castillo, who is Hispanic.

From the beginning, the DOJ case had problems. Every targetted councilman had already announced support for Duddleston. Second, every transfer of funds which the prosecutors alleged had occurred, which they told jurors was a “bribe,” fell within the limits of normal campaign contributions. In several cases, they could not even prove that money had been transferred!

But, the most devastating problem for the prosecution was its star witness, Julio Molineiro, who played the role of one of the investors. The defense discovered that Molineiro had a long criminal record. He had spent time in South American jails, and still had several outstanding warrants against him; he had stolen funds from the Drug Enforcement Administration when he worked as an informant for them, and had used cocaine. Eventually, the DEA dismissed him. He had also worked with the Bureau of Alcohol, Tobacco and Firearms, but had been dismissed by that agency as well, for “entrap-



*Former U.S. Rep. Mervyn Dymally (D-Calif.). His campaign to expose the FBI’s “Operation Fruehmenschen” scored a victory in the Houston trial. Will the U.S. Congress now finally hold hearings on the outrageous prosecutorial abuses by the Justice Department?*

ping” subjects of investigation. It seems Molineiro had a habit of tampering with recording devices, so that a conversation was “edited” to favor the prosecution’s case. Defense attorneys in Houston effectively demonstrated that Molineiro had engaged in the same practices in some of the audiotapes presented during the trial.

In press interviews after Hittner declared a mistrial, several jurors pointed to Molineiro’s lack of credibility as the main reason for their vote against the prosecution. “Julio Molineiro tainted the entire FBI investigation,” one juror said. “The fact that he did have control of the tapes hurt their credibility.” Another said that jurors discounted Molineiro’s testimony completely. “We didn’t even take it into consideration because we didn’t believe a word he said on the stand,” he said.

Despite the rejection of the prosecution’s case, chief prosecutor Mike Attanasio—who was brought in to try the case when the local U.S. Attorney, Gaynelle Griffin Jones (who is African-American), refused to prosecute—said that he will begin a retrial immediately. Hittner will set a date in early June.

This decision led to an angry rally on May 27 at the Federal courthouse in Houston, as ministers and community activists from the African-American and Hispanic communities, and the Schiller Institute, demanded that there be no second trial. Speaker after speaker denounced the racial targeting by the FBI and DOJ, and blasted the use of the criminal Molineiro by the FBI to try to entrap local leaders. Statements from two jurors were read, condemning the prosecution for its actions.

With the entire press corps from Houston present, Juan Maldonado, the brother of defendant Betti Maldonado, summed up the consensus of the participants when he demanded that U.S. Attorney General Janet Reno intervene to prevent a second trial, and take action to prevent the DOJ from engaging in such corrupt practices ever again.

## **T**ransportation bill clears both Houses

Both the House and the Senate acted on the conference report on the \$200 billion transportation bill, now renamed "The Transportation Equity Act for the 21st Century," on May 22. The vote in the Senate was 88-7, and in the House 297-86. President Clinton indicated before the votes that he considered the conference agreement a "principled compromise," because it meets the budget priorities set by the administration and "it strengthens our commitments to encouraging mass transit, to protecting the environment, to expanding opportunities to disadvantaged business, to moving more Americans from welfare to work with transportation assistance."

As expected, the bill attracted criticism from budget ideologues for allegedly containing too much "pork." One of the specific targets was the list of 1,850 individual projects, an average of more than four per Congressional district, that the House conferees insisted remain in the bill. Sen. Russell Feingold (D-Wisc.) called on President Clinton to use his line-item-veto authority (ignoring the fact that the line-item veto has been struck down by a Federal court, which decision is currently on appeal) to strike from the bill the entire list of projects.

However, the offsets used to keep the bill within the spending limits set by last year's budget agreement proved a bit more contentious. One of the major offsets is a provision that takes a projected \$15.5 billion to be saved by denying veterans benefits for smoking-related illnesses, and applies it to transportation spending. Sen. Paul Wellstone (D-Minn.) argued that any savings should be applied to the Veterans Administration budget. "This particular offset makes a mockery of the Senate's professed concern for veter-

ans and for deficit reduction," he said. On the House side, David Obey (D-Wisc.) attempted to send the bill back to the conference committee to have the provision removed, but his proposal was voted down 195-190.

## **F**ood stamps for immigrants kept alive

On May 22, some 90 Republicans joined with Democrats to temporarily defeat, by a vote of 289-120, a House Republican leadership attempt to stop the restoration of food stamp benefits for 250,000 legal immigrants who were cut off from food stamps by the 1996 welfare reform bill.

The vote was on a rule for debate on the conference report for an agriculture research and education bill passed by the Senate a week earlier. The rule would have allowed the conference report to be sent back to the Senate without the food stamp provision. Rules Committee Chairman Gerald Solomon (R-N.Y.) justified the rule on the parliamentary ground that the food stamp provision was added to the bill by the conference committee, and was therefore in violation of House rules.

Democrats were outraged at the proposed rule. Tony Hall (D-Ohio) called it "shameful and malicious." He said, "There is enormous support for this bill, except for six members of the Committee on Rules who do not want to see legal immigrants get food stamps if they are children, disabled, or elderly."

A colloquy between Vic Fazio (D-Calif.) and Majority Leader Dick Armey (R-Tex.) revealed that a crop insurance provision in the bill was also added by the conference committee, but this would not have been stripped out by the rule. Solomon claimed that

there was a June 1 deadline to re-authorize the crop insurance program, whereas the food stamp issue could be taken up any time during the summer.

James Walsh (R-N.Y.), a stalwart supporter of welfare reform, declared that while welfare reform has been a "big success," for immigrants who are under 18, elderly, or disabled, "we need to show that we care. We need to show that this country is wealthy enough to help take care of them through a difficult time."

## **A**ppropriations process starts without budget

Both the House and the Senate Appropriations committees have begun work on the 13 spending bills that will fund the government in fiscal year 1999, despite the fact that the budget resolution has yet to be completed. The Senate passed its version on April 22, but the House version didn't become available for mark-up until May 20, well past the April 15 deadline for passage set by law. The budget resolution sets the allocations for each of the 13 bills and normally must be agreed upon by both Houses before the Appropriations committees can begin their work.

In a May 22 statement, House Appropriations Committee Chairman Bob Livingston (R-La.) said that he was making allocation recommendations to each of the 13 subcommittees based on the 1997 budget agreement. Because of time constraints imposed by the Congressional calendar, he said that "the Committee has no choice but to go forward" with these numbers, although they may have to be changed when a budget resolution is finally agreed upon.

The budget outline released by

House Budget Committee Chairman John Kasich (R-Ohio) continues the GOP's ideological agenda, including starting the privatization of Social Security, and the usual diatribe against "big government." Budget Committee Democrats are planning a series of amendments to try to overturn this agenda. Ranking Democrat John Spratt (S.C.) said the Republicans "want to spend away our first surplus on tax cuts and private retirement accounts," whereas Democrats "want to hold the surplus in reserve for Social Security." In addition to applying the alleged budget surplus to the Social Security fund, Democrats' amendments would reverse cuts in the resolution for Medicare, transportation, child care, school modernization, and welfare-to-work programs.

While Democrats probably don't have the votes in the Budget Committee to pass their amendments, these issues herald conflicts to come on the spending bills. There are also likely to be further clashes between Kasich, who wants to use the budget to push his ideological agenda, and Livingston, who would like to finish the spending in time to go back home to campaign for re-election in October.

## **C**ampaign finance reform taken up again in House

The House resumed debate on campaign finance reform on May 22, after passing a resolution that more or less allows the debate to go forward as agreed to by House Speaker Newt Gingrich (R-Ga.) on April 22.

The rule means that a constitutional amendment to place limits on campaign financing is now in order, as is a bill co-sponsored by Asa Hutchinson (R-Ark.) and Thomas Allen (D-

Me.), which bans so-called "soft money" contributions to national committees, but increases political action committee and individual contributions. The rule provides for 11 substitute amendments to the Hutchinson-Allen bill, allows for one hour of debate on each, and, if more than one of them passes, deems the one with the most votes as having passed. One of allowed amendments is by Christopher Shays (R-Conn.) and Marty Meehan (D-Mass.), which would ban soft money in Federal elections and limit issue advocacy advertising within 60 days of an election, much like the McCain-Feingold legislation in the Senate.

Martin Frost (D-Tex.) slammed the rule for proving "once and for all that the Republican majority has no real interest in actually pursuing campaign finance reform." He complained that the process under the rule not only would take weeks, but it also "ensures that the House will not have the opportunity to have an up or down vote on either the bipartisan [Hutchinson-Allen] proposal or the Shays-Meehan proposal." He acknowledged that the process might be "open," but said, "I beg to differ with those who characterize it as allowing the House to reach a decision, when in fact it may be designed to do the very opposite."

## **T**obacco bill threatened by liability issue

The tobacco settlement legislation was put under a cloud on May 21, when the Senate refused to kill a proposed amendment that would strip the bill of liability limitations on suits against tobacco companies. The liability limitation was crucial to getting the tobacco companies to voluntarily par-

ticipate in the agreement negotiated with state attorneys general last year. In return for the liability limitation, tobacco companies agreed to accept broad prohibitions on tobacco advertising, licensing of tobacco retailing, and regulation of the tobacco industry by the Food and Drug Administration.

Sixty-one senators voted against tabling the amendment, co-sponsored by Pat Leahy (D-Vt.) and Judd Gregg (R-N.H.). Supporters of the amendment, such as Edward M. Kennedy (D-Mass.), argued that last summer's agreement "would have given tobacco companies de facto immunity from suit." He claimed that its provisions "were designed by the industry to erect enormous barriers in the path of smoking victims seeking compensation" by banning "all class action suits, which are the only effective way individuals can litigate against corporate giants."

Supporters of the bill argued that the liability limitation is just a limit on the amount of payout that can be forced out of tobacco companies in a given year. "There is no shield here for tobacco companies," said John Kerry (D-Mass.). Further, he warned, "if the opponents of the cap . . . were to prevail here today, what they would succeed in doing is stripping this bill of the one invitation that it offers tobacco companies to come into the tent and be part of the solution of how we are going to reduce smoking among teenagers."

The Senate is expected to resume debate on the bill, and the Leahy-Gregg amendment, after it returns from the Memorial Day recess in June. Minority Leader Tom Daschle (D-S.D.), who supports the bill, said of the May 21 vote, "I think it was a vote cast for many reasons. Ultimately, many of these specific issues will be dealt with in conference, so I'm not troubled by it."

# National News

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## Spannaus to address local Dem convention

LaRouche Democrat Nancy Spannaus, running for the Democratic Congressional nomination in Northern Virginia's 10th Congressional District, will address the district convention on May 30. Spannaus won four delegates to the convention, in a bewilderingly complex series of local caucuses. She will devote her nominating speech to laying out the reason why, and how, Republican incumbent Frank Wolf can be defeated, despite his 18-year incumbency in a GOP-dominated district.

Former Justice Department lawyer Cornell Brooks has won enough delegates to win the Democratic nomination. But serious questions remain as to whether the party leadership, some of whom fought bitterly to defeat Spannaus, will wage a serious fight to oust Wolf.

The caucus procedure which the Democrats used to pick the convention delegates was a virtually secret process, meant for insiders. All in all, only about 872 people participated in the 14 meetings. The Spannaus campaign mobilized approximately a third of that number, by bringing in many who had been disgruntled with the "private club" process. These people are crucial to a successful drive against Wolf, who acts both locally and internationally on behalf of the British-linked Hunt Country oligarchy in the district.

Spannaus's campaign organized around the reality of the global financial and monetary collapse, and the urgency of implementing LaRouche's New Bretton Woods conception, rather than the shop-worn "hot-button" issues that are keeping voters away by the millions.

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## Maryland hospitals file complaint against HMOs

On April 21, the Association of Maryland Hospitals and Health Systems (MHA) filed a coordinated complaint on behalf of its hospitals and their patients with the Maryland Insurance Administration (MIA), regarding

a statewide pattern of "illegal and dangerous" practices by health maintenance organizations (HMOs) and managed care insurers. MHA says the insurers not only illegally refuse to pay hospitals for providing HMO pre-approved care, they now routinely endanger critically ill patients by "dictating the use of an alternative setting" when documentation shows a patient's condition requires acute hospital care.

MHA charges that in 1997, Maryland's top seven insurers refused to pay at least \$50 million for hospital services which they had previously pre-approved; Blue Cross and Blue Shield of Maryland (BCBS) alone denied payments of \$30 million (up from \$11 million denied in 1996). The insurers are also between 80-85 days in arrears in paying hospitals for some \$1.2 billion in services, forcing hospitals to borrow money at high rates just to meet payroll. Moreover, the HMOs are illegally demanding that the hospitals make retroactive paybacks for HMO-approved services from three years ago.

"Length of stay" formulas, cooked up by an accounting firm, are another favorite method for insurers to deny payment, explained an MHA representative to *EIR*: BCBS denied payments for all or part of the care received by 22% of BCBS patients hospitalized in 1997. Altogether, BCBS refused to pay for 29,808 days of inpatient care that Maryland's 50 acute care hospitals delivered in 1997.

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## Starr's security stripping will kill a President

Despite warnings by the U.S. Secret Service, Federal Judge Norma Holloway Johnson sided with Independent Counsel Kenneth Starr, ruling on May 22 that he may question Secret Service agents about what they saw and heard around President Clinton. The Secret Service had bluntly warned the court, that forcing agents to testify will result in the assassination of a President, because a President will keep a distance from his protective guards when he does not want a conversation overheard. Holloway rationalized that there was no formal precedent for asserting a "protective function privilege," and, that "the court is not ultimately persuaded that a President would put his life at risk

for fear that a Secret Service agent might be called to testify before a grand jury."

Tim McCarthy, one of the agents who took a bullet intended for President Reagan, during the assassination attempt in 1981, told NBC's "Meet the Press" on May 24: "The proximity to the President is the key to protecting him. If you take a look at the events of March 30, '81, we had that proximity. If you take a look at assassination attempts that have been successful—Rabin in Israel, the Pope [sic], even President Kennedy—they did not have proximity at that time. Proximity is developed through trust and confidence and the feeling of the protectees that they have confidentiality in regards to their private lives." He added later: "It has happened before, it's going to happen again, and I believe this ruling will expose the Secret Service protectees and others to a greater risk than need be the case."

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## Clinton hails passage of Irish peace vote

President Clinton expressed satisfaction on receiving the news that the referendum on Ireland's "Good Friday" peace accord was voted up on May 22: "Today we are rejoicing at the news from across the Atlantic. The people of Northern Ireland and the Republic of Ireland have decisively approved the April 10th peace accord. . . ."

"I salute the leaders who stood for hope against fear, the future against the past, unity against division. Most of all, I congratulate the Irish people for having the courage and wisdom to vote for a brighter future for their children.

"As of today, peace is no longer a dream, it is a reality. You have indeed joined hope to history."

The President reiterated his commitment to foster economic investment in Northern Ireland. The United States, he said, working through the International Fund for Ireland, will help "attract new investment to create new factories, . . . jobs, and establish new centers of learning to prepare for the 21st century." He concluded: "Today's vote is a beacon to peoples around the globe in places where strife prevails and peace seems remote. You have set an example for the world."



## 'Olson salon' mistress on Nickles's payroll

According to an exposé in the May 21 issue of the Capitol Hill daily *Roll Call*, Sen. Don Nickles (R-Okla.) has allowed Barbara Olson to remain on his payroll while she makes the media rounds attacking President Clinton on behalf of Barbara Ledeen's Independent Women's Forum (IWF). Nickles calls it a "leave of absence."

Just how "independent" the IWF is, is put in doubt by the fact that it is financed by Richard Mellon Scaife, the piggybank for the "Get Clinton" effort. Olson and her husband, Theodore, have been coordinating Kenneth Starr's inquisition against the President out of a weekly salon held in their posh home in Great Falls, Virginia. The gathering reportedly includes Starr, Federal Appeals Court Judge Lawrence Silberman, Supreme Court Associate Justice Clarence Thomas, *Wall Street Journal* editor Robert Bartley, *American Spectator* editor Emmett Tyrrell, and former Federal Judge Robert Bork, among others.

## Alexis Herman is latest 'Get Clinton' target

Labor Secretary Alexis Herman expressed her surprise on May 12 that Attorney General Janet Reno had asked for the appointment of an independent counsel to investigate her. "I'm obviously very disappointed and extremely baffled by this decision," Herman told a special White House press briefing. "I've done everything humanly possible that I could do to cooperate with the Justice Department: There's not one document that they've asked me for that I did not provide; I was available to them personally; I interceded personally to ensure that they had all of my financial records from my banks."

The probe centers on nebulous allegations of "influence peddling" and "soliciting illegal campaign contributions," while Herman was director of the White House Office of Public Liaison. "In their own filing today, the Justice Department said that neither they

nor the FBI concluded that I have done anything wrong, and that is because I have not. These allegations have been false from the very beginning. I can only assume that the Attorney General felt that she had to make this decision because of the statute," she said.

The large number of minority officials under investigation in the Clinton administration (Henry Cisneros, Mike Espy, Hazel O'Leary, the late Ron Brown, and now Herman) has raised the question of racial targeting. Deputy Attorney General Eric Holder sidestepped the question of the FBI's "Operation Fruehmenschen," directed against Black elected officials, when asked by a reporter on May 12 if "there's a possibility that race is playing a part in some of these investigations."

## Clark compares U.S. prisons with Rwanda's

In his foreword to the forthcoming second volume of *Frontiers of Justice*, former Attorney General Ramsey Clark wrote:

"The most revealing and damning insight into the real purpose and effect of our prison policies can be seen from the size of the [prison] population and its racial content. Today, in California, 40% of the African-American male population between the ages of 18 and 27 is in prison, or on post-conviction parole, or supervised release. Where in history, or in the world today, have 40% of so large a part of an entire segment of the population been imprisoned? Consider Rwanda, only a few years away from a genocide in which it is claimed 1 million out of a population of 7 million died. In most parts of the country today, it is wracked with insurrection and armed guerrilla warfare. The victorious Tutsi people, representing less than 15% of the nation, claim to hold 108,000 male Hutus in prison. While the ages range from pre-teens to septuagenarians, the majority are probably between 18 and 27. The male Hutu population between 18 and 27 is about 10 times the number in that age group who are in prison. California has imprisoned four times (40% compared to 10%) the percentage of military service age group that war-torn Rwanda has."

**DON ERET**, a farmer and former Nebraska State Senator, running as a LaRouche Democrat, won over 29,000 votes in his unopposed bid in Nebraska's Democratic primary on May 12. He will now face 10-term incumbent Doug Bereuter in the First Congressional District, which includes the state capital, Lincoln.

**PENNSYLVANIA** issued a new extradition order on May 20 for Ira Einhorn, who has been living under high-level protection in France. In the 1970s, Einhorn, a major figure in the "Earth Day" bacchanalia, was charged with the grisly murder of his girlfriend in Philadelphia. The state has now passed a law guaranteeing him a new trial, after France, last year, refused extradition because he had been convicted *in absentia*.

**VIRGINIA GOVERNOR** Jim Gilmore has reappointed Ronald Angelone to run the state prison system. Angelone, hired in 1994 to bring police-state methods to the Virginia gulag, now oversees the state's largest agency, with more than 12,000 employees and a budget of \$588 million. During his tenure, the inmate population expanded from about 17,000 to 25,423 as of May 20.

**INTERARMS HEIRESS** Susan Cummings was sentenced to 60 days in jail on May 21 by a Hunt County jury in Warrenton, Virginia, for the murder last September of her boyfriend, Argentine polo star Roberto Villegas. The Interarms fortune of her late father, Sam Cummings, was amassed shipping weapons to terrorists, revolutionaries, drug-traffickers, and others, often under the direction of the dirty networks of British Intelligence, and their American intelligence collaborators.

**BRANDEIS** University in Waltham, Massachusetts, a Jewish liberal arts university, awarded an honorary doctorate to German Chancellor Helmut Kohl on May 24, for his efforts to deepen German-American and German-Jewish relations.

## Editorial

### *Stop the Justice Department treachery*

As the world careens into the worst economic crisis in centuries—a crisis which demands U.S. Presidential leadership—it seems likely that by mid-summer, the President of the United States will be under assault from an impeachment campaign being orchestrated by independent counsel Kenneth Starr and House Speaker Newt Gingrich. This comes on top of the hysteria being fanned by the news media accusing the President of treason for alleged “technology transfers” to China—a charge based on lies, misinformation, and illegal Justice Department leaks.

Starr is said to be preparing a report to the House, compiling alleged impeachable offenses committed by President Clinton; that report may be submitted by the end of June—which explains Starr’s frenetic activation of his grand juries in Washington and in Alexandria, Virginia (the notorious “rocket docket”), and his rush to get various appeals resolved within weeks.

Starr has been getting considerable assistance in his assault on the Presidency from the U.S. Department of Justice, which is operating as a traitorous fifth column within the Clinton administration.

Attorney General Janet Reno, at the behest of the corrupt permanent bureaucracy in the DOJ Criminal Division, has time and time again recommended the appointment of new independent counsels—the latest one to probe Labor Secretary Alexis Herman. At the same time, Reno has refused to rein in Starr, despite his documented record of misconduct and conflicts of interest.

But worse, it has now been disclosed that Reno filed a friend-of-the-court brief *opposing* the President’s assertions of Executive privilege and attorney-client privilege with respect to Starr’s efforts to compel White House advisers to testify before his grand jury. Reno justified this, saying that it was important that the court be aware of the DOJ’s “institutional position,” irrespective of the fact that the DOJ is supposed to take its direction from the President of the United States.

The Justice Department also played a treacherous role in a far more serious matter: giving only lukewarm support to efforts of the U.S. Secret Service and the

Treasury Department to prevent Secret Service agents from being forced to tell Starr’s prosecutors and grand jury what they observed while protecting the President. After the May 22 court ruling rejecting the administration’s assertion of a “protective function privilege,” there have been reports that the Justice Department may refuse to even handle the Secret Service’s appeal of this ruling. This, despite the repeated and adamant assertions of career Secret Service officials that forcing agents to testify will result, sooner or later, in the assassination of a President, because Presidents will keep agents at a distance during their confidential conversations.

The Justice Department has played an equally treacherous role around the “Chinagate” fundraising allegations, constantly leaking information to the news media. The most flagrant example was the *New York Times* story of May 15, claiming that former Democratic fundraiser Johnny Chung had told DOJ investigators that money which he had given to Democrats during the 1996 reelection campaign, had come from Chinese military sources. Chung, who has already pleaded guilty to bank-fraud and tax-fraud charges, is obviously trying to save his own skin; he could be properly described as the “David Hale” of the DOJ’s campaign-finance investigation. It was these blatantly illegal DOJ leaks to the *New York Times* which triggered the current wave of “yellow peril” hysteria aimed at the President and his China policy.

Enough is enough. The DOJ permanent bureaucracy must be reined in. The most efficient means of doing this is to have hearings on the McDade-Murtha “Citizens Protection Act of 1998” in the House of Representatives during June. At the center of these hearings must be the LaRouche case. Although there are many other instances of DOJ prosecutorial abuse and misconduct, no other case cuts to the quick as does the LaRouche case, which represents, to the knowledge of former Attorney General Ramsey Clark, “a broader range of deliberate cunning and systematic misconduct, over a longer period of time, than any other prosecution by the U.S. government.”

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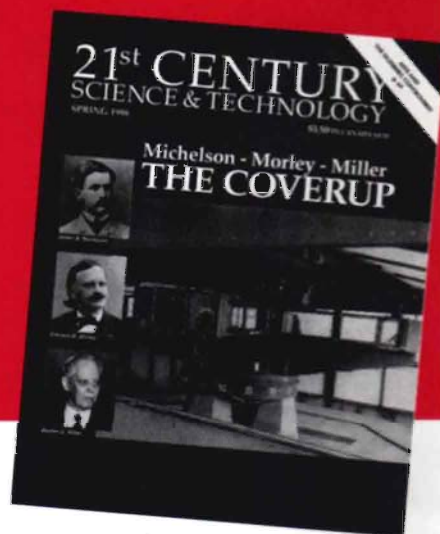
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