

EIR

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Battle over McDade-Murtha goes down to the wire
Dr. Mahathir trumps 'anti-corruption' crowd
Colombia, U.S. can defeat narco-terrorism

**Torpedo the IMF, support
the New Bretton Woods!**



*The issue of individual human freedom, is not the issue of "democracy."
The essence of freedom, is the right to define oneself as a world-historical
individual—to be a resident of the simultaneity of eternity—rather than
some self-debased libertarian fool.*

—LYNDON H. LAROCHE, JR.
May 28, 1998

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From the Associate Editor

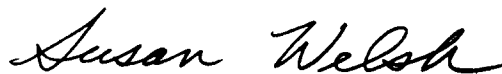
As we go to press, President Clinton has just arrived in Beijing, for a summit meeting of enormous strategic importance. To focus clearly on what is at stake, recall what Lyndon LaRouche wrote in *EIR* last Nov. 7, following President Jiang Zemin's visit in the United States. Describing the meeting as "the highest point of historic achievement reached by the Clinton Administration, in any field, thus far, since the January 1993 inauguration," LaRouche underlined that if the United States is to have a hopeful future, its principal orientation must be across the Pacific and Indian Oceans. The pivot for that orientation is China.

As the financial and economic crisis deepens, LaRouche wrote, the British oligarchy has entered its death-agony, "lashing out with violent, lunatic thrashings, of a sort which only a reptilian species in its death-agony might muster." That oligarchy is determined to prevent any partnership between the United States and China. But the oligarchical monster, though deadly, is nonetheless doomed. And the summit meeting between the two Presidents "shows itself the seed-crystal around which an alternative can be built, a better age for humanity than the one which is now in the process of destroying itself today."

Eight months later, that potential remains—although, as Helga Zepp-LaRouche wrote in *EIR* on June 19, it has been dangerously weakened by the blockheaded refusal of the U.S. and other Western governments to admit the full extent of the systemic financial crisis, and to act appropriately to put into effect a New Bretton Woods monetary system. It is now more important than ever, that a combination of global forces, including the Non-Aligned Movement, act to support such a New Bretton Woods initiative, in defense of the nation-state system, and against the financier oligarchy.

In this issue, you will find news and feature coverage of the most important international developments in this fight, including the texts of speeches given by *EIR* intelligence directors at our June 18 seminar in Washington, on the New Bretton Woods.

In accord with our usual schedule, *EIR* will not be published next week. The next issue, dated July 17, will have full coverage of the China summit.



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Corrections: Liu Xiaoming, interviewed in last week's issue, is the Minister in the Embassy of the People's Republic of China in Washington, and the Deputy Chief of Mission. The interview contained a number of transcription errors: On page 12, the figure 70% should read 17%; on page 13, the year 1975 should read 1979, and *Business Week* should read "the business community."

Also in last week's issue, in "U.S., Japan Cooperate to Support the Yen," we reported that the Chinese central bank had intervened to defend the Hong Kong dollar, and had depleted significant foreign exchange reserves. This was incorrect. China's foreign exchange reserves have actually reached a record high of \$139.9 billion, while Hong Kong's reserves have been maintained at approximately \$80 billion, according to official government data. The Hong Kong Special Autonomous Region maintains separate responsibility for maintaining the peg of the Hong Kong dollar to the U.S. dollar. The Chinese central bank did not intervene as reported. The Chinese currency, the renminbi, is not convertible on capital accounts, which protects it against vulnerability to direct hedge fund attacks. We apologize for these errors.

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All eyes are still on Japan and the yen

by William Engdahl

“The U.S. decision on June 18 to support the yen bought some time for Clinton’s China trip, a very important factor in its timing,” noted a senior strategist with a major Swiss bank. “Now, the question is whether the intervention and the overall pressure of the situation will be sufficient to get the Japanese to finally act to clean up their banking mess. If they don’t do something quite decisive by the July 12 Upper House elections, we could see a major global deterioration.”

The size of the problem facing Japanese Prime Minister Ryutaro Hashimoto is daunting, to put it mildly. In March, the Japanese Diet (Parliament) passed a record 30 trillion yen bank rescue package, amid great fanfare that it would finally deal with the problem of bank bad loans from the collapse of the bubble era in the late 1980s. The funds went to the government’s Deposit Insurance Corp. (DIC), to guarantee depositors at failed banks, as well as to provide fresh bank capital to ease the vicious credit crunch.

The problem is that banks have been “embarrassed” to ask for the money, which would be seen as an admission of bad bank problems. As a result, so far only 1.8 trillion yen has been allocated, and to banks both strong and weak, so that no one would “lose face.”

Getting the troubled banks to take DIC money is the least of the problems, however.

Compounding the problem

Given the special Japanese tradition of honoring one’s debts at all costs, it is still considered bad form for banks to write off unpaid debts. One consequence has been that Japanese banks, instead of admitting the obvious when the

stock market and real estate speculative bubbles burst in the beginning of the 1990s, and writing off defaulted loans, hid the reality by forcing de facto insolvent borrowers to take new low-interest loans, merely to maintain the fiction that the company was still servicing its loans. Many Japanese mortgage holders were forced to engage in a similar deception by their banks. The result has been a geometric expansion in the size of de facto defaulted loans still carried on banks’ books.

For months, the behind-the-scenes fight in Japan has been over whether to end the loan charade. On June 23, the *Wall Street Journal* reported that a bitter fight has broken out between powerful forces in Japan’s Ministry of Finance and the newly independent Bank of Japan, which since April 1 has been made largely independent of the Finance Ministry. According to this account, Bank of Japan Governor Masaru Hayami is demanding that banks make full voluntary disclosure of bad loans, to give “clear prospects for reestablishing market confidence and revitalizing the financial system.” Taking the other side of the fight is Finance Minister Hikaru Matsunaga, who argues that Japanese banks already are required to disclose bad loans, just as the Securities and Exchange Commission requires in the United States.

What Matsunaga has not yet acknowledged publicly, however, is the full implications of those U.S.-style disclosure rules. As part of Japan’s long-term program to reform its economy and financial sector, its so-called “Big Bang,” Tokyo imposed new accounting standards on its banks modelled on U.S. accounting rules for declaring loans non-per-

forming. At the same time, as of the start of Japan's new fiscal year on April 1, Tokyo mandated that all banks doing international business must adhere to the Bank for International Settlements rules for minimum "core capital" of 8% against total loans outstanding, a kind of minimum emergency backstop.

There is a confidential International Monetary Fund study, conducted in cooperation with the Paris-based Organization for Economic Cooperation and Development, examining the possible impact of these two changes. According to Japanese bank reports published just prior to introduction of the Big Bang, the largest banks had written off or otherwise provided for 80% of their bad loans—not an ideal situation, but grounds to convince officials that the end of the years-long problems was in sight. The IMF, using the U.S. rules, however, calculated that instead of having taken care of 80% of the bad loans, banks have in fact only dealt with 17%.

Moreover, there is a heated debate over the actual sum of bad loans to be disclosed. The Finance Ministry recently published revised figures showing that banks hold some \$560 billion in bad loans, more than double earlier figures. In fact, however, informed private estimates calculate bad loans to be in excess of \$1 trillion. On June 21, Angela Koehler, the Tokyo correspondent for the *Berliner Zeitung*, reported, "There is a 'secret paper' circulating inside German bank circles in Tokyo, which states that for Japan's leading banks alone, non-performing loans total more than \$1.5 trillion."

Yet, the problem faced by the Hashimoto government and the banks is made even more complicated by the adoption of the BIS capital requirements. Well before April 1, Japanese banks, unable to raise funds to increase their equity capital because of the collapse in Tokyo stock market prices, had been forced to call in loans to healthy customers and to contract credit, to reduce the total size of loans outstanding.

"Japanese banks have a major currency mismatch which aggravates their problem," said one European banker familiar with Japan. "They must calculate their core capital in yen for the BIS rules, but most of their loans abroad are all in dollars. As the yen value falls against the dollar, Japanese banks have little option but to savagely cut total loans to meet the BIS 8% target. The yen is down some 20% since January, so the impact is huge. This is a major added source of the so-called credit crunch. Rather than lend to stimulate economic expansion, either in Asia or in Japan itself, Japanese banks have been aggressively calling back existing loans, and forcing record-high bankruptcies in the process, as companies cannot cope."

A bridge too late?

Debate now is centered on various options being leaked

almost daily by the ruling Liberal Democratic Party and government figures regarding creation of a special state "Bridge Bank," which could guarantee depositors or borrowers if a bank failed. Some LDP leaders, such as Taku Yamasaki, have proposed using 17 trillion yen of the 30 trillion yen DIC package for such a new bank, which would provide loans to sound clients of the failed bank to enable the economy to begin to recover.

In recent days, rumors have spread that the Long-Term Credit Bank of Japan (LTCB) is suffering severe liquidity problems because of bad loans and high capital costs. Stock shares have collapsed, and reports in Tokyo are that the bank may have to be taken over by the government, much like what occurred in Sweden in the early 1990s. If so, the LTCB case could be a test of Japanese resolve to deal with the mountain of worthless debt on bank books.

To underscore how seriously Clinton administration officials regard the Japanese bank situation, U.S. Deputy Treasury Secretary Lawrence Summers, acting as President Clinton's personal emissary, flew to Tokyo on June 17 to meet with top government officials and LDP party leaders. Little noted, is that accompanying Summers was a high-level U.S. bank team, including New York Federal Reserve President William McDonough, Washington Federal Reserve Board Director Roger Ferguson, and a specially named Clinton emissary, William Seidman. In the late 1980s, as chairman of the U.S. Federal Deposit Insurance Corp., Seidman played a pivotal role in dealing with the savings and loan crisis, and in the creation and operation of the Resolution Trust Corp., the government agency charged with cleaning up the S&L mess.

It is clear what Washington keenly desires from Japan at this point. It is also clear that China, as well, is putting extraordinary pressure on Japan to act decisively. On June 25, China's Foreign Ministry spokesman Tang Guoqi told reporters in Beijing, "Japan, as a major economic power, should assume greater responsibility at a time of Asian economic difficulties. The yen should play a role of stabilizing Asian economies and not become a destabilizing factor." He added, "We hope . . . the Japanese government will adopt effective measures to stabilize the yen."

To date, large foreign investors who speculate in yen are not at all convinced that Japan will adopt effective measures. After the surprise U.S.-Japan joint intervention brought the yen from a low of 147 to the dollar up to 133, in a matter of hours on June 18, lack of decisive action by the Hashimoto government on the bank problems has led to renewed selling of yen by foreign banks. As of June 25, the yen had again fallen to 141 to the dollar. One French banker with intimate knowledge of the Japanese situation told *EIR*, "Japan now needs to strike a blow to reverse the negative sentiment. If this credit crunch continues, all the world will simply collapse."

America is not immune

Roger Altman, “Beware America, the World Financial Crisis Is Serious,” *International Herald Tribune*, June 24 (appeared first in the *Los Angeles Times*). Altman served in the Treasury Department in the Carter administration, and was Clinton’s First Deputy Treasury Secretary.

“Despite last week’s tremors, an eerie calm hangs over U.S. financial markets, which reflects a seeming oblivion to the spreading international financial crisis. The stock market remains at stratospheric highs, interest rates have hit 30-year lows, and Wall Street sees the economy as impregnable. It is America as a financial island.

“But this isolation is increasingly untenable. A financial firestorm is spreading across East Asia, Russia, and parts of Latin America. Currencies have collapsed, capital has fled, and economies have sunk on an unprecedented scale. . . .

“All this constitutes the worst financial crisis since the birth of the international monetary system in 1944, and it seems to be accelerating. The U.S. Federal Reserve and Treasury are increasingly worried about a world market meltdown. . . .

“Apart from nuclear weapons, [the financial markets] are the most powerful force the world has experienced. In recent months the markets have obliterated governments overnight and imposed previously unthinkable changes on one nation after another. One day President Suharto of Indonesia is still omnipotent. Then, after the markets render their verdict, he is gone.

“Those who think that the mighty United States is immune to such forces are wrong. This is a dangerous moment.”

John Kenneth Galbraith, interview in *The Observer*, London, June 21.

Asked about the potential for a financial crash, economist Galbraith replied, “I, of course, don’t use the word crash; I repair to financial language and talk not about a major correction but a major adjustment. (I am considering retitling my book on the 1929 crash *The Major Adjustment*). . . .

“Greenspan has been doing admirably what the Federal Reserve has always done—which is nothing. . . . There should have been far more warning about the speculative splurge on Wall Street and the extent of citizen participation. That was the mistake that the Federal Reserve made in the ’20s, and the mistake that it has made again now. And the reason for it is simple: you cannot warn against a speculative splurge without taking responsibility for what happens thereafter; no head of the Federal Reserve wants to be held responsible for a dip in the stock market. . . .

“One thing is wonderfully clear—when trouble comes

on Wall Street, the blame will all be passed to Indonesia, Malaysia, and maybe Japan. Wall Street insanity—let me use a slightly milder expression, Wall Street ‘speculative error’—now has a perfect cover. . . .

“As is happening now in East Asia, the peculiar genius of the IMF is to bail out those most responsible, and extend the greatest hardship to the workers, who are not responsible, who are innocent participants.”

Interview: Arthur J. Rolnick

The case for fixed exchange rates

On June 20, the Minneapolis Star Tribune took up the debate on the need for a new world financial system, in an article entitled “Falling Yen Raises Questions About Floating Currency,” by columnist Mike Meyers. A section of that article was entitled, “A New Bretton Woods.” Meyers identified two economists from the Minneapolis Federal Reserve, Arthur J. Rolnick and Warren Webber, who, “for nearly a decade, . . . have made the case for a return to fixed international currency rates. . . . Rolnick and his allies at the Minneapolis Fed argue that today central bankers around the world accept the idea that stable domestic prices are a cornerstone of sustained economic growth. In effect, that removes one old argument against fixed international currency values.”

Rolnick, Senior Vice President and Director of Research of the Federal Reserve Bank of Minneapolis, was interviewed by Richard Freeman on June 22.

EIR: You are quoted in the *Minneapolis Star Tribune* of June 20 as advocating a fixed-exchange-rate system, which it said, you have been advocating for a decade.

Rolnick: A fixed-exchange-rate system should be reconsidered. I co-authored an essay on this subject that appeared in the 1989 *Annual Report* of the Federal Reserve Bank of Minneapolis, which was titled, “The Case for Fixed Exchange Rates.” I argued that within a few years after the world went to a floating-rate system (about 1973), it was clear that exchange-rate movements were not being driven by fundamentals. I think that this is an inherent problem with fiat monies.

My views are based on research by professors Neil Wallace and John Kereken. They argue that fiat monies are special, that unfettered markets cannot determine their rates of exchange, that there is a fundamental price indeterminacy. In other words, exchange rates can take any value. Consequently, you can end up with large fluctuations in exchange rates. And, it’s not because of inflation per se. Even if you

have low inflation, under floating rates, for any reason, your currency can fall. There is nothing that ties the currency down.

The theoretical research is determined by the empirical results of economists [Richard] Meese and [Kenneth] Rogof. In a 1983 paper, they show that since the world adopted floating exchange rates, economic fundamentals have not helped to predict exchange-rate movements. Indeed, they find that the best technique for predicting exchange rates is a random walk model.

The bottom line is that, from an economic efficiency point of view, the best arrangement is a fixed-exchange-rate system.

EIR: Have you written other things on this subject?

Rolnick: In 1993, I co-authored an article, “In Order to Form a More Perfect Monetary Union,” which shows that America’s monetary system changed when we adopted the Constitution. Under the Articles of Confederation, many states issued their own bills of credit. You had 13 states issuing their own currency, and the country experienced exchange rate variability that it found unnecessary and undesirable. But the Constitution stopped that. It prohibited states from issuing bills of credit.

EIR: In 1944-45, the world economies adopted a fixed-exchange-rate regime known as the Bretton Woods system. It was hoped that a regime of stable exchange rates would help to reconstruct the war-shattered countries of Europe and Japan. How did that system function?

Rolnick: In the early years of the Bretton Woods system, countries could still petition to get their exchange rates changed. Currencies were pegged to the dollar, which, in turn, was supposed to be pegged to gold. While there were some difficulties in the beginning, by the 1960s, exchange rates were fairly stable. And, prior to 1973, world economies were doing pretty well, a sign that the system was going in the right direction.

EIR: Why did the Bretton Woods system end?

Rolnick: The problem was that the United States had the war in Vietnam, and instead of taxing its people to pay for the war, it printed dollars. It ran a [budget] deficit and printed dollars. It then exported the dollars to the rest of the world. The U.S. exported its inflation and dollar problem to the rest of the world. We were printing too many dollars. [French President Charles] de Gaulle, among others, was unwilling to hold dollars and started demanding gold in return.

EIR: At a critical point, on Aug. 15, 1971, President Richard Nixon took the dollar off the gold reserve standard.

Rolnick: Milton Friedman played a role.

EIR: Friedman? I know of the role of Paul Volcker, who was Treasury Undersecretary for International Monetary Affairs, and also John Connally, as well as House Banking Committee Chairman Henry Reuss (D-Wisc).

Rolnick: It is my understanding that Friedman was very influential. He had been writing on this issue since 1953. [In the bibliography to Rolnick’s 1989 article, “The Case for Fixing Exchange Rates,” Rolnick cites a 1953 article by Friedman, “The Case for Flexible Exchange Rates,” which appeared in *Essays in Positive Economics*.]

EIR: Right now there are nations in Asia that have been attacked by the hedge funds and speculators, that have seen their currencies fall in value compared to the dollar by 30-80%. This increases their dollar-denominated debt by that amount, and contributes to destroying their economies.

Rolnick: We have seen that, under floating exchange rates, there can be large fluctuations of exchange rates. Businessmen must pay a hefty fee to hedge this risk. They incur currency risk whenever they engage in an international transaction. Exchange rate risk is a dead weight loss. Uncertainty about government intervention only adds to this risk.

EIR: What do you think it would take to put together a new Bretton Woods system?

Rolnick: I think it depends on the Americans, Germans, and Japanese making the decision to tie their currencies together. If they decide to do it, it will happen. Most countries in the world have already fixed their currencies to one of these three countries’ currencies.

EIR: In the new Bretton Woods or fixed-exchange-rate system that you envision, would there be adjustment of currencies every 6 or every 12 months?

Rolnick: No. They would be fixed forever. In the beginning, countries may need to make some adjustments. But really, it doesn’t matter what rate is set. Once the system is credible and ongoing, the initial rates are not that important.

EIR: Let me play devil’s advocate. The supporters of a floating-exchange-rate system say that if a country is in trade deficit—is importing more than it’s exporting—then the country can devalue its currency and it will export more.

Rolnick: Yes, that’s the argument. But look at the history of devaluing currencies. If a country is devaluing its currency, other countries may respond by devaluing their currencies. But, even if a country is successful in devaluing its currency relative to other countries, does it really help a country to have a lower exchange rate? If a country has a high exchange rate, it can import more goods, and in particular, more capital goods.

Hence, it is not clear that lower exchange rates create more jobs in a country; I’m not sure that that country is better off. I think that instead of changing exchange rates, you should change the fundamentals that are causing the problem. Moreover, if a country has a stable exchange rate, businessmen are more likely to invest in that country.

That is the crux of the issue. That is why a fixed-exchange-rate system is economically efficient.

Malaysia's Mahathir trumps 'anti-corruption' crowd

by Gail G. Billington

Since the May 21 resignation of Indonesian President Suharto, a curious verb has gained currency in international media and policy circles: "to Suharto-ize," meaning, to bring to the altar a long-standing political leader as a sacrificial offering to take the blame for economic and social breakdown under International Monetary Fund (IMF) "shock therapy" and "loss of confidence" of fickle financial markets, under cover of a campaign against "corruption," "cronyism," and "nepotism."

The lead target of a continuing campaign to "Suharto-ize" leaders in crisis-wracked Asia is now Malaysia's Prime Minister Dr. Mahathir bin Mohamad, who holds place as the longest-sitting head of state in the region. Mahathir has been in the crosshairs of the international financial oligarchy because of his attacks—beginning at the Association of Southeast Asian Nations summit in July 1997, and, even more, following a blistering keynote speech to the IMF annual meeting in Hong Kong in September 1997—on a global financial system that thrives on the ability of the likes of megabillionaire George Soros to wreak havoc on regional currencies.

As the second phase of the Asian crisis accelerates toward what an increasing number of people now recognize is a full-blown depression, support is lining up behind Mahathir's warning that Asia is being softened up for financial "re-colonization." Accordingly, efforts have been stepped up to oust Mahathir, and replace him with what some allege will be a more "market friendly" leadership, led by Deputy Prime Minister and Finance Minister Anwar Ibrahim. At the June 18-21 annual general assembly of the ruling party, the United Malay National Organization (UMNO), the succession issue was put on the table. In the end, Mahathir and Anwar pledged their mutual support to each other, and those who sought to foment schism, were frustrated in their efforts.

Time for global financial reform

Days before the UMNO General Assembly convened, World Bank officials said that the Asian financial crisis has cost Thailand, the Philippines, Malaysia, Indonesia, and South Korea 80% of their Gross Domestic Product, through the flight of credit and capital. Since July 2, 1997, the Malaysian currency, the ringgit, has collapsed more than 36% in

value—not the worst victim, if compared to the Indonesian rupiah's 83.5% collapse—but the Malaysian stock market has been the hardest hit in the region, down 63.2%. One result will be that by year's end, some 200,000 Malaysians will slip below the poverty line.

Since the beginning of the crisis, Mahathir has rallied his country to support sacrifices necessary to avoid being subjected to IMF "reforms," which he repeatedly identified as leading to loss of sovereignty and national independence. Accordingly, a special economic crisis management council, the National Economic Action Council, was set up, under the direction of senior economic adviser Tun Daim Zainuddin, whose post, as of June 25, has been elevated to a cabinet position. More recently, an Asset Management Co. (AMC) was created to handle non-performing loans in a manner similar to an institution set up by President Franklin Delano Roosevelt in the United States to prevent the loss of vital productive capacity. On June 10, the Malaysian cabinet backed Mahathir in urging banks to lower interest rates, contrary to IMF advice, and the country has struggled to maintain price controls on essential commodities.

In two speeches delivered in Tokyo (see *EIR*, June 19, p. 7), Prime Minister Mahathir qualitatively escalated his criticism of the speculation-driven financial markets. In his June 2 speech to the Fifth Symposium of the Institute for International Monetary Affairs, he stated, "I believe that the time has come to deal with the entire issue of reform of the international financial system to ensure currency stability and to contain the activities of those who buy and sell money for no other purpose than to make profits."

Mahathir has *not* signed the call initiated by Helga Zepp-LaRouche and Ukrainian parliamentarian Natalya Vitrenko for Clinton to urgently convene a "New Bretton Woods conference." However, some among the Prime Minister's audience must have thought the floor had just dropped out from underneath them.

Two days later, in a speech to the Nihon Keizai Shimbun (Nikkei) International Conference on "The Future of Asia," Mahathir warned that globalization will lead, "sooner, rather than later," to a situation in which Asians "will think of regaining control over their economies. They will regard this as a new war of liberation." He added that "control of the media

enables [the globalizers] to shape public opinion, censor criticism, and generally promote the legitimacy and wholesomeness of their concept of the new world order.”

In between, on June 3, Mahathir gave an interview to Britain’s Reuters television, in which the central question asked was: Isn’t it time to pass the reins to Deputy Prime Minister Anwar Ibrahim? His speech to the Nikkei conference, in particular, sparked a sharp, and regrettable, response from the U.S. Ambassador to Kuala Lumpur, John Malott, who warned that the Prime Minister’s statements would “hurt investor confidence.” Mahathir responded twice, on June 13 and 14, that Malaysia wants long-term foreign investment to rebuild its economy, but that “hot money leaves a trail of destruction.”

A concert of attacks followed, including an outrageous *Time* magazine article which accused the Prime Minister of funnelling a \$250 million loan to his son through political party connections, which was followed by calls for a campaign against “cronism and nepotism” in Malaysia, like that in Indonesia, by the head of the UMNO Youth organization, Ahmad Zahid Hamidi, and the leader of the Muslim Students Association, both of whom are reputed to be close to Anwar Ibrahim.

The most egregious breach was the ambush of Malaysia’s Trade and Industry Minister Dr. Rafidah Aziz, staged by the Foreign Chambers of Commerce (MICCI) at its annual luncheon on June 16. Aziz has been the MICCI’s guest of honor at this event every year for the past ten years, but she could hardly have anticipated this year’s proceedings. In his address, MICCI President Jorgen Bornhoft issued a list of demands to improve “investor confidence”: “The government needs to speak with one voice. The right noises have been coming out of the Finance Ministry,” run by Anwar Ibrahim, Bornhoft said. “There is a need for the Anti-Corruption Agency to be independent and to report directly to Parliament.”

Bornhoft ticked off demands for lifting recommended retail prices on 600 food items, and for eliminating Malaysia’s affirmative action program to increase Malay-owned business, to open up banking, trading, and services to greater foreign control. Finally, in a flashback to colonial Malaya, Bornhoft demanded that the haze caused by forest fires and water shortages “must not be allowed to recur,” ignoring the El Niño weather cycle, and IMF-mandated cuts in infrastructure projects, which have caused the problem.

Aziz, answering philosophically, noted that this was the first time in ten years that corruption had been raised, and wondered out loud if this was a new issue or one that was being raised “because everyone is talking openly about it.” She said, “There is no acceptable level of corruption, period,” and challenged the MICCI to give specific cases and incidences. “Unless such action is taken,” she said, “the private sector will be on record as abettors of corruption.”

The UMNO General Assembly

The UMNO annual meeting got off to a bang on June 18 with the speech of UMNO Youth chief Zahid Hamidi, who defied the party leadership, and delivered a 40-minute speech denouncing the “debilitating impact” of corruption, cronyism, and nepotism. The intensity of his speech may, in part, reflect pressure from his constituents, many of whom are from among the 25,000 small and medium-sized businesses which have been hardest hit by the current crisis. The speech threatened to precipitate a factional debate that could undermine far more than the UMNO.

In remarks following Zahid’s speech, Deputy Prime Minister Anwar called upon the youth leaders “to close ranks” behind the Prime Minister, warning them not to listen to “opportunists.” He said, “Don’t be taken in by the foreign media or foreigners out to put our leaders at loggerheads with one another. . . . Let us not dance to the tunes of the frustrated and displaced. . . . There is no short cut to recovery.”

Subsequently, at a June 19 press conference, Anwar stated, “At no time did I make any reference to the possibility of me challenging the President [Prime Minister Mahathir]. It is only the interpretation of some of you, particularly the foreign media.”

On June 19, Mahathir delivered a 75-minute speech, broadcast live on national television, titled “The Challenges of Turmoil,” in which he organized the 1,900 UMNO attendees and the broader citizenry to understand the nature of the current crisis, in a way which few, if any, other world leaders have so far done. Thematically, he developed the “new order” of financial colonization, which relies not on physical, military occupation, but on “control through currency trading.” He said, “When a country becomes poor, its politics will become unstable and the fight for power will ensue. . . . Perhaps there are people who believe that only by changing their government, that the economic problems could be resolved. . . . Attacks will not cease until power is surrendered to foreigners, until the country is colonized again. . . . What we are doing is actually to defend our independence, no less than that.”

Privatization data released

On June 20, Mahathir lowered the boom, releasing a list of 171 companies, and names of major shareholders, who have been awarded privatized projects, and a further list of 114 firms which had been offered projects. Among the beneficiaries, many of whom are relative unknowns, are UMNO Youth head Zahid Hamidi, Anwar Ibrahim’s father; more than once, Mahathir blocked projects to his own family.

In an interview with the *Far Eastern Economic Review*, released on June 25, Mahathir said that the lesson he learned from President Suharto’s fall “is that it is possible for foreign people to influence people in the country, agitate them, and cause them to overthrow the government.”

Australia: The strategic implications of Pauline Hanson's election victory

by Allen Douglas

On June 13, the fledgling One Nation party of federal MP Pauline Hanson, with little money and in the face of extraordinarily adverse publicity, stunned the Australian political establishment by winning 11 out of 89 seats in the state parliament of her home state of Queensland. In the wake of that victory, with a federal election likely to be called in August, the nation's politics are in a state of uproar not seen in decades. Hanson's victory garnered extensive media coverage across Asia and as far away as Europe, where she was branded a "female Jean-Marie Le Pen," after the head of France's extreme-right National Front.

Most media coverage of Hanson has focussed almost solely on two issues: her opposition to Aboriginal "land rights," and her call to temporarily limit Asian immigration to Australia "until unemployment is dealt with," for which she has been widely tarred as a racist. Such tendentious coverage obscures a more fundamental reality. For more than two decades, Australian governments of whatever nominal stripe, be they Labor or its ostensible, bitter enemy, the now-ruling Liberal-National Party coalition, have enforced, without the International Monetary Fund, IMF-style programs against the population, such that that agency said there was "no need" to conduct its 1997 annual "check-up" trip to Australia. That austerity is now being intensified because of the global financial collapse, which has caused a plunge in Australia's exports, more than 60% of which go to Asia. So, as is happening elsewhere in Asia, the Australians are rebelling, a rebellion which has now coalesced most visibly around Hanson, a former fish and chips shopowner from rural Queensland, who is espousing policies of tariff protection, national banking, support for family farms, re-industrialization, and opposition to globalization.

For perhaps the first time anywhere, policymakers worldwide can read below what Hanson has *actually* said—as opposed to the universally lying media reports about her. They can therefore appreciate the potential strategic consequences of the debate now erupting in Australia—in the heart of the British Commonwealth, and in a key nation of the Pacific Basin—about national banking and the New Bretton Woods monetary system, a debate unleashed by Hanson, and by Lyndon LaRouche's associates in the Citizens Electoral Council

(CEC), which, like Hanson's One Nation, is a federal political party. The depth of that debate, in which the nation's increasingly unpopular Prime Minister and Treasurer are forced to pronounce themselves, almost daily, against national banking and a New Bretton Woods monetary system, is at present probably unparalleled in the world. That it is taking place next to Asia, home to 4.5 billion of the earth's people, where giants such as China and India—nations crucial to establishing a New Bretton Woods system—have fiercely protected their sovereignty against the ravages of globalization, and where others, such as Malaysia, are attempting to do so, gives it added weight.

Furthermore, Hanson's policies are rooted in the American struggle against British tyranny, as the best of the anti-British, anti-free trade "American System" of political economy was brought to Australia in the late 1880s by the exuberant Yankee, King O'Malley, founder of Australia's national bank.

'Economic rationalism'

Virtually all Australian commentators have attributed Hanson's burst into prominence to the electorate's disgust with "economic rationalism," the term by which the deregulation, privatization, globalization, etc. policies of the Mont Pelerin Society, the chief economic warfare unit of the British Crown, are known downunder, which have dominated both major parties since shortly after Mont Pelerin set up its first Australian think-tanks in 1975.

Though Australia has been quick to lecture its Asian neighbors about what they must do to get their houses in (globalist) order, the last 15 years of Labor/Liberal/National governments have produced: the highest foreign debt per capita in the world, at \$196 billion, though Australia likes to cite "net foreign debt," which stands at "only" \$124 billion; a collapse in the number of farms to well under 100,000, down from three times that number in the early 1970s; the greatest privatization of state assets (\$43 billion) of any country in the world except Great Britain; an official unemployment level of 8.2% (in reality much higher); more than 2 million of the total 18 million Australians officially living in poverty; and one of the highest suicide rates in the entire world, all this in

what used to call itself the “Lucky Country,” with one of the world’s highest standards of living in the 1950s and 1960s. No wonder the popular explosion in Queensland, which may be just the beginning.

In the wake of the Queensland election, a poll in the electorate of Brand in Perth, Western Australia, currently held by Labor Party leader Kim Beazley, showed 45% support for One Nation, while other polls show that Hanson’s party could take as many as 12 federal Senate seats (out of 76), and thus hold the balance of power in Australia’s upper house. The hysteria is such that the Anglophile Prime Minister of Australia during 1976-83, Malcolm Fraser, has said that it “would be better for Labor to rule in Queensland,” than for there to be a coalition involving One Nation. The hysteria has to do with Aboriginal “land rights,” and One Nation’s economic platform.

Aboriginal ‘land rights’

Australia’s British-owned or -dominated mass media, together with the nation’s “multicultural” establishment, have charged that Hanson is a racist, charges which have been widely circulated throughout Asia, as well. These charges ignore several things: 1) when push came to shove, as it did last year when millions of North Koreans began starving to death, she was the only Australian politician to speak out forcefully, repeatedly, and against the ridicule of her own government, for Australia to lead the nations of the world in feeding North Korea; 2) the news media, which have branded her a racist, have subjected her to an incessant campaign of vilification and lies on every issue, as is demonstrated by a simple comparison of what she *actually* says, with what the media *reports* her as saying; and 3) that the notion of Aboriginal “land rights” is a fraud concocted by Prince Philip to splinter Australia, just as the British use the real or imagined grievances of minorities elsewhere in Asia, to attack other nation-states (see *EIR*, April 28, 1995).

Those in Australia’s “multicultural” establishment who have most viciously attacked her for being a racist, are themselves some of the most nasty racists. Typical are the Melbourne Jewish “community leaders” Isi and Mark Leibler: Isi defended the wildly racist settlers movement in Israel against Prime Minister Yitzhak Rabin shortly before Rabin was assassinated, and Mark chairs the *Australia/Israel Review*, which was founded by followers of the 1920s Jewish fascist Vladimir Jabotinsky, whom Israeli founding father David Ben-Gurion regularly referred to as “Vladimir Hitler.”

Hanson has repeatedly called for “land rights,” under which more than 50% of the Australian continent has already been laid claim, to be abolished, so as to preserve the sovereignty of the Australian nation-state. For example, in a parliamentary speech in September 1997, she charged that international forces intended to split Australia into several nations, as has been done in the case of the Inuit (“Eskimo”) nation carved out of Canada.

“Today this house will debate whether we are to be one people belonging to one nation, or many peoples belonging to many nations. . . . It is imperative the people of Australia understand that native title is, as they say, ‘the thin edge of the wedge.’

“In conjunction with the Canadian government, the indigenous people of Canada have recently created Nunavut, a separate indigenous state within the nation of Canada. . . . This will be formalized in 1999, and in effect leave Canada with another country bigger than the state of Victoria, within its borders.”

Furthermore, she charged, “there is an undeniable link between the events in Australia and Canada. The man who was the architect of Nunavut in Canada is now living in Brisbane, and planning a Nunavut for Australia. There is no doubt the long-term goal of the Aboriginal industry is to create a separate indigenous nation within Australia. . . . Those who fear fairness and decency applying for everyone, call me a racist, but this government, and its predecessors, by embracing so-called native title, are advocating the ownership of land purely on the basis of race. We must be one nation; we must not have an Aboriginal or any other nation within our nation.”

Hanson’s economic platform

Hanson has called to “reindustrialize” Australia, through the use of tariff protection, and the availability of credit for agriculture and industry at 2% rates of interest, to be provided by a national bank. She has campaigned relentlessly on these issues, as in a September 1997 speech in Parliament:

“Australia was once a proud, strong manufacturing nation. We were in many ways independent and self-reliant—a product perhaps of our relative isolation and need. The Second World War caused us to industrialize on a scale not previously imagined for a country of our population, because of that isolation, and the imminent threat of invasion. . . .

“For the last 25 years, both Liberal and Labor have taken us down the path of free trade and globalization. Though they see countless Australian businesses and manufacturers disappearing or moving overseas to use the cheap workforces of a foreign land, though they see farmers forced from their land and Australian companies no longer in Australian hands, though they see untold numbers of Australians lose not just their jobs but their hope, the government continues to relish its pursuit of an agenda that fails the people who elected them. . . . We are sick of the Liberal Coalition and Labor sacrificing our jobs and the future of our children on the altar of economic rationalism and globalization.”

She warned prophetically, “The time is coming when the Liberal Coalition and Labor . . . will pay for their policies of betrayal. . . . This government, like so many before it, has pandered to the United Nations and the World Trade Organization and dismally failed their primary duty—the welfare of the Australian people.”

Almost immediately after the polls closed in Queensland,

the press and the government began a venomous attack on Hanson on national banking. On Australia Broadcasting Corp.'s "7:30 Report," Treasurer Peter Costello ridiculed Hanson aide David Ettridge, for his statement that "the government doesn't have to go overseas to borrow money. They can print their own money and they did this during war-time." Screeched Costello, "There is no country in the world that does that," ignoring the history of his own country, and that of America. Furthermore, Costello intoned, "If a government started printing notes and putting them into circulation, inflation would take off"—a real howler from someone pushing the policies which have created the biggest hyperinflationary bubble in human history.

Responding to the government attacks, Hanson issued a press release on June 18, in which she called for the reassertion of national sovereignty through the sovereign control of credit—something with which most of her Asian neighbors are in sympathy: "In the long term, if Australia is to prosper and aspire to reach its full potential, we must reduce our dependence on foreign capital to finance our growth," she said. This could include use of Australia's \$230 billion in super-annuation funds, or the issuance by the Reserve Bank of low-cost loans for agriculture and industry.

Furthermore, Hanson said, Australia used to have its own national bank: "[My] policy is reflective in many ways of the original function of the Commonwealth Bank born in 1911 under the Fisher Labor government. The Commonwealth Bank was created to make national credit available to anyone with decent security to offer, help reduce public debt, and provide real competition to private banks. Any profits were returned to the federal government. Australian Labor Party policy in 1934 planned to have the Commonwealth Bank utilize the credit of the nation for the benefit of the people. In essence, even if only in a small way to start, this is our principle as well. . . . In its time as a truly national bank, the Commonwealth Bank financed much of Australia's commerce and infrastructure including the entire war effort in World War I, and the East-West Railway. The need for a peoples' bank is as great now as it ever was, and we will inform the Australian people of its use and continue this debate regardless of the Treasurer's self-interest in stopping such discussion."

The 'American System' in Australia

Hanson today represents the national banking, dirigistic credit policies which built Australia in the first place, over the bitter opposition of the British Crown and the City of London. The most eloquent champion of these policies, from the time he arrived in Australia in the late 1880s, was the extraordinary American, King O'Malley. O'Malley had been active in the campaign of the nationalist U.S. President James Garfield, and carried the same ideas of nation-building, based on national banking, national railroad grids, and infrastructure development, to Australia, as did other Americans who fanned out around the world in the decades after the Civil War to help

launch the industrialization of Germany, Russia, Japan, and elsewhere. These ideas, known as the "American System," were locked in mortal combat all over the globe with the free trade, dope-pushing "British System." From the time of his arrival, O'Malley campaigned relentlessly for a national bank, an idea which was eventually accepted as part of the young Australian Labor Party's (ALP) "non-negotiable platform" in 1908, and which he pushed through Parliament in 1911. The ALP took the spelling of "labor" after the American, as opposed to the British spelling, signifying labor's aspirations to establish an American-style republic in Australia.

In a speech in federal Parliament on his proposed national bank on Sept. 30, 1909, O'Malley emphasized, "The private banking system of the Commonwealth is only a legalized monopoly for the gathering of wealth from the many, and its concentration in the hands of the privileged few." The Hamiltonian system should be counterposed to this, he said, adding, "I am the Hamilton of Australia. He was the greatest financial man who ever walked this earth, and his plans have never been improved upon."

From 1911 through the early post-World War II period, a battle raged between the Australian private banks and their political front-men, who were all tied closely to the City of London, and the Labor Party, as to who would control credit. During World War II, Labor Prime Minister John Curtin, the great ally of Gen. Douglas MacArthur and of President Franklin Roosevelt, directed credit to enable Australia to industrialize almost overnight, and to provide most of the munitions and matériel which MacArthur and the Australians needed for the war in the Pacific. Curtin died just at the end of the war, but his treasurer, Ben Chifley, who replaced him as Prime Minister, introduced a bill to make the wartime controls permanent, to "ensure that the banking system of this country shall work in the interests of the people as a whole," and not of private banks or "big business." The High Court and the British Privy Council thwarted Chifley's efforts, and the Commonwealth Bank was scaled back and ultimately replaced with the Reserve Bank in 1959, headed by H.C. "Nugget" Coombs, an associate of Prince Philip who became known as "the father of Aboriginal land rights."

When, in 1993, Labor Prime Minister Paul Keating partially privatized the Commonwealth Bank, that action caused howls of outrage, even in the nation's press, so strong was the memory of "the people's bank."

Australia's strategic role

The uproar over national banking in Australia is no local affair, because of Australia's position in depression-wracked Asia, and because Britain has designated Australia as its headquarters for looting Asia, as per a long-range study carried out beginning in 1989 by the Crown's premier think-tank, the Royal Institute of International Affairs (RIIA, a.k.a. Chatham House), on opportunities to expand British power worldwide in the wake of the fall of the Berlin Wall. In March 1995, the

RIIA and Her Majesty's Government sponsored a conference entitled "Britain in the World," attended by virtually the entire corporate and foreign policy elite in Britain, which endorsed the perspective outlined in an RIIA discussion paper by Katharine West, an Australian academic. In fact, implementation had already been under way for some years. West's theme, stripped of its polite language, was simple: Britain should use the extensive cultural and business networks of the Commonwealth — the new form of the British Empire — as a launching pad to penetrate every corner of the globe, and to loot every nation it can reach, through the methods of "deregulation," "privatization," and "free trade." The engine of all this power, West said, was an "*informal financial empire that maintained its vibrancy long after the formal power went into decline*," one based on the City of London (emphasis added). The main target, she said, should be Asia, the source of the largest amount of loot in the world, and the base to assault Asia should be Australia.

As per the RIIA perspective, almost 140 foreign companies, most of them British, established their Asia-Pacific headquarters in Australia, 60 of these in 1993-94 alone. And, the British poured investments into Australia, making them a close second to the United States. As for the perspective outlined at the 1995 RIIA conference for the British looting of Asia, this opened in 1997 with breathtaking speed and brutality when George Soros and related Commonwealth-based hedge funds attacked the currencies of most Asian countries, crushing their economies almost overnight, and opening them up to be purchased for pennies on the dollar.

But, while the British have been financially recolonizing Australia (and much of the rest of Asia), something else has taken root downunder, something which terrifies them much more than Pauline Hanson.

The LaRouche factor

In early 1998, two editors of *EIR* met with a senior U.S. government intelligence analyst to review global strategic developments. After discussing other matters, the analyst startled the *EIR* representatives by suddenly launching into a disquisition on the strategic significance of Australia, in the context of the war between patriotic elements in the Clinton administration, and the British Crown and its associated European oligarchy, collectively known as the Club of the Isles, which commands some \$9 trillion in assets and is the largest single financial force on the planet. Given the political ferment under way in Australia, and in the context of a mooted referendum on whether Australia should become a republic, he emphasized that Australia had the chance, at long last, "to become a real nation-state, instead of an ersatz one," controlled from Britain. "This would be a more serious set-back to the Club of the Isles," he said, "than the reversion of Hong Kong to China," and a development of "monumental strategic importance." Given Australia's position in Asia, and its cultural heritage, the country has the potential, he

said, "to become the fastest growing industrial country in the region."

That vision of Australia was shared during World War II by Prime Minister Curtin and President Roosevelt, who saw postwar Australia as the spearhead for industrial development and national sovereignty for all Asia, to replace the previous imperial rule of the area by the British, Dutch, Portuguese, and French.

Now, that issue is on the table again. Ever since the Queensland elections, numerous articles have appeared in the Australian media seeking to discern the "dark forces behind the rise of Hansonism." Most prominent of these, various media have emphasized, is the LaRouche movement in Australia, the Citizens Electoral Council, and the media have even offered line-by-line comparisons of CEC publications and later statements by Hanson. Hanson has her own capable research staff, and her own ideas, some of which are deeply rooted in Australian history. But, it is also true, that since the CEC established a full-time office in Melbourne in late 1992, it has put out millions of pieces of literature across the country (and more in Queensland than anywhere else), on Aboriginal "land rights," national banking, tariff protection, and so on. In 1993-94, after discussions with LaRouche, then in a U.S. Federal prison, the CEC drafted a national banking bill, some 75,000 copies of which have circulated throughout the country, on which subject the CEC has now produced a 90-minute videotape as well. Additionally, one of every 18 *EIR* subscribers in the world lives in Australia, and the CEC is running a highly active nationwide slate of 32 candidates in the next election.

The circulation of "dangerous" ideas on this scale provoked an attack on the CEC in 1996, led by Conrad Black's Hollinger Corp., an arm of British intelligence dating back to World War II, and which just launched another attack on LaRouche and his associates in its London *Daily Telegraph*, defending the royal family on the issue of the assassination of Princess Diana (see *EIR*, June 19, 1998). Through the Fairfax newspaper group which it then controlled, and in conjunction with corrupt networks in Parliament and other media, Hollinger tried to crush the CEC, and drive it from the continent, with Black even personally calling CEC supporters, to harass them. LaRouche summarized the affair, saying, "This is British intelligence." He noted that the British feared the reestablishment of the wartime U.S.-Australian alliance.

Now, as they did in World War II, Australians must once again think in terms of a global war, one in which they will fight side by side with their Asian neighbors, to establish a New Bretton Woods monetary system to do away with the present, tyrannical system run from London. When a LaRouche representative on June 16 confronted Prime Minister John Howard on whether he would support a New Bretton Woods conference, Howard replied with an emphatic "No!" But, only through the pathway of LaRouche's New Bretton Woods, can the sovereignty to which Hanson and her supporters aspire, finally be established.

Business Briefs

Banking

Deutsche Bank subject of ongoing investigation

Teams of investigators from the German equivalent of the U.S. Internal Revenue Service searched Deutsche Bank's headquarters in Frankfurt and several branches on June 15, as part of an ongoing investigation into organized capital flight and tax evasion from Germany to Luxembourg, Switzerland, Liechtenstein, and other tax havens. Similar searches have been carried out at Dresdner Bank and Commerzbank.

Deutsche Bank is suspected of being the biggest player in these activities. Recent media reports have suggested that the bank has played a key role in flight capital of 800 billion deutschemarks (roughly \$500 billion) over the last 8-10 years, an estimate drawn from an official report of the German Ministry of Finance.

The investigation is not welcome at the board of Deutsche Bank: When surprise searches against Dresdner Bank and Commerzbank began about two years ago, then-Deutsche Bank chairman Hilmar Kopper complained that "they are treating us like [Baader Meinhof] terrorists."

Commodities

Depression prices near, if current trends go on

A major price collapse is expected in many commodities, if current "declines in price go much further," the chief commodities strategist for a major Swiss bank told *EIR* on June 16. "The CRB commodity price index is at its lowest level since just before the 1990 Gulf War. Copper prices are now at 75¢ a pound. Just prior to the Sumitomo copper scandal it was \$1.40. Oil, by far the largest commodity in terms of market size, has collapsed 49% since last October. Oil prices today are at the level of August 1986 when there was a total price collapse," he said.

He continued: "In March-April, markets saw what I called at the time a 'dead tiger

bounce,' when optimism held that the worst was over in Asia. That optimism has now completely turned to pessimism and pension funds and others who had held on to a share of commodities as long-term investment are unloading, fearing the demand will fall further. It's everything from base metals to platinum to oil and gold, which is why the South African rand is under such pressure of late.

"The only curious commodity is gold, where instead of collapsing further as I would expect, given that Asians are dishoarding gold, it has actually strengthened from the January lows of \$276 to about \$287 today. The market rumor is that the Japanese have been buying about 400 tons or some \$4 billion of gold to back their case that the yen should become a larger world reserve currency. This I haven't been able to confirm."

Economic Policy

Brazil's Ricupero blasts 'arrogant speculators'

Rubens Ricupero, a prominent member of the Brazilian diplomatic corps and Secretary General of the UN Conference on Trade and Development, wrote that it is "time to face reality," and to stop letting "arrogant speculators" decide Brazil's future, in a column in *Folha de São Paulo* on June 13. On May 30, Ricupero, who has had a reputation as an advocate of globalization, shocked Brazil's elite with a column proposing that Brazil ignore British free trade, and instead look to Alexander Hamilton of 1791 and China of today for policy direction.

Ricupero reminded readers of how the International Monetary Fund projected "a rose-colored future" for the world economy in the spring of 1997, and then, in September 1997, assured everyone that the Asian crisis would not get out of hand. Yet today, Asian economies are projected to collapse 4-12.5%. Charging that short-term financial flows are a major cause of this crisis, which shows no signs of dissipating, he asked:

"Is it not time to reexamine the premise of such high dependence on these resources. . . ? Is it not better, therefore, to begin to rectify our direction, discuss alter-

natives, explain the costs, compare the benefits? . . . The time has come to confront the truth. This process begins, to my way of thinking, through the gradual reconstruction of a space in which we can affirm our relative autonomy. We cannot continue to tolerate having the fate, the well-being, and the employment of 160 million Brazilians, above all the least protected, lie in the hands of arrogant and superficial speculators, avid and pretentious owners of a supposedly orthodox truth which barely masks . . . 'an austere . . . and vile sadness.'" The starting point for self-confidence, he said, is to follow John Maynard Keynes's admonition, that one should prefer anything to "the best opinion" of Wall Street!

Middle East

Palestinian Authority adopts casino plan

The desperately impoverished Palestinian Authority has agreed to a plan to build a \$150 million casino named the "Oasis," just outside Jericho, the June 17 London *Times* reported. The decision comes in the wake of British, International Monetary Fund, and World Bank sabotage of serious economic development in the region, as envisioned by the Oslo Accords.

The operating company for the "Oasis," Casinos Austria, is 33% owned by the Austrian Mint. It will open in the autumn. Palestinian youths are already being trained to deal blackjack and spin roulette wheels. Also planned as part of the gambling complex are three hotels, a convention center, a golf course, and tennis courts.

Hamas and Jewish fundamentalist groups have condemned the casino as a provocation. Gambling is illegal in Israel, and Jewish fundamentalist groups have repeatedly blocked efforts to make it legal. It would seem the PA's casinos are in part modelled on set-ups similar to those on impoverished Indian reservations in the United States.

Meanwhile, the Asian crisis and the collapse of the peace process are hitting the Israeli economy, which is heading toward an official "recession," if not an unofficial de-

A PORTUGUESE edition of Lyndon LaRouche's book *The Science of Christian Economy* was released in Brazil the week of June 15.

THAILAND, Laos, and China have agreed to build a road from Thailand's Nan province, through Laos, to China, the *Bangkok Post* reported on June 5. Thai Foreign Minister Surin Pitsuwan called it "an important gateway to northern Laos and China."

BARRICK GOLD'S loot in Haut-Zaire is now being taken out of the country through Uganda, as per the British Commonwealth's plan, with Yoweri Museveni getting a cut, according to sources. Nothing is being paid to any government, and the region is effectively being administered through Museveni.

THE WORLD BANK'S Dr. Pirouz Hamidian-Rad, who had been kicked out of Papua New Guinea by former Prime Minister Julius Chan because his monetary demands threatened national sovereignty, was made chief economic adviser to Prime Minister Bill Skate and the National Executive Council, as a "private citizen," on May 22.

POLISH engineers halted 50% of passenger and 70% of freight rail service on June 18, as part of an ongoing strike. The government plans to eliminate 7,000 km of track and lay off 70,000 workers to "restructure" Polish railroads according to demands of the World Bank. The Polish State Railways has threatened to sack strikers and demand compensation from them if their strike is declared illegal by a Warsaw court.

CENTRAL BANK presidents of the Mercosur nations (Argentina, Brazil, Uruguay, and Paraguay) met in Iguazu, Argentina on June 16, to discuss sharing information to prevent speculative attacks on their currencies. The idea is to have "top-notch information for as long as the financial crisis lasts," *Ambito Financiero* reported.

pression, the daily *Ha'aretz* reported on June 16. For the first quarter of 1998, Gross Domestic Product grew 0.3%, which follows a 0.4% rise in the last quarter of 1997. In 1997, the economy grew 1.7%, compared to 4.6% during 1996, prior to Prime Minister Benjamin Netanyahu's coming to power. The official forecast for growth this year is 1.5%. Unemployment is at 8.4%, well above the pre-Netanyahu figure. Netanyahu's radical free market policies, including privatization of public companies, and the collapse of the peace process, which has kept tourists and potential investors away, are also blamed for the collapse.

Venezuela

National emergency may be declared

The Venezuelan government is considering declaring a national emergency, because of the dire economic situation the country faces. The possibility was discussed on June 18, at a meeting of the Council of Ministers, which analyzed the impact of the oil price drop on the national economy. Sources have told *EIR* that the proposal was also discussed at a meeting of the National Economics Council. The current budget can only be implemented if the oil price rises, something not likely to occur. The budget has been calculated based on an oil price of \$13 per barrel.

There is also discussion of raising consumption and sales taxes, although the Finance Commission of the Congress is proposing to negotiate these, and to allow exemptions for certain categories, including food and medicine.

In the midst of this, rumors are circulating that the government may devalue the national currency, the bolivar, which the International Monetary Fund claims is overvalued by 35%. According to the daily *El Nacional* on June 19, Finance Minister Freddy Rojas told the Council of Ministers' meeting that U.S. and British representatives at the IMF are criticizing Venezuela's austerity plan. While Rojas didn't specify what the criticisms were, he implied that Vene-

zuela might have problems if it tried to get foreign loans, unless it applied more stringent austerity. Venezuela must borrow \$800 million to plug up its fiscal hole, either from the Inter-American Development Bank, or some other foreign lending agency, or consider floating bonds from PdVsa, the national oil company.

India

Russia breaks with nuclear blockade

On June 22, Russia signed an agreement with India to build an atomic power station at Koodankulam, in Tamil Nadu, the *Hindu* reported, citing highly placed sources. New Delhi and Moscow concluded the \$2.6 billion reactor deal after nearly 10 years of protracted negotiations. The deal breaks the western nuclear technology blockade against India.

This will be the first deal by India involving full-scale import of nuclear reactors since the 1960s, when it imported the reactor for the Trombay power station from the United States, and had an active nuclear power cooperation agreement with Canada. The import of the Russian reactors will dovetail with India's plans to generate 20,000 megawatts of nuclear power by 2020.

The *Hindu* reported that Indian sources attach great significance to the timing of the contract, which follows the nuclear tests by India. "The contract reinforces the point that the atomic tests will not come in the way of Indo-Russian bilateral cooperation even in the most sensitive areas," a source said.

Meanwhile, U.S. Assistant Secretary of State for South Asian Affairs Karl Inderfurth told a U.S. Congressional subcommittee on June 18, that being forced to implement the mandatory U.S. sanctions against India and Pakistan resulted in the realization that the sanctions were designed merely as a "deterrent." He said that the United States had hoped that sanctions "would never have to be implemented." The Eximbank estimates that \$500 million in U.S. exports to India in pending commitments, and \$3.5 billion in projected exports, will be affected.

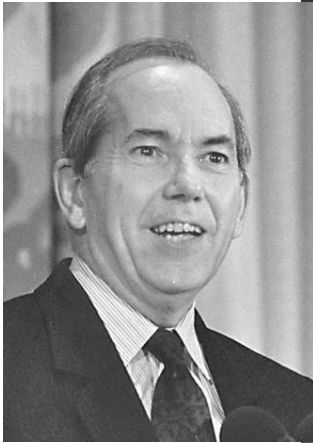
It's time leading nations admitted: LaRouche was right

On June 18, in Washington, D.C., EIR hosted a seminar on the disintegrating world monetary system, and we publish the presentations here. The seminar was the national focus for a series of forums throughout the United States and around the world, on the theme, "When Will the Leading Nations, Including the United States, Admit That the IMF Is a Complete Failure, and Implement Lyndon LaRouche's New Bretton Woods System?"

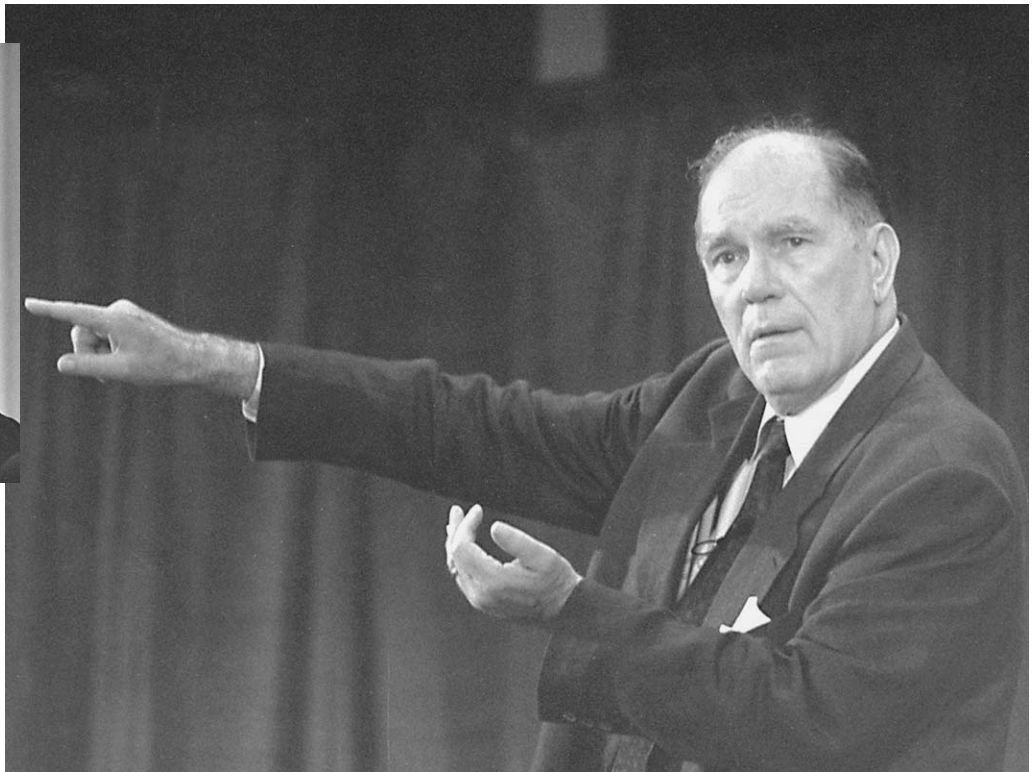
The speakers were John Hoefle, EIR's banking specialist, who keynoted the conference; Rachel Douglas, EIR's Russia desk officer; and Dennis Small, EIR's Ibero-American intelligence director. The deliberations were opened with a special message from Lyndon LaRouche, read by moderator Nancy Spannaus, editor-in-chief of the New Federalist weekly newspaper (see EIR, June 26, p. 6). A short preview of an EIR videotape commissioned by LaRouche on the financial crisis, was also presented. Spannaus's opening remarks follow, in a somewhat shortened form, immediately here.

Three months ago, at an *EIR* seminar here in Washington, Lyndon LaRouche warned that the so-called Asian crisis would soon be spreading to Russia, Brazil, Europe, and the United States. This is a global, systemic crisis, he emphasized, and can only be dealt with if that fact is recognized, the global system is put through radical bankruptcy reorganization, and a new credit system—a New Bretton Woods—is established that will launch a forced-draft world economic recovery program, to bring the world's physical output back above breakeven, and put us on the road to progress again.

Since that time, once again, LaRouche has been proven right. The world's leading financial powers have declined to face the reality of the world crisis over this period, and only taken up crisis-management measures—every one of which has failed miserably. As we will document here today, both in a preview of *EIR*'s soon-to-be released videotape on the economic collapse, and in presentations by staff from *EIR*'s economics, Russian, and Ibero-American desks, the crisis has



Lyndon H. LaRouche, Jr. (right) charges that the International Monetary Fund is a complete failure, and should be replaced with a New Bretton Woods monetary system. Inset is IMF Managing Director Michel Camdessus.



deepened and spread. The attempt to maintain the world casino economy is destroying civilization and life itself.

Here in the United States, as usual, the press cover-up of reality is the most thorough. But, just listen to a few choice statements being made, and published, in other parts of the world:

‘It’s a depression’

A World Bank official, Jean-Michel Severino, said at an international investment conference in Melbourne, Australia, on June 16:

“We are probably at the end of the first cycle of the crisis. And we are entering into a deep recession. Or you could even use the term ‘depression.’ This depression could be very long-lasting, if it is not handled very, very carefully. The risk is there, and probably we are counting in months rather than in years.”

This was the lead story of the *International Herald Tribune*, owned by the *Washington Post* and the *New York Times*, but buried on page 23 of the *Washington Post* here.

Thai Deputy Prime Minister Supachai Panitchpakdi, at the same conference, spoke to reporters, and said, according to the June 16 Singapore *Business Times*, that intervention by Japan alone “would not be effective. . . . If the yen would drop with no limit or no bottom, then the second Asian crisis would mean a first world economic depression.”

The chief economist at Deutsche Bank, Germany’s largest bank, Norbert Walter, in an interview with the German daily *Kieler Nachrichten*, published on June 16, said, “We are now

in front of a crisis-prone situation for the world economy.”

This is just the latest. The *Times* of London on June 12 referenced the crisis as “apocalyptic,” and there are regular headlines about a threatened “meltdown,” and so forth and so on.

The center of discussion of the crisis, quite obviously, is Japan. Here we have the second-largest economy in the world, in financial and production terms, and it’s on its knees, in all respects:

1. Japan is officially in recession—defined as negative growth for two quarters—now at a negative 5.3% yearly rate.

2. Japanese financial institutions are hopelessly bankrupt (\$1 trillion in non-performing debt on the books of the banks alone), and face rapid capital outflow due to deregulation—especially huge derivatives debts.

3. Japan is the key economy in Asia (and the world), the major market for Southeast Asia and China—the major lenders to these areas, although now pulling back. But it’s also significant globally, being the second-largest foreign holder of U.S. Treasury bonds.

4. On top of this, you have the yen collapse, although this has no direct relation to the internal economy.

There’s only one way to approach this: not as a Japan problem, which it isn’t, but as a symptom of the international financial disease. Thus, the only way it can be reversed, is to dump the system that created it: the free trade, the currency speculation, the IMF conditions which impose austerity and ban infrastructure. In other words, we must create a new Bretton Woods system. . . .

Reverse three decades of destruction

What we are witnessing today, most dramatically in Asia but rapidly spreading through Russia, the East bloc, and Ibero-America, is not a sudden phenomenon, but the result of three decades of destructive economic policies, during which time the physical economy of the world has been systematically looted, while the largest financial bubble in history has been created. The turmoil in Asia marks a rapid descent into Hell for populations around the world. This descent has been deliberately orchestrated by the international financial oligarchy, as part of a strategy to put the genie of the nation-state back in the bottle, and return the world to the era of empires, in which 5% of the population would live like kings, and the other 95%—those who survive this descent into a new Dark Age—would be relegated to the short and brutal lives of peasants.

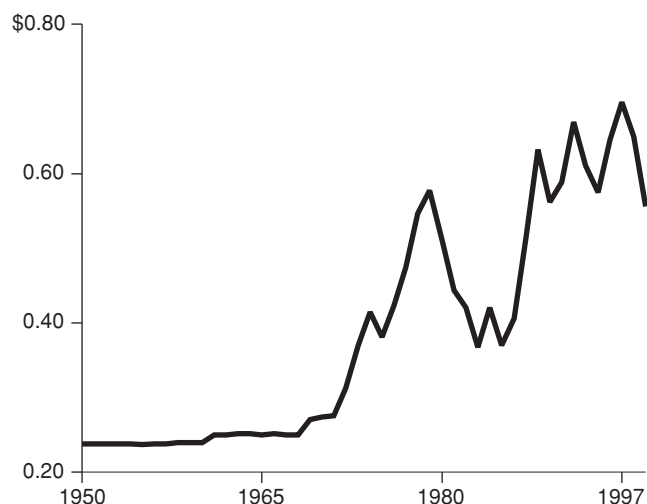
We are today faced with a stark choice: Either we reverse these 30 years of insanity, and quickly, or we watch civilization itself disintegrate.

The theme of our panel today is not just economics, but also culture and morality. How has the United States—once the beacon of hope for all mankind, leading the way toward a new era of progress for all—become so small, that we tolerate those who claim that the suffering in Asia is to our benefit? That the suffering in Russia, in Africa, in Ibero-America, indeed, even in our own country, is somehow beneficial? What happened to us? How did we go from a people committed to conquering the frontiers of science, to a nation willing to let entire peoples die, to protect our own portion of a shrinking pie?

Coming out of World War II, the United States had the most powerful economy in the world, a fact which filled the oligarchy with horror. Were the United States to resume its founding mission, that of dismantling the empires and replacing them with sovereign republics, the power of the oligarchy to rule the world would be destroyed.

The oligarchs, as you might imagine, were determined to prevent that, so they launched an assault on the American System, on the American nation, and on the American people. This assault targetted the culture and morality of America, to make the people little enough to accept fundamental—and fundamentally destructive—changes in the society, which would destroy America from within. What we see today, is the result of three decades of this decay.

FIGURE 1
U.S. dollars per German mark



Source: IMF International Financial Statistics, *EIR*.

Nixon pulls the plug

In 1971, President Richard Nixon broke the Bretton Woods system of fixed currencies by delinking the dollar from gold. At the time, there were violent debates about the dangers of allowing currencies to “float,” but the “experts” assured us that the governments and central banks were powerful enough to keep any speculators in line. The result: An era of currency stability ended, and an era of currency speculation began (**Figure 1**).

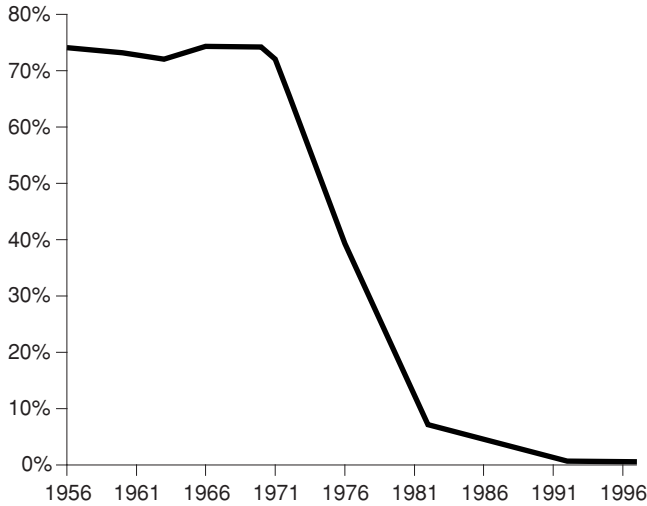
This is a crucial point. Few things are more necessary for world trade than stable national currencies, and few things are more destructive to world trade than currencies which fluctuate wildly. How can nations trade among themselves, when they don’t know what their currencies will be worth in a year, six months, or even tomorrow? There would be no George Soros, no currency raids, no multitrillion-dollar foreign exchange speculation today, if we had not made this fatal mistake. But we did, and the speculators have taken over so completely, that U.S. merchandise trade accounts for just 0.5% of global dollar currency trading (**Figure 2**).

The next big ratchet downwards came at the end of the 1970s, when Federal Reserve Chairman Paul Volcker pushed interest rates through the ceiling (**Figure 3**). As with the floating currencies, we were told that this would be good for us—it’s amazing that anyone ever believes the Fed, given the way they lie about what they do. How many times have we been told that the Fed must raise interest rates to check inflation, to keep the economy from growing so fast that it overheats?

What the Fed was really doing, was changing the rules again, in favor of the speculators, while making life much

FIGURE 2

U.S. import-export trade as percent of global dollar currency trading



more difficult for the producers. With a 20% interest rate, you have to get a 30% rate of return on your investments just to make 10%. Who can get a 30% rate of return on a new steel plant, which takes years of design and construction, before it can begin to produce? Nobody. In such an environment, the productive economy decays.

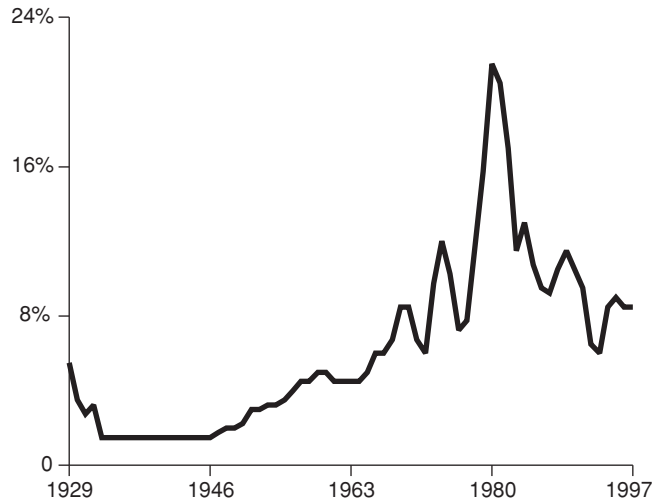
The result was a shakeout, in which the productive sector of the economy was “downsized,” while the speculative side of the economy grew. Many smaller firms disappeared, or were bought out by the huge conglomerates, with funding from the oligarchy.

These two moves—floating currencies and high interest rates—paved the way for the speculative orgy of the early 1980s, the so-called Reagan-Bush economic boom. Everything that could be speculated on, was: commodities, real estate, financial paper, anything. The economy became a giant casino. Real estate values soared—primed by billions of dollars of the oligarchy’s laundered drug money—to the point where speculators could buy a property in the morning, sell it in the evening, and walk away with millions of dollars in “profit” (Figure 4). The junk bond machine also fired up—again, with dope money—targetting and asset-stripping industrial corporations, and sending the ones which weren’t taken over, into the arms of the investment bankers for protection. The transformation of the American economy from one based upon industrial and agricultural production, to one based upon financial speculation, was in full swing. The boom was on.

But this boom, to put it politely, was a fairy tale. The 1980s was not a decade of growth, but a decade of debt. During the 1980s, financial claims increased more than \$6 for

FIGURE 3

U.S. prime interest rate

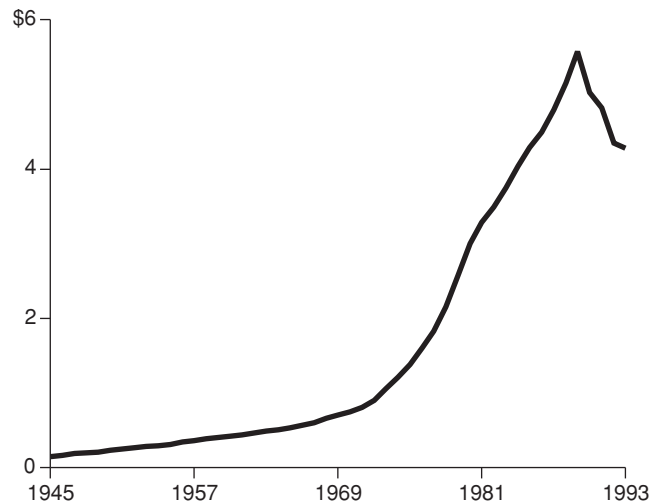


Source: Federal Reserve.

FIGURE 4

U.S. land values

(\$ trillions)



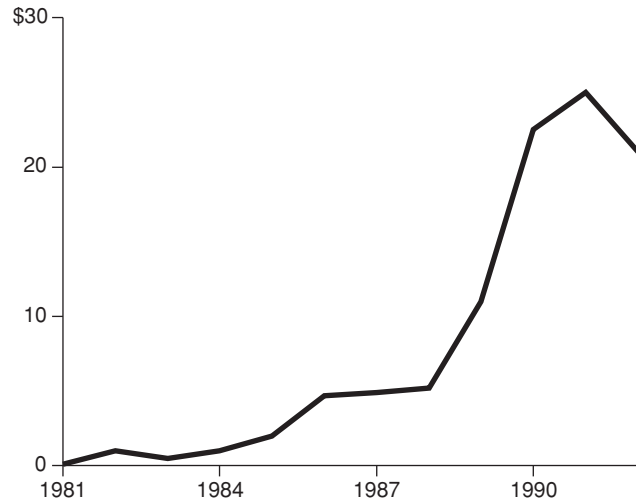
Source: Federal Reserve.

every \$1 increase in GDP, and only about one-third of GDP reflects production, while two-thirds reflects overhead costs, and the bubble.

By the end of the 1980s, the U.S. economy was in shambles. The real estate and junk bonds bubbles had burst, throwing the U.S. banking system into bankruptcy (Figure 5). The savings and loan system was destroyed—those thrifts which

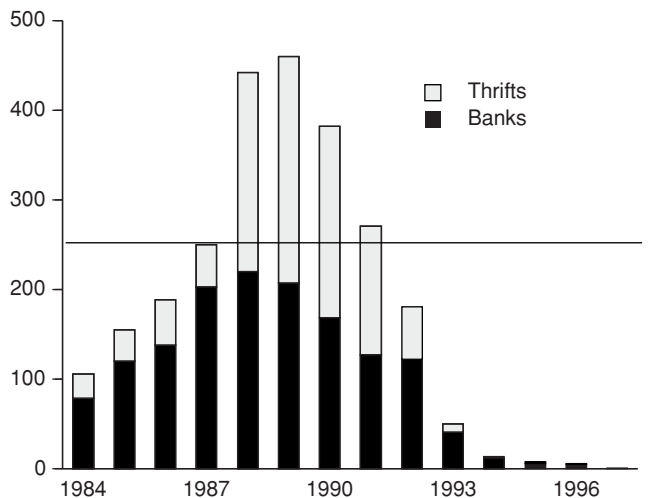
FIGURE 5
Junk bond defaults

(billions \$)



Source: Moody's, Standard & Poor's.

FIGURE 6
Bank and thrift failures



Source: FDIC.

didn't jump into speculation couldn't compete, and those which did, died—and the commercial banks were also bankrupt (Figure 6). By 1990, the Fed and the Bush administration were busy arranging under-the-table bailouts for the big U.S. banks. Citicorp was secretly taken over by the Fed, and shotgun marriages were arranged for several other giant zombies.

All during this period, Lyndon LaRouche had urged the governments and the bankers to shift their policies, warning that the speculative binge which they had unleashed must ultimately, inevitably, collapse. It were far better, LaRouche advised, to take your losses now, and reorganize the system. The longer you wait, he warned, the worse the consequences.

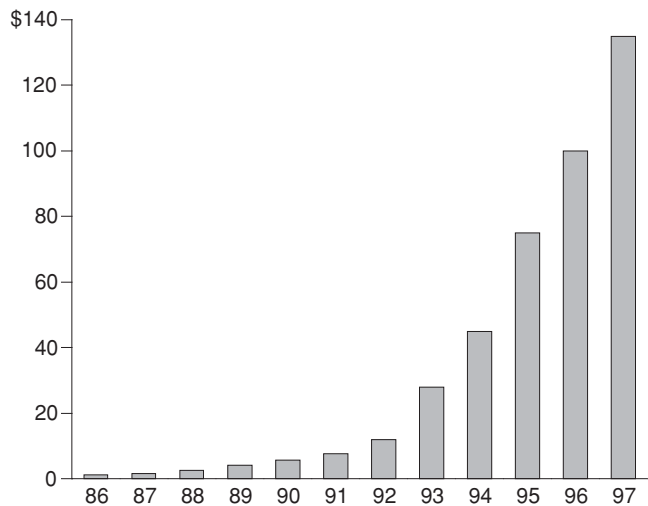
LaRouche's warning, like the writing on Belshazzar's wall, was ignored. Instead, the experts came up with a new scheme, a whole new level of financial speculation and insanity: derivatives (Figure 7).

One of the world's leading defenders of derivatives is Fed Chairman Alan-in-Wonderland Greenspan. Derivatives, Greenspan insists, are helping lead the world into a new era of economic progress, a world "beyond history."

"Beyond history." That's a quote. When someone talks like that about the economy, you know they're a few bricks shy of a load. But when the chairman of the Federal Reserve talks like that, you know he's also lying. "Beyond belief" is more like it. Remember, these are the characters who told us that allowing currencies to float was good for us, who said that high interest rates and junk bonds were good for us—now they're telling us that derivatives are good for us. Only a fool would believe that, but many people apparently do.

FIGURE 7
World derivatives growth: The cancer takes over

(trillions \$)



Sources: BIS, *Swaps Monitor*, ISDA, EIR.

The 'Triple Curve' function

The effect of these policies has been a marked shift in the U.S. economy, away from a production orientation, where we understood that wealth came from the production of physical goods, into a "post-industrial" economy, in which the manip-

FIGURE 8

A typical collapse function

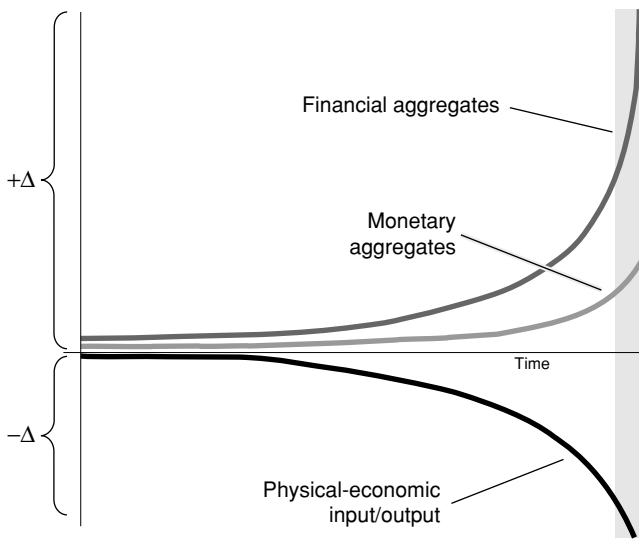
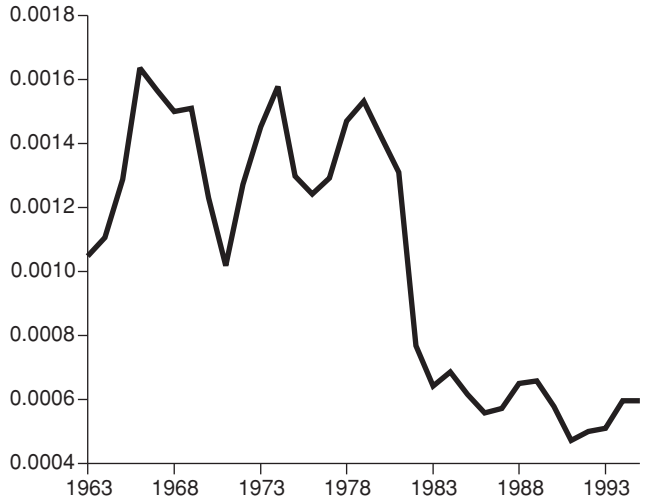


FIGURE 9

American machine tools produced per capita, 1963-95



Sources: *U.S. Machine Tool Handbook*, U.S. Commerce Department.

ulation of money is all too often considered the source of wealth. This process, in which financial claims are going north at a hyperbolic rate while the physical economy is going south at a hyperbolic rate, can be seen in LaRouche’s Triple Curve (Figure 8). This is the world “beyond history,” to which Alan Greenspan refers. The level of financial claims is growing, while the ability to pay those claims is being destroyed. This is a system which cannot survive.

When measured in terms of physical production per capita, per household, and per square kilometer, the U.S. economy has been contracting at an average of about 2% a year over the last 30 years, and the rate of contraction is accelerating. That translates into a drop of some 50% since the mid-1960s, when the rock-drug-sex counterculture assault on America was launched by the oligarchy.

Much of this decline has been masked by the effects of the bubble, which distort measurements made in dollars. It has also been masked through looting: We import food from countries where people are starving, we import goods manufactured by people working in near-slave-labor conditions, and we have thrown many of our own people on the scrapheap. We have the illusion of prosperity: billionaires by the score, millionaires by the thousands, people rolling in the virtual money of the bubble economy.

But underneath, our economy is just a shell of its former self. Poverty abounds—real poverty, of real people. More than one in ten American families receives food stamps; homelessness is epidemic, with people living in cars, under bridges, and on the streets. Children without food or medical care, and without hope. People spending money they can’t

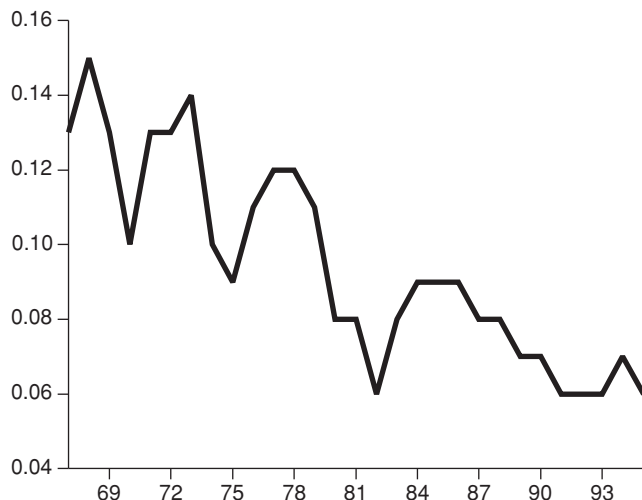
afford on the lotteries, in the vain hope that they will win the “big one,” and find a way out of their misery. Mere existence, for an alarming number of our citizens, has become a daily fight. This is America today, the America whose economy, we are continually told, is “fundamentally sound.”

Physical economic collapse

We must cure our fellow citizens of this myth, if we are to survive. To that end, let us take a more detailed look at the true state of the U.S. economy today, from the perspective of the market basket of physical goods.

- Goods production: The most telling metric of our industrial decline, is the collapse of machine-tool production. Machine tools are the machines needed to build the machines, which increase the productive power of a worker’s labor (Figure 9). You cannot have a fully functioning industrial economy without a strong machine-tool industry, and the decline of American machine-tool production, reflects the decline of American industrial production. Another metric is the decline in U.S. car production (Figure 10). We should be exporting cars, not importing them. As a result of this decline in manufacturing, the percentage of the workforce involved in the manufacturing of goods has declined to about the level it was at the time of the Civil War (Figure 11). Thirty years ago, nearly 50% of the workforce was involved in manufacturing, agriculture, or essential public services such as health care and education; today, the figure is less than 20%. Much of our industrial capability has simply disappeared, as plants were closed, and skilled workers retired, or were laid off. We have lost an entire generation of industrial workers: The shortage

FIGURE 10
Cars produced per household, 1967-95



Sources: U.S. Commerce Department.

FIGURE 11
Manufacturing workers in U.S. labor force



Sources: U.S. Bureau of Labor Statistics.

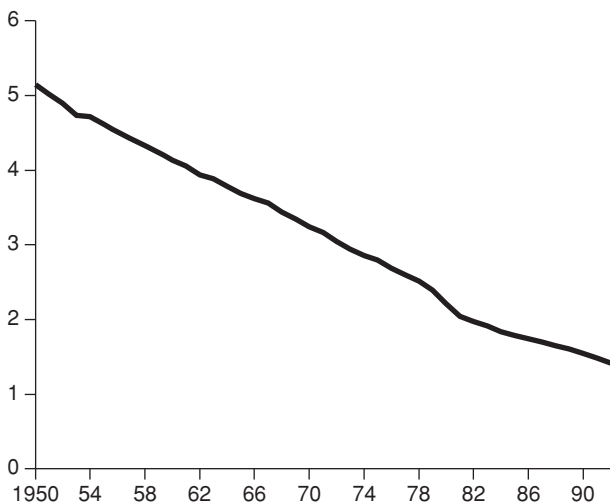
of skilled labor is so acute, that the aerospace and other high-tech industries, are encountering increasing difficulty finding workers to handle some aspects of what manufacturing remains.

A similar situation exists in agriculture, where family farms are failing at record rates, driving experienced farmers off their land.

- Infrastructure: Without infrastructure—food, water, shelter, transportation, health care, education, and related items—there can be no prosperity. We used to understand that, but too many of us no longer do. Today, infrastructure projects are often attacked as “pork-barrel” items, a waste of money. The result, point by point:

- Transportation: The cheapest method of moving bulk goods is by water, and throughout our history we have put a high priority upon developing a system of navigable rivers and canals. The industrial development of the Midwest was due in large part to the Great Lakes and the Mississippi and Ohio rivers. But today, inland waterway development projects are considered boondoggles, or, even worse, “crimes against Mother Nature.” Waterborne freight is cheap, but slow, so we developed a nationwide system of railroads to move goods, both for speed and to carry goods in areas where there was no water transport grid. The railroads were originally built by patriots committed to building the nation, uniting the coasts and providing development corridors for the vast stretches in-between. But our railroad system has been taken over by the financiers, and is now being dismantled (Figure 12). Today, thanks to the disastrous merger of Union Pacific and Southern Pacific, much of the rail traffic in the western half of the nation is gridlocked, and Congress,

FIGURE 12
Railroad mileage per thousand households



Sources: U.S. Statistical Abstract, U.S. Census Bureau.

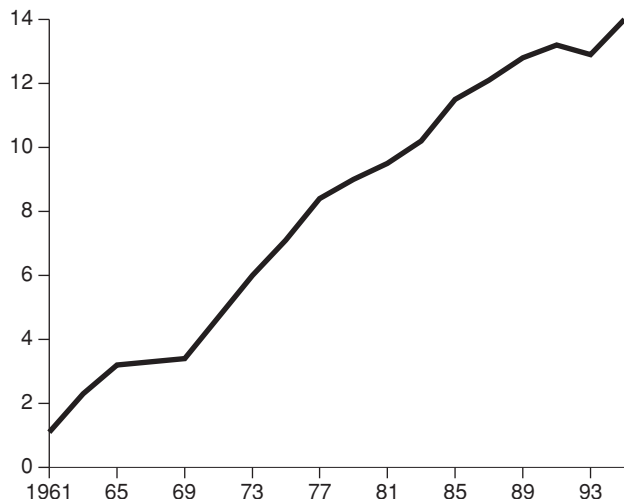
never one to learn from its mistakes, is now permitting the breakup of Conrail, which will destroy what is left of the eastern grid.

That leaves the road and air-freight systems, which are essential, but cannot replace water and rail. Today, the trucks are getting bigger and heavier, overloading roads and bridges which are deteriorating, and which we supposedly can't afford to replace. The result is a transportation grid which is

FIGURE 13

Average age of jetliners

(years)

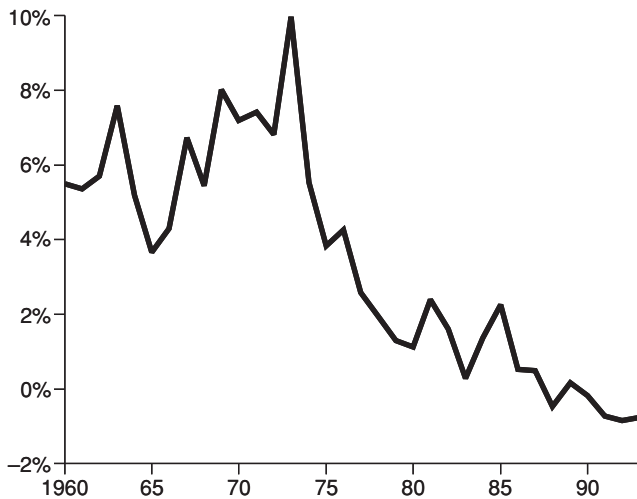


Sources: U.S. Statistical Abstract, U.S. Census Bureau.

FIGURE 14

Electricity generated, U.S.A.

(per capita)



Sources: Electric Power Statistics Sourcebook, U.S. Census Bureau.

inefficient in the distribution of goods, overly expensive, and deteriorating.

The deterioration can also be seen in passenger transportation. Our jetliner fleet is aging (**Figure 13**), and the airways are congested. The solution, a network of high-speed, magnetically levitated trains, is technologically feasible and would be highly efficient.

- **Water:** Abundant supplies of safe, clean water for human consumption, and agriculture and industrial processes, are a prerequisite for human life. On a planet dominated by oceans, there is no need for water shortages, but they exist. Not only have water management projects — such as the North American Water and Power Alliance, which could provide plentiful water to the western U.S. — been defeated, but the whole idea of water management has been turned on its head. Today, when the Mississippi or some other river floods, the kooks come out of the woodwork to demand that the river be allowed to flow wherever it wants, humanity be damned. Flood control is now seen as a crime against Mother Nature — another sign of a society gone mad. In many cities of the Northeast, the water mains are 100-150 years old, and vast amounts of water spill out through leaks in the system. All too often, the water that does make it though the system is not safe to drink, due to outbreaks of waterborne diseases, as our water purification engineers fight a losing battle with the collapse of the water system.

- **Energy:** Brownouts and blackouts have become a common occurrence, and what power is available, is way too expensive (**Figure 14**). We once talked of an electricity supply that was too cheap to meter, but now we talk about conser-

vation, of downsizing our lightbulbs and others ways to cut back power consumption. We have people who die in heat waves, because they can't afford to run their air conditioners; we have monthly electric bills today which rival the house payments of not too long ago. The failure to move to nuclear fusion power, with its safe, clean, and efficient power generation, is a significant drag on the U.S. economy, and a major strategic vulnerability.

- **Education:** A disaster. In the minds of our children rests the future of mankind, and proper education steeps children in the great concepts and discoveries of history. Such education bears little relationship to the mind-numbing drill-and-grill classrooms of today, where signs of life are often labelled a "disorder," and stamped out with drugs. In order to develop the cognitive powers of our citizens, we must develop the beauty of their character, and infuse them with the ability and desire to change the course of human progress for the better.

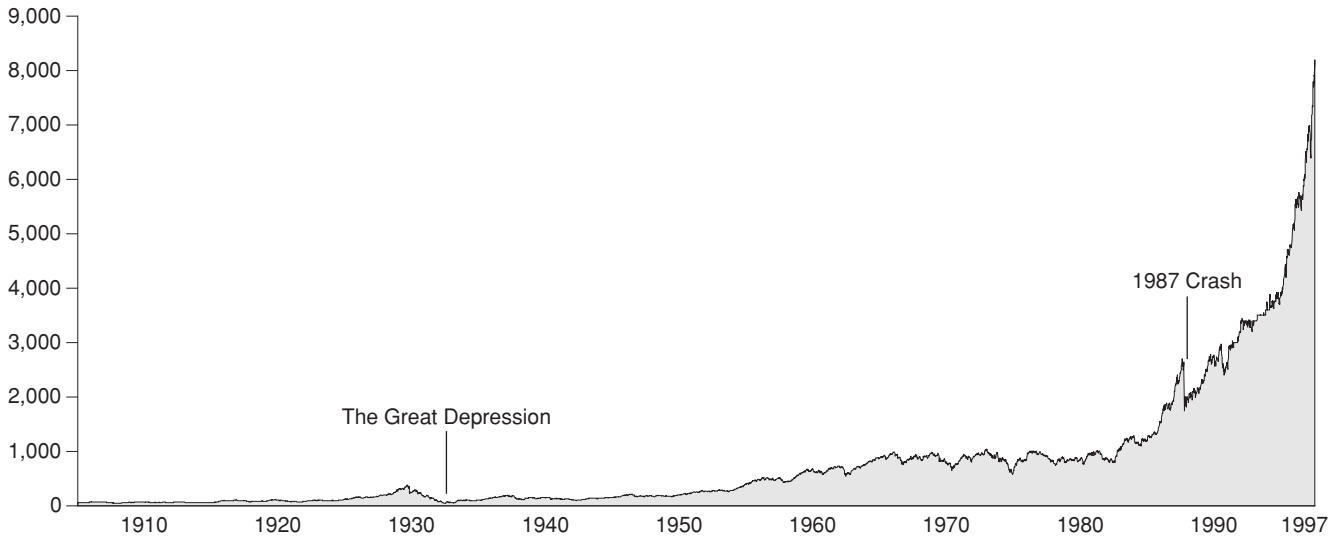
- **Health care:** Another disaster. It is in the public interest to treat the sick, both because they are human, and because we are. Human life is sacred. It is also in the public interest to eradicate communicable diseases, to prevent them from spreading to others. This is a moral point, over which the bean-counters should have no say. We treat the patient first, and talk about the cost later.

The final phase

While the fundamental processes upon which the economy depends to survive have been operating below the breakeven point, the monetary claims have been skyrocketing. Take a look at the Dow Jones Industrial Average (**Fig-**

FIGURE 15

Dow Jones Industrial Average weekly closings, 1900-97



Source: Dow Jones & Co.

ure 15). The Dow has been going almost straight up over the last few years, to the point that the 1987 crash was just a small blip. But ask yourself, why? What has happened in the real economy to make the Dow grow so high? Nothing. During this period, corporations have not expanded, but contracted, laying off workers, downsizing, and doing all the awful things the Wall Street analysts tell them are necessary to win the favor of investors. Corporations don't produce products anymore, they produce a stock price, and Wall Street could care less whether they do it with gambling casinos or steel mills.

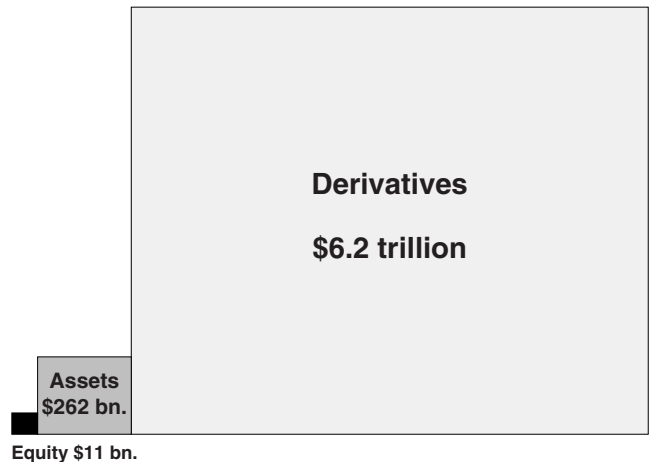
The banks have also bounced back, reporting record profits over the last several years. But the big banks aren't really banks anymore: They're speculators, playing the derivatives markets, placing bets hundreds of times larger than their equity capital. The banks are like gamblers in a casino, raking in the chips, and getting filthy rich—right up to the point where they try to cash out their chips, and discover that the money isn't there. A good example is J.P. Morgan, a bank with a reputation for being conservative. As of March 31, Morgan had \$12 billion in equity capital, \$271 billion in assets, and \$6.6 trillion in off-balance-sheet derivatives (Figure 16). A loss equivalent to just two-tenths of 1% of its derivatives portfolio, would be enough to wipe out every nickel of Morgan's equity capital, and such losses are coming.

The financial institutions are in deep trouble at this point. The only way they can keep their pyramid scheme growing, is by further looting the real economy, and the faster they loot

FIGURE 16

J.P. Morgan & Co.'s derivatives, assets, and equity compared

(as of Dec. 31, 1997)



Source: Office of the Comptroller of the Currency.

the real economy, the faster it collapses. The International Monetary Fund's "bailouts" of the Asian economies have not only failed to stem the hemorrhaging, but have demonstrably made matters worse. All eyes are now on Japan: If Japan blows, the entire global financial and monetary system will

follow. The bankers are now demanding that the Japanese people throw their life savings into the bubble, to buy a bit more time, but it won't help. And if we get past Japan, there are plenty of other Achilles' heels, starting with Russia and Brazil.

After three decades of looting, the international financial system is finished. The IMF is finished. The central banks have lost control, and are now admitting that they don't know what to do. Greenspan has said it, the IMF has said it, the Bank for International Settlements has said it—they don't see a way out. They're just trying to hang on, and keep the game going.

The bankers' confusion is understandable, because from inside their system, there is no way out. There is not some problem with their system, which can be corrected. Their system is the problem. They are the problem.

But, so are we, because we let it happen. And we have to look deep within ourselves, to find the flaws of thinking, and the flaws of character, which stopped us from intervening.

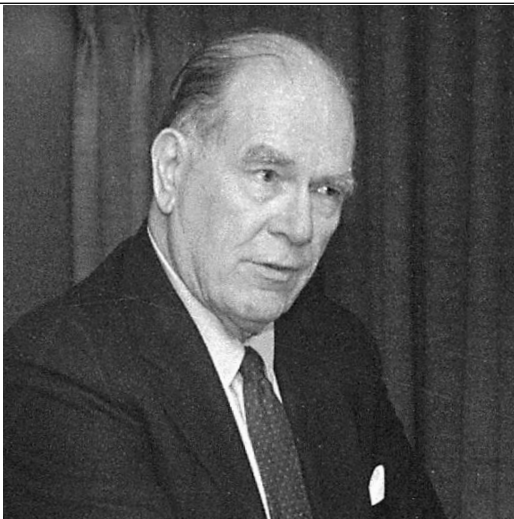
If we fail to act

The issue before us today, is how to defuse this failed financial system, before it explodes. If we fail to act, we face a chain-reaction implosion in which the world's financial and monetary systems could simply disintegrate in a matter of

days. The bankers are demanding more of the poison which is killing us, and only a few governments have shown the wisdom and the courage to resist.

At every turn, the elements essential for the survival and development of mankind, are being dismantled. Three decades ago, most of us saw our fellow man as an ally, someone helping to build the world, to turn it into a better place for ourselves, and the generations to follow. Today, many of us have just the opposite view, and see our fellow man as a threat, a competitor for scarce resources. The attitude, that "for everything you get, there is less for me," is a reflection of a great pessimism, of someone who views the world as collapsing, and is looking out for their own survival. It is the "each against all" world of the British Empire's Thomas Hobbes, not the world of our Founding Fathers and their co-thinkers.

We stand at the crossroads of civilization, and the decisions we make now will determine whether civilization survives or dies. Either we use the power of reason to build our way out of this crisis, or we continue along the well-worn path of failure. We know which path the oligarchy would have us take—just follow the neon signs, all the way to Hell. What we must do, is climb, put our minds to the wheel, and create a new Renaissance out of the ruins. It's been done before, and we can do it again.



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Berlin 2300	Denver 1500	Kiev 2400	Moscow 0100*	Santiago 1800	Wellington 1000*
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The financial crisis in Russia

In 1991-92, the Russian Federation became the legal successor of the superpower, the Soviet Union. Russia is still a major power, and a nuclear power. Last year, in 1997, Russia attained a more dubious status as the “best emerging market” in the world. The *New York Times*, on Oct. 5, 1997, announced that “Russia is hot!” In the summer, *Business Week* advised that any investor who did not have the emerging market of Russia on his radar screen, was simply not serious. And Lord William Rees-Mogg, the former editor of the *Times* of London, said in June 1997 that Russia was not a bear, but a tiger, like the Asian Tigers, that was about to roar. These assertions were based on the insane assumptions of monetarism, run wild: that a speculative bubble means economic growth.

George Soros, the megaspeculator, abandoned his posture that his only interest in Russia was so-called philanthropic activity, and entered the Russian market as co-purchaser of a 25% stake in Svyazinvest, the national communications company.

As quickly as it inflated, this bubble has burst, beginning last fall in the first phase (October 1997 to January 1998) of the current global, terminal crisis of the greatest bubble financial system in history; and now, in the next phase (second quarter of 1998). **Figure 1** shows the plunge of the Russian Trading System index, the Russia stock market. More than \$40 billion of nominal capitalization of Russian companies has been wiped out, in the 70% drop of the Moscow stock market, since its peak last summer (**Figure 2**). Volume has trickled down to almost nothing, in “the best emerging market” (**Figure 3**).

The preeminent feature of the financial crisis in Russia, however, is that the very solvency of the state is in question. On the eve of the October-November 1997 crisis, Russia had \$24 billion in gold and foreign currency reserves. On the eve of the May-June 1998 collapse, it had only \$16 billion. Another margin has now been spent, bringing the reserves down to the \$14.5-15 billion range, of which nearly \$5 billion is in gold. The convertible currency reserves are approximately \$10 billion.

With those resources, the Russian government of the young former oil company manager and banker Sergei Kiri-

FIGURE 1
Moscow stock market RTS index

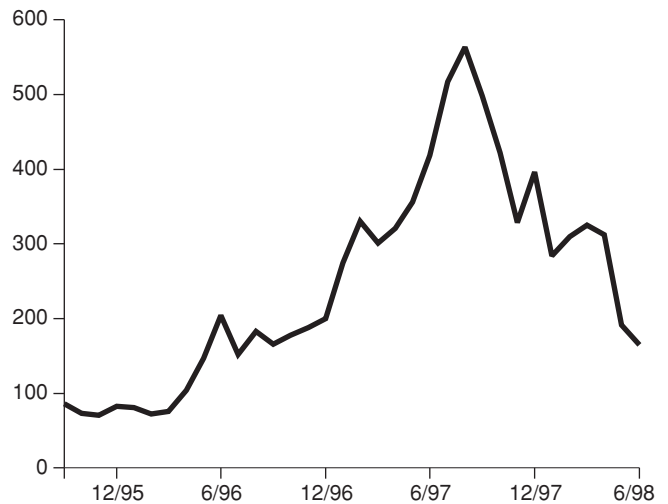
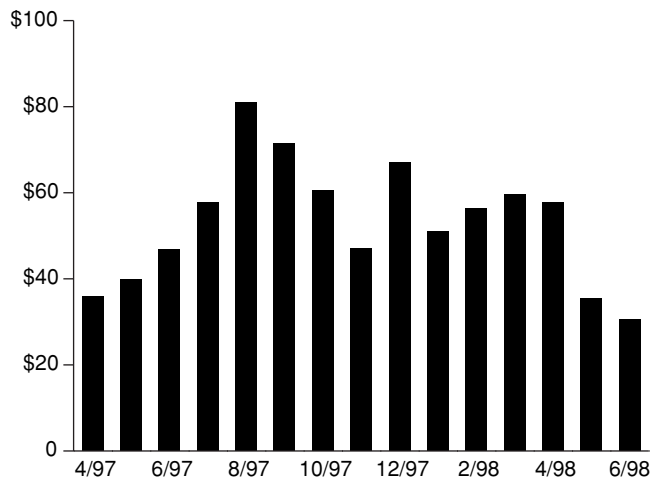


FIGURE 2
Stock market capitalization
(billions \$)



enko, in office only since April 24 of this year, is committed to defending the ruble at all costs. That is what the International Monetary Fund (IMF) demands; that is the position of the closest on-site Western advisers to the Russian government in Moscow, a group of chiefly British monetarists, operating out of the Russian European Center for Economic Policy; and, there are political reasons, inside Russia, for the defense of the ruble to be the fervent desire of the government.

FIGURE 3

Moscow stock bubble collapse

(index April 1997 = 1)

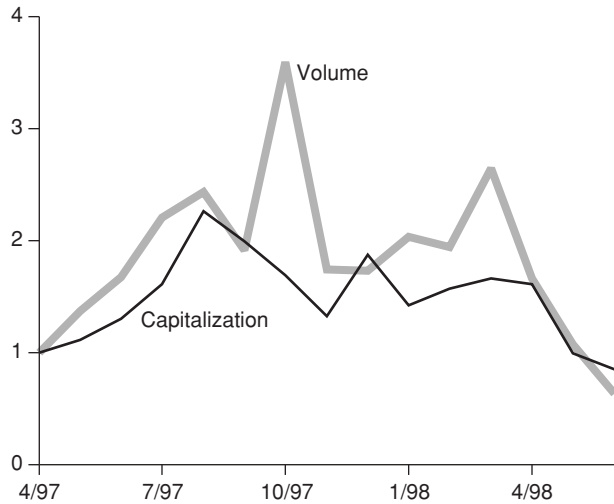
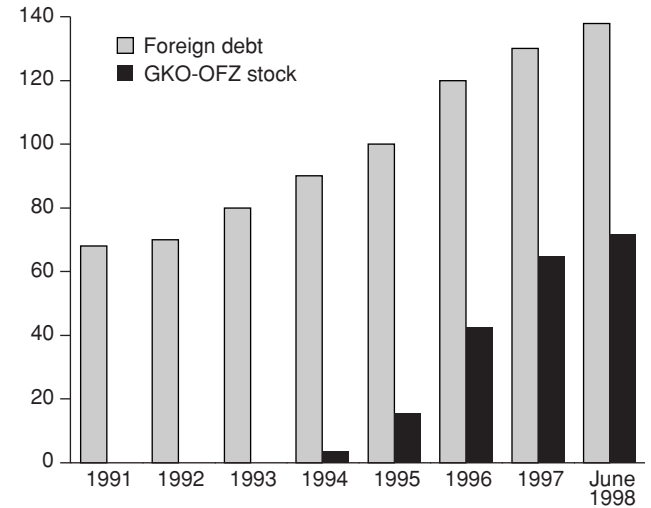


FIGURE 4

Russian foreign debt and GKO-OFZ bonds

(billions \$)



But, the crisis-management efforts of President Boris Yeltsin and Prime Minister Kiriyenko and his staff can hardly hope to function, even in the short term. The previous government got through the year-end 1997 phase of crisis by means of a mad scramble to borrow: World Bank loans, contingent on promises of austerity; private commercial borrowings that weren't even announced; and, above all, piling on more state-issued securities to Russia's fast-growing mountain of debt.

The cash scramble has resumed, in the past few weeks. The collapse of world oil prices hits Russia very hard, insofar as petroleum is its major source of export earnings, and the Russian oil companies, which export the oil, are large tax debtors, now unable to pay their taxes. The top demand, in an oil and natural gas industry strike, threatened for late June, is relief from taxes for six months, for the oil companies; this, at the very moment that the IMF is demanding that the government collect more taxes, as a condition for new loans or the release of current ones.

Russia made a sudden \$1.25 billion Eurobond issue on June 3, a good portion of the proceeds being used to buy Russian state bonds that have no other takers. There are rumors of the pending sale of a large quantity of the state's palladium reserves, in order to raise \$2.5 billion for the payment of state-sector wages. Remember, 600 trains were stalled on the Trans-Siberian Railway for two weeks in April, by coal miners who hadn't been paid in nine months. They protested by camping out on the railroad tracks, joined by teachers and other professionals.

Debt rollover demands

But, Russia has an enormous amount of ruble-denominated state debt that comes due every week. The weekly amount ranges from 6, up to nearly 10 billion rubles in bonds. That's the equivalent of one and a quarter billion dollars that needs to be redeemed or rolled over, with interest, each week for the rest of this year. This market is known as the GKO-OFZ market (the acronyms stand for State Treasury Bonds and Federal Loan Bonds). The OFZs are two- and three-year bonds, the GKO as short as seven days. Russia issued the first-ever seven-day Treasury bonds in May.

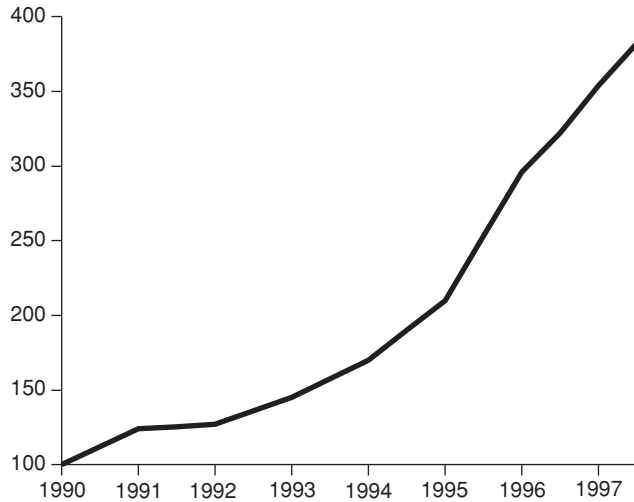
The GKO-OFZ market, management of which now dominates discussion of Russian state finances, did not exist five years ago. The Russian Finance Ministry began to sell ruble-denominated bonds only in 1993, to finance a budget deficit that had soared when the tax revenue base was crushed by the first phase of reform, the so-called shock therapy. Decontrol of prices in 1992, under conditions when most sectors of industry were under 100% monopoly control, led to a year of 2,600% annual inflation. Investment was out of the question; payments among enterprises became extremely difficult. There was a non-payment crisis, in which companies resorted to barter, if any payment at all, and a precipitous collapse of industrial production ensued.

It was only in early 1996, that so-called foreign investors—actually speculators—were allowed freely to participate in this market. Thus, the debt Russia inherited from the Soviet Union was augmented by this new component (Figure 4).

FIGURE 5

Growth of Russian debt

(foreign debt + GKO-OFZ, index 1990 = 100)



The foreign debt, summed together with the GKO-OFZ total and shown against the reference date of 1990, resembles one of our hyperbolic curves, going off the chart, or into the wall (**Figure 5**).

Gen. Aleksandr Lebed, the recent winner of the gubernatorial race in Krasnoyarsk, Siberia, and a likely Presidential candidate for the year 2000 (unless the elections are sooner), has warned about “the Albania variant” for Russia. In early 1997, the small nation of Albania, in the Balkans, was convulsed by riots, armed clashes in which youth raided Armed Forces arsenals. This occurred after some 70% of the population lost much or all of their savings, in officially sanctioned pyramid schemes—chain letter-type investment swindles.

In Russia, the GKO market has become a pyramid scheme on the scale of the entire state. The Russian economist Sergei Glazyev, writing for the March 27, 1998 issue of *EIR*, contrasted the return on investment in industry, which he estimated at a maximum of 7%, with the stratospheric returns available on GKO bonds. Between 1994 and 1996, there were triple-digit interest rates: 120%, 160% annualized yields on these bonds. In 1997, they averaged 26%. The 1998 Russian budget assumed that they would average 25%. They’re currently in the range of 70%, and, as is mentioned on *EIR*’s new videotape, in May for a period of a couple of weeks, the Central Bank’s annual refinancing rate, which is supposed to serve as a cap on the GKO yields, was 150%.

Who would invest productively, under those circumstances? Everybody played the GKO market. Soros’s future business partner in the Svyazinvest purchase, Vladimir Potan-

in’s Oneksimbank, was an early player in the lucrative GKO market. Last summer, the newspaper *Izvestia* alleged that Anatoli Chubais, the mastermind of privatization in Russia and just appointed yesterday [June 17] by President Yeltsin to be Moscow’s liaison with the IMF and other international financial institutions, had, together with his fellows at the Center for the Protection of Private Property, invested a \$2.4 million interest-free credit from friends of theirs at Stolichny Bank, in the GKO market in 1996, which was paying triple-digit interest rates at that time. When the U.S. Information Agency cut off funding to the Harvard Institute for International Development work in Russia, it was after it turned out that the wife and girlfriend of HIID’s Moscow experts were running mutual funds, reportedly invested in GKO and other high-yield securities, out of the back office!

From abroad, the heaviest foreign investors in Moscow’s GKO pyramid were South Korean and Brazilian banks. Their rapid pull-out in November 1997, sent GKO prices plunging, revealing the impact of market globalization. And I think that the words of Dmitri Vasilyev, the Russian Securities and Exchange Commission head, and others, when they announced the GKO market—that this was a state-of-the-art high-technology market, the kind of market infrastructure that will take Russia into the modern era—are coming back to haunt them today.

With Russia, of course, the market’s interface with the global circulation of “hot money” flows, goes far beyond the scope of the bond and stock market. With capital flight since the breakup of the Soviet Union estimated at between \$500 billion and \$1 trillion, Russia has become an integral source of the drug- and crime-driven income streams, which keep the much larger international derivatives bubble aloft.

The toll on the national economy

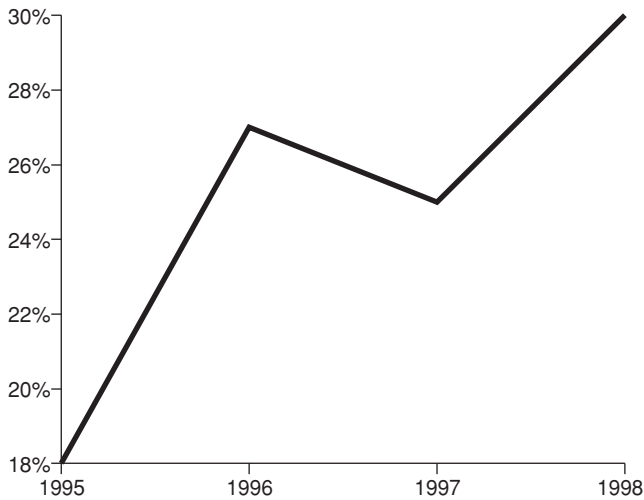
Meanwhile, the toll on the national economy is indicated by the rate at which servicing the GKO-OFZ debt mass becomes the number-one priority in the federal budget (**Figure 6**). (This portion is far more expressive, than “GKO debt service as a percentage of GDP” and so forth, insofar as about half of Russian GDP is in the criminalized, so-called “shadow” economy, and doesn’t even figure in national statistics; never mind the fact, that the head of the State Statistics Committee since 1993 was arrested last week for fraud in abetting tax evasion by major businesses.) At present, 30% of all federal treasury spending is going to service, to pay interest on the GKO rollovers and redemptions. That’s as of three weeks ago, so it’s rising rapidly with the 70% yields, and these funds are in competition with wages to the coal miners, payments to the military, and to science.

Russia now presents a classic case of the divorce of the financial sphere from the real economy. In the case of Russia, the strategic dimension of such insanity is inescapable.

FIGURE 6

GKO interest devours Russian budget

(percent of federal budget spending)



On Dec. 28, 1991, Lyndon LaRouche warned, “If Yeltsin, for example, and his government, were to go with a reform of the type which Harvard Prof. Jeffrey Sachs and his 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 . . . would probably occur. In that case, then we have a strategic threat.”

In 1993, I had the privilege of accompanying a guest from Russia, a distinguished economist, on meetings with members of the U.S. Congress and the Executive branch. We got to listen to a young man from one of the Departments, inform our guest that “all world history” demonstrates that “free trade” and maximum deregulation of finances were the key to economic success. Our Moscow guest advised, “If you want to treat Russia like a banana republic, please remember that we have nuclear bananas.”

In 1996, LaRouche updated his strategic assessment of the disastrous impact of the so-called “reforms.” Writing in his essay “Russia’s Relationship to World History—Letter to a Russian Friend,” LaRouche said, “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.”

Collapse of physical goods production

I am illustrating the collapse of Russia’s physical economy by the contrast of the debt’s growth, with the collapse of the machine tool sector (Figure 7). The machine tool sector, once again, is the brains of any economy and its ability to produce real profit. The machine tool sector most embodies the combination of the heavy industry physical capacity in what was the highly militarized Soviet economy, and the skilled manpower of the Russian intelligentsia. The so-called KB, or “design bureaus,” of the Russian machine industries, to the extent they survive, are an asset for all humanity.

In every sector, Russia in the 1990s has collapsed. In producer goods—raw materials, semi-manufactured and finished producer goods—there’s a little bit less steep decline in the raw materials sector, and then the steep bottom two lines, show machine-tool and tractor production (Figure 8). Productive employment has fallen in all industries. Figure 9 shows the rate of change, year to year, in employment of what

LAROUCHE ON THE NEW BRETTON WOODS

“The present fatally ill
global financial and
monetary system must be
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FIGURE 7

Russia: bubble vs. real economy

(index 1990 = 100)

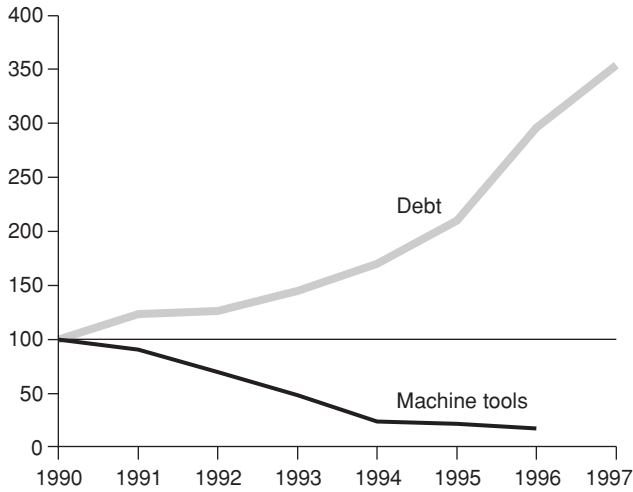
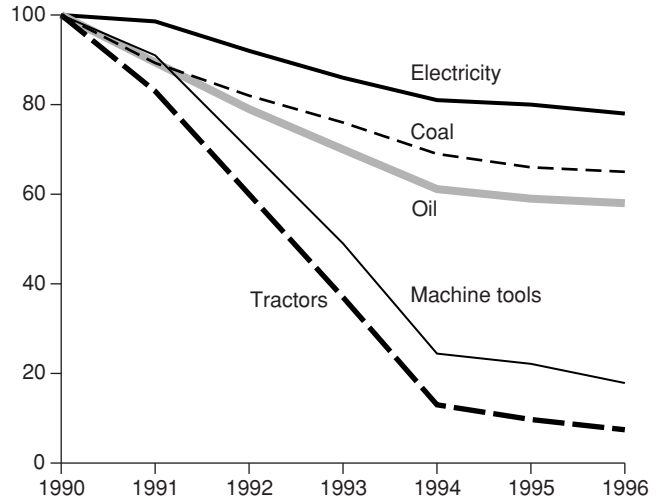


FIGURE 8

Russia: producer goods

(index 1990 = 100)



we call operatives (PPP is a Russian acronym), or employees who produce tangible wealth. It has fallen in all industries, only relatively less in the raw materials-producing industries that produce more for export. But the steep declines are in timber- and wood-processing, and also machine-building and metal-processing industries. The analysis by Russian economist S.M. Belozerova, appeared in *EIR* last year.

Russia no longer supplies its own population's needs

(**Figures 10 and 11**). Surely, you would say, consumption has not fallen that much! Indeed, the share of imported consumer goods is now over 60% on the Russian market, in categories where they were nearly 100% self-sufficient. As of 1996, Russia was 40% import-dependent for food. In the big cities, the level is closer to 80%. Here lies one of the government's

FIGURE 9

Annual rates of change in industrial employment for sectors of industry, 1985-96

(PPP employment, expressed as percentage of the preceding year)

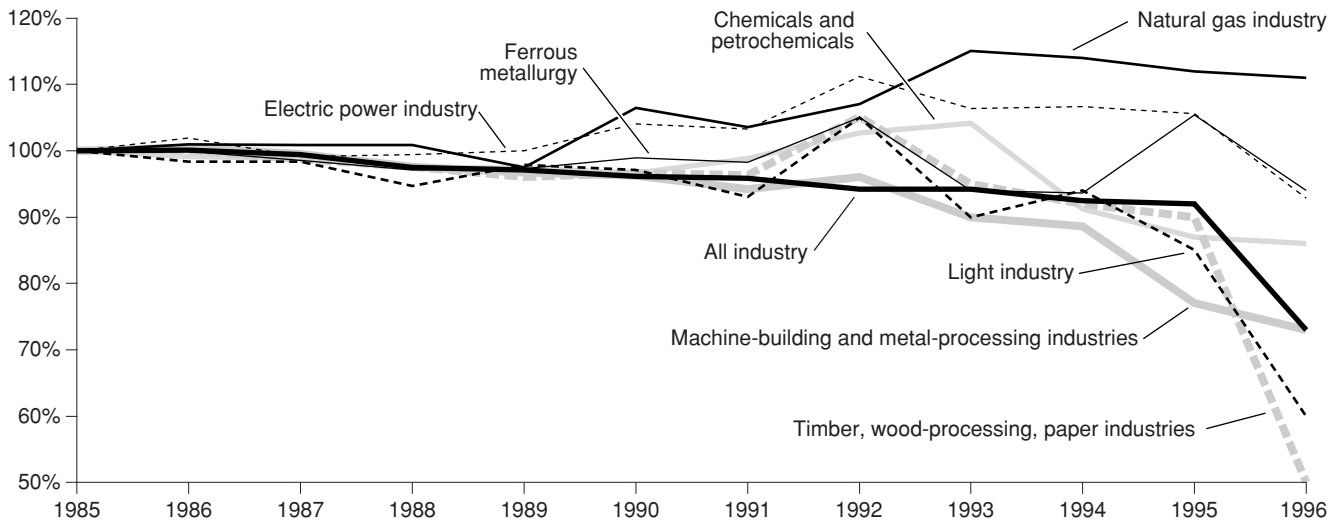


FIGURE 10

Russia: consumer goods

(index 1990 = 100)

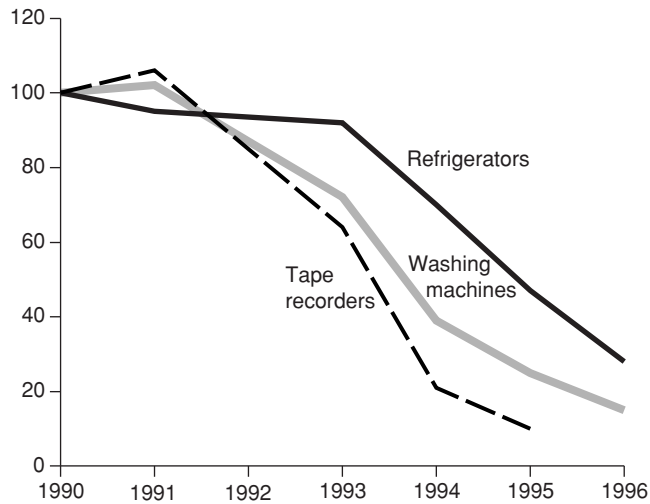
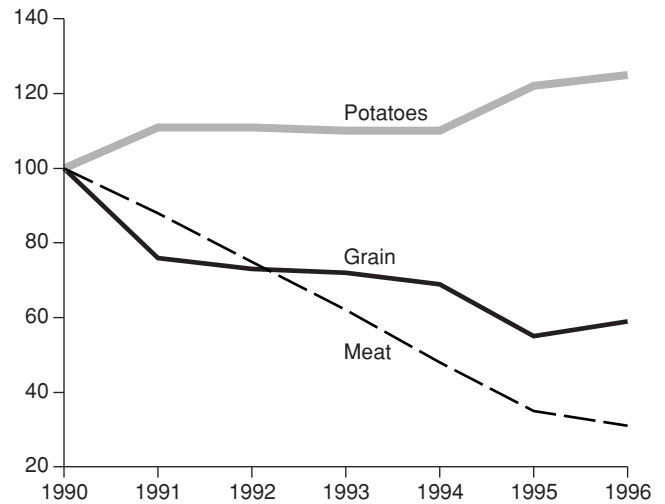


FIGURE 11

Russia: agricultural production

(index 1990 = 100)



anxieties about a devaluation of the ruble. The population would instantly be far less insulated from the financial sector crisis, than is now the case, were the ruble to be devalued and the prices on these imports soar.

‘Genocide’

The ultimate measure of success in physical economy, is the population’s ability to reproduce itself. Life expectancy for men in Russia fell further to 57.6 years of age, in 1994 (Figure 12).

The population also has declined in absolute numbers. Russia has experienced increased mortality, the excess of deaths over births, in the range of 300,000 to 1 million people per year, since 1992. Even with offsets from immigration (from the former Soviet republics), the population of the Russian Federation fell from 149 million in 1992 to, in the latest report, 146.6 million people. There are peculiarities, such as the incidence of alcohol poisoning, but the increases in morbidity and mortality apply across all segments and age groups of the population.

I agree with Sergei Glazyev, who titled his latest book on the impact of the reforms in Russia, *Genocide*.

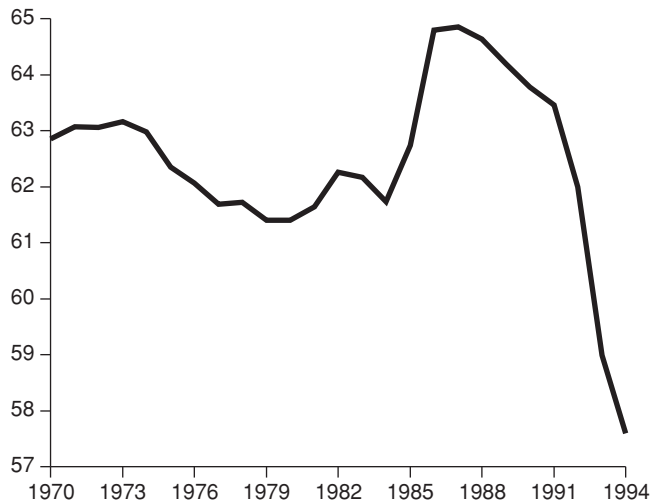
In 1995, LaRouche wrote testimony for the Economic Policy Committee of the Russian State Duma (lower house of Parliament). The title of his memorandum was “Prospects for the Economic Recovery of Russia.” (*EIR*, March 17, 1995; it was published in Russian by the Schiller Institute in Moscow.)

The physical and intellectual capacities he emphasized therein, above all the machine-tool and aerospace sectors

FIGURE 12

Male life expectancy

(years)



and the minds of the Russian intelligentsia and skilled labor force, still exist—just barely. The distinguished chairman of the Economics Division of the Russian Academy of Sciences, Academician Dmitri Lvov, has just presided over a conference that made an inventory of the physical wealth and potential of Russia. (Academician Lvov’s earlier study appeared in *EIR*, Feb. 21, 1997, with LaRouche’s introduc-



The Moscow newspaper Nezavisimaya Gazeta publishes EIR’s map of the Eurasian Land-Bridge, with the title, “Contours of a New Russian Strategy: The Country Can Only Be Saved by Its Central Position on the Geo-Economic Map of Eurasia.”

tion, titled “Russia’s Liberal Reforms: Anatomy of a Catastrophe.”) Academician Lvov has called LaRouche’s science of Physical Economy—LaRouche’s second book published in Russian was titled *Physical Economy*—“the ray of light in the kingdom of darkness of monetarism.”

Two springs ago, in April 1996, LaRouche keynoted a six-hour seminar on the global financial crisis, with leading members of the Academy of Sciences in Moscow. Academician Leonid Abalkin and some other participants clearly took to heart, the warning from LaRouche and from Mari-vilia Carrasco of Mexico, about the “Mexico scenario” of debt-enslavement engulfing Russia. Others were more skeptical about LaRouche’s evaluation of the financial crisis as global, and systemic. Now, they must be remembering his words.

Resistors against the IMF, and the political-financial cartels it acts for, will find allies in Russia. Malaysian Prime Minister Mahathir bin Mohamad’s speech at last Septem-

ber’s Hong Kong IMF meeting, in which he called to ban currency speculation, has been widely circulated in Russian translation.

In March, the leading Moscow daily *Nezavisimaya Gazeta* carried a long article, illustrated with a map that will be familiar to those of you who have *EIR*’s Special Report, “The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive for Worldwide Economic Development,” from 1996 (Figure 13). Here, it has a Russian caption. The author of the article is Dr. Sergei Rogov, head of the Academy’s think-tank on the United States. The title is, “Contours of a New Russian Strategy: The Country Can Only Be Saved by Its Central Position on the Geo-Economic Map of Eurasia.” The map is a reproduction from *EIR*’s “Land-Bridge” report, and is captioned, “Map from the ‘Trans-Eurasian Bridge’ report, issued by the Lyndon LaRouche Institute, Washington, D.C.” The name of the institute is not quite accurate, but the idea is absolutely right.

Ibero-America's debt cancer out of control

The following is an edited transcript of the speech delivered by Dennis Small, EIR's Ibero-American Editor.

I'm going to begin with a quiz. I'm going to read you two quotes, and I would like you to try to come up with an educated guess, as to the author of each of the quotes, and, if possible, the date as well. They're very short.

The first one is: "Economic reforms must be carried out, and you must put an end to protectionism. In this regard, the IMF can provide critical help and guidance." Who said it? Camdessus? No. Close—I mean, reasonable, but no. Any other educated guesses? Lyndon LaRouche? No. He wouldn't say something like this, except sarcastically. Greenspan? No, no.

Let me give you a hint. The date was Sept. 30, 1982. The speaker: George Shultz, then U.S. Secretary of State. Subsequently, after leaving the State Department, he came out advocating the legalization of drugs, presumably based on his experience at the State Department. And more recently, he was one of the leading signers of an advertisement placed in various newspapers promoting drug legalization. This is the George Soros crowd.

This is what George Shultz said on Sept. 30, 1982, right smack in the middle of the Mexico debt crisis. And that's what he was talking about, among other things. It sounds like it could have been said yesterday by Michel Camdessus or Alan Greenspan.

Here is the second quote: "Either a new world economic order is accepted, or civilization will sink into a new medieval Dark Age with no hope of a renaissance." Definitely not George Bush. Lyndon LaRouche? A very good guess, but wrong.

Well, I'll give you a hint. The date of this quote, is one day after the first one, and it was in answer to it, among other things. It was said on Oct. 1, 1982, by then Mexican President José López Portillo, in answer to the insistence that Mexico must follow IMF conditionalities, impose the end of protectionism, and adopt free trade. He said no: "Either a new world economic order is accepted, or civilization

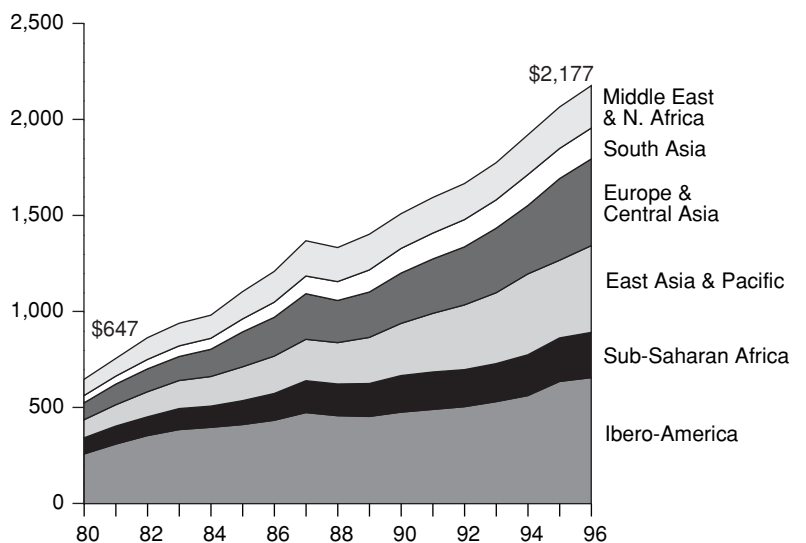
will sink into a new medieval Dark Age with no hope of a renaissance."

So the issue has been clearly posed for decades. It's not a new issue. Back at that point, 16 years ago, Lyndon LaRouche had issued a very specific proposal that was in circulation at the time, which was called *Operation Juárez*, which proposed a way out of the crisis that was clearly evident, of a major, catastrophic world financial crisis. LaRouche's solution at that time would have allowed the world financial system to survive intact, although reformed, by getting back on to the path of growth and development. That is no longer possible today.

We failed in that period of 1982; we, as humanity, failed to adopt LaRouche's solution. But the world *does* face a second chance. We *do* have another opportunity today. Except at this point, it is no longer possible, in any fashion whatsoever, to save the existing world financial system. As John Hoefle has explained, *the system is the problem. It can not possibly be saved.* We are infected with a cancer which must be removed. The only thing that will function, is to get rid of the cancer, and to strengthen the healthy tissue of the physical economy. And that is the essence of LaRouche's New Bretton Woods proposal for today.

Now, I want to address this issue in the Ibero-American format, by reviewing three points. First, I want to lay the basis for understanding the current situation by looking quickly at what happened from 1982 to '95. Second, I will take up the so-called "Mexican solution" of 1995-96, designed to deal with its December 1994 debt blowout, since it is promoted so much, and presented to Asians and others as the model to be

FIGURE 1
World foreign debt, by region
(billions \$)

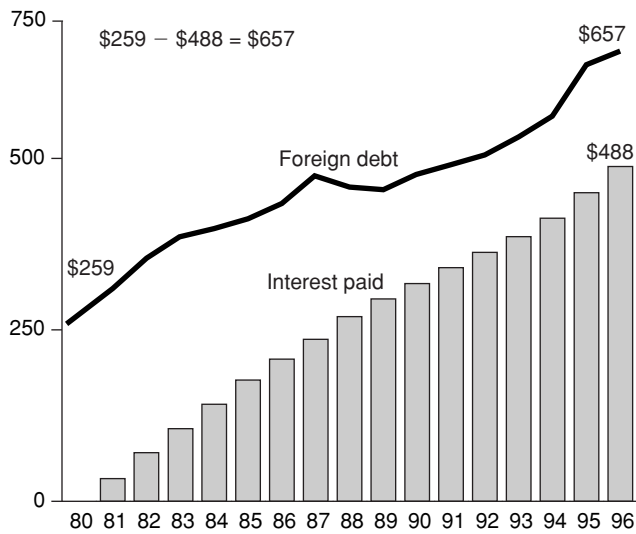


Source: World Bank.

FIGURE 2

Ibero-America, bankers' arithmetic

(billions \$)



Source: World Bank.

followed. And finally, I will conclude by looking at Brazil in 1998, because it is indeed one of the world's financial hot spots, which could blow up imminently.

I should note that much of the material included in this presentation was provided by Carlos Cota and Lorenzo Carrasco, from *EIR*'s offices in Mexico City and Rio de Janeiro, respectively.

1982-1995: the cancer takes over

What happened during the 1982 to 1995 period? **Figure 1** is the picture of total world foreign debt taken by region—Ibero-America, Africa, Asia, and so on. You can see that total world debt rose from \$647 billion in 1980, to about \$2.2 trillion in 1996. In other words, it more than tripled over this period. When we look at the situation in Ibero-America (**Figure 2**), this debt bubble was clearly not addressed, despite what López Portillo, LaRouche, and others were talking about at the time.

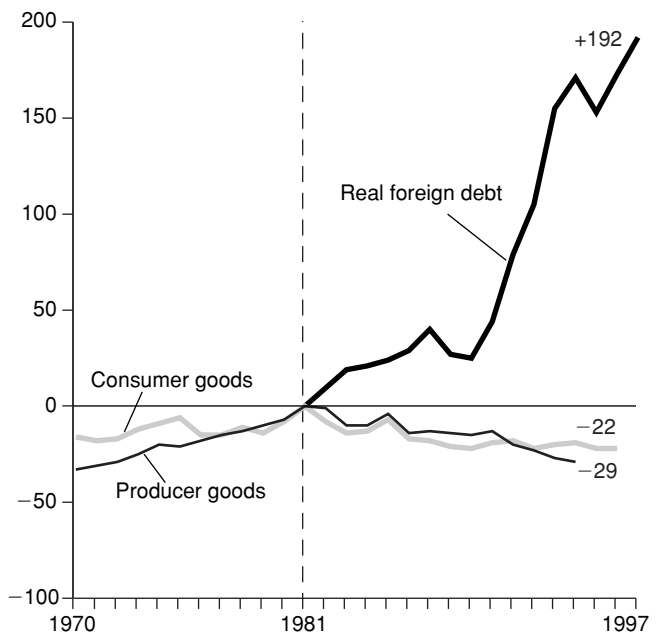
This process is what I like to refer to as “bankers’ arithmetic.” If you look back to 1980, the Ibero-American total foreign debt, officially, was \$259 billion. Over the intervening 16 years, through 1996, \$488 billion was paid in interest alone, against the \$259 billion that was owed originally. And yet, *despite the fact that the total original debt was paid at least one and a half times, it grew from \$259 billion to \$657 billion.* So, it would appear that $259 - 488 = 657$ billion. This is what we refer to fondly as “bankers’ arithmetic.” This is the arithmetic of a cancer growing out of control.

Now, let’s focus in on the case of Mexico, and what happened there over essentially the period from 1970 through

FIGURE 3

Mexico: typical collapse function 1

(index 1981=0)



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

1997. The real breakpoint is after 1981, which is when IMF policies were forced on Mexico with a vengeance.

Figure 3 strongly resembles, as well it should, the Triple Curve function that John Hoefle showed us earlier, and that we saw examples of in the Russian case as well. It is the characteristic function of the entire global economy today, so it’s not a surprise that it appears repeatedly, in country after country, continent after continent. Speculative values, both monetary values and financial values piggybacked on top of them, are rising hyperbolically out of control, like a cancer gone wild; while on the other hand, the physical economy, from which the real wealth is produced which is needed to maintain the population, and which is the basis for eventually paying off those financial instruments, has been collapsing at an accelerating rate.

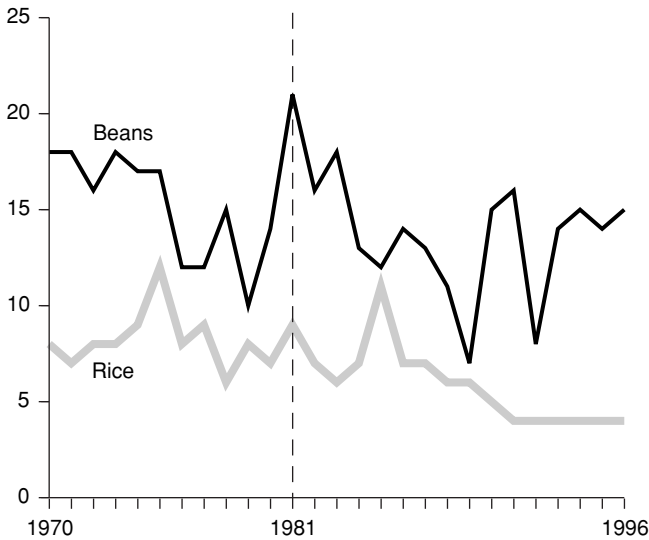
This can only have one conclusion, if it continues, as is clear in the case of a cancer patient, where the prescription given by Dr. Camdessus or Dr. Shultz, is to let the cancer grow and destroy the healthy tissue in the economy. That is exactly what the IMF says to countries. Any oncologist who proposed that therapy to you, would become an ex-oncologist very quickly. He would have his medical license removed. Well, the same thing should happen with Camdessus, Greenspan, and so on.

Returning to Figure 3, we see what happened with Mexico’s foreign debt obligations. These are the *real* foreign debt

FIGURE 4

Mexico food production

(kgs. per capita)



Sources: FAO; SARH (Mexico).

obligations (which are greater than the official numbers), which grew from an index which we placed at zero in 1981, to an index of 192 by 1997. In comparison, our index of consumer goods production fell by 22% over the period 1981 to '96. In other words, there was an almost one-quarter drop per capita, while the debt was rising. The production of producer goods similarly dropped by 29%.

Now, these are indices. In dollar terms, the official foreign debt of Mexico in 1997 was \$185 billion. But there is, additionally, another \$53 billion in what we call de facto foreign obligations—and I'll come back to this issue when we take up the case of Brazil. These are basically disguised foreign debts, that don't show up in the official figures, but is money that is nonetheless owed. In the case of Mexico, you're talking about total real foreign obligations today of about \$238 billion—nearly a quarter-trillion dollars.

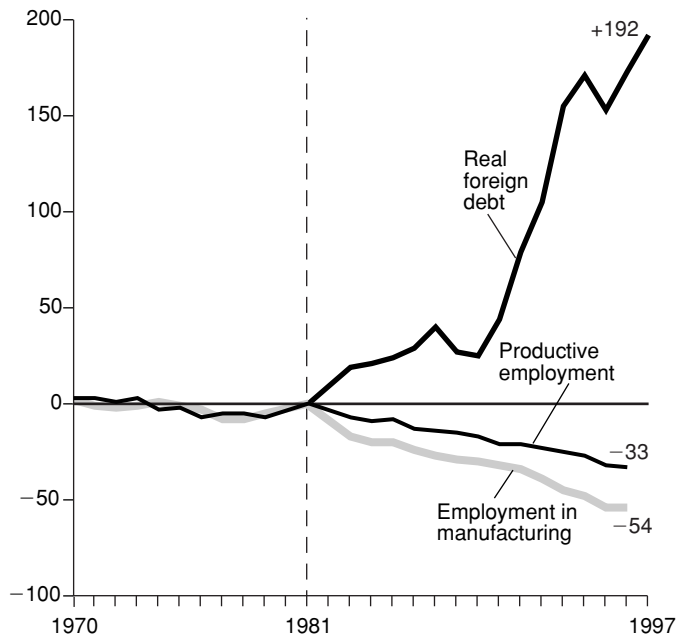
Let's look at a couple of concrete cases, to see what "an index of consumer goods" really means. Take the case of beans and rice, which, along with corn for tortillas, is what most Mexicans eat. As **Figure 4** shows, since the IMF's policies were implemented in 1982, per-capita production of beans has dropped by 32%, one-third. Per-capita production of rice has dropped 58%. Per-capita production of wheat has dropped 25%; corn has dropped 12%. The physical economy of Mexico is crumbling under their own feet.

In **Figure 5** we look at the employment side of the picture. We have an index of employment in *productive* jobs, as a percentage of the labor force. By "productive" we mean jobs actually producing the goods and services that are required

FIGURE 5

Mexico: typical collapse function 2

(index 1981=0)



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

for a physical economy, as opposed to overhead costs, or stock market analysts, or economists, or other useless professions. Productive jobs dropped by 33% over the period of 1981 to '96, while the debt soared. And jobs in manufacturing (excluding the "maquiladora" slave-labor plants, which aren't really part of the Mexican economy), dropped by 54%, as a percentage of the labor force, over this 16-year period. This is a total catastrophe.

What is even worse, although we do not have the full data yet to document this systematically, is that, since the crisis of 1994-95, when the Mexican debt bubble blew out and the great IMF bailout package was put in place, not only did the physical economy not recover, but its rate of collapse has increased. In other words, it was falling apart; but it's now falling apart faster.

The opposite occurred with the debt bubble. After the little drop from 1994 to '95, where the speculative bubble was slightly contracted, they got the speculative machine revved up all over again, and now it is soaring and back on track. On track to what? To a second blowout of the Mexican debt bubble. It will come. Before or after Russia or Brazil, that we don't know. But it will occur.

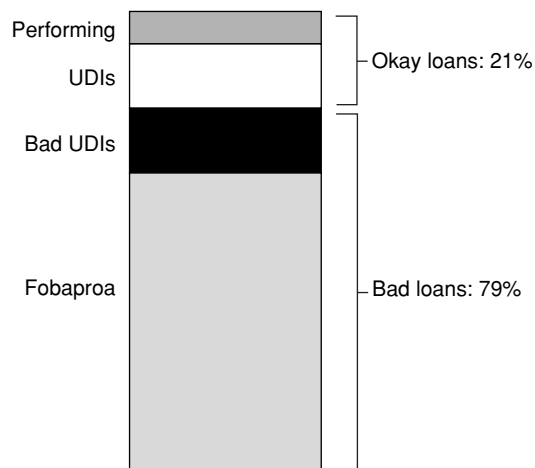
Mexico's 79% solution

Now let's turn to the so-called "Mexico Solution" to the crisis that was implemented starting in 1995. The point to be

FIGURE 6

Mexican bank loans, 1994

(total = \$100 billion)



Sources: SCHK and CNBV (Mexico); EIR.

made on the Mexican economy today, nearly four years later, is that it is disappearing. It's simply disappearing.

Let's start with the case of the Mexican banking system. There's an object lesson here, because the Mexican banking system and what was done with it in 1995, is the model now being promoted around the world by the IMF crowd, as the solution which the Asians and the Russians and everybody else should adopt. In fact, Mexican President Ernesto Zedillo, in a widely praised speech that he gave in Vancouver on Nov. 24, 1997, at the Asia-Pacific Economic Cooperation meeting, said the following: "Asian countries today should do what Mexico did three years ago, by showing strong financial support for their domestic banking systems. Once that is done, governments then have to determine which expenses must be adjusted, and what taxes have to be raised, to pay for that support."

Zedillo, a trained economist from Yale University—the only thing worse is to have a degree from Harvard—clarified: "Such policies are often unpopular with voters, and come with a high political cost. But it's vital not to let a country's financial system go down the drain. The common man on the street only thinks that bankers are being saved. But that's not true," Zedillo argued. "By avoiding bank failures, we supported depositors, debtors, and most fundamentally, we avoided a chain reaction that would have moved through the whole financial system, and into the real sector of our economy."

So what did they do? Well, the Mexican banking system, in 1994, held a portfolio of approximately \$100 billion worth of loans outstanding (see **Figure 6**). In other words, they had

lent out \$100 billion to companies and individuals, which was their loan portfolio. In the intervening period, over the last four years, \$65 billion worth, that is to say, 65% of that total portfolio, became non-performing—bad debt—and was then taken over, bought out, by a government bank rescue program called "Fobaproa." In other words, the government moved in, and bought up the non-performing bad debt. These were loans that the banks had made, that they simply could no longer collect—i.e., they were bankrupt. So the government came in with \$65 billion to bail out the banks and clean up their books by buying out this debt.

Then there was another debt reorganization program, called the UDIs, which is the Spanish acronym for "Investment Units." There was a total of \$28 billion of UDIs issued. And our best estimate is that about half the UDIs remained performing, while the other half of the UDIs went bad, they simply became non-performing loans as well. And then there was about 7% of the original \$100 billion which is still performing debt.

What you're looking at here, then, is that a total of 79% of the Mexican banking system blew out, went bankrupt in the 3-4 years after the whole debt bubble exploded. *There is no Mexican banking system today.* You may want to call the remaining 21% a banking system, but it's not. They're not issuing credit to industry, there's no credit being issued for development.

What happened is that over 60% of the Mexican banking system has been bought out and taken over by foreigners since it blew out in 1995. The Mexican government picked up the bad debt, and then they handed the remains over, at ridiculously low prices, to international banks. Which kind of international banks? Which kind of international banks have money today? *Drug money-laundering international banks.* The Hongkong and Shanghai Banking Corp., for example. Have you ever heard of them? Read the book *Dope, Inc.*, and you'll know all about them. Another is the Bank of Montreal. Ever heard of them? If you haven't, go down to the Cayman Islands, and try to launder some drug money: The Bank of Montreal is all over the place in the Caribbean money-laundering havens.

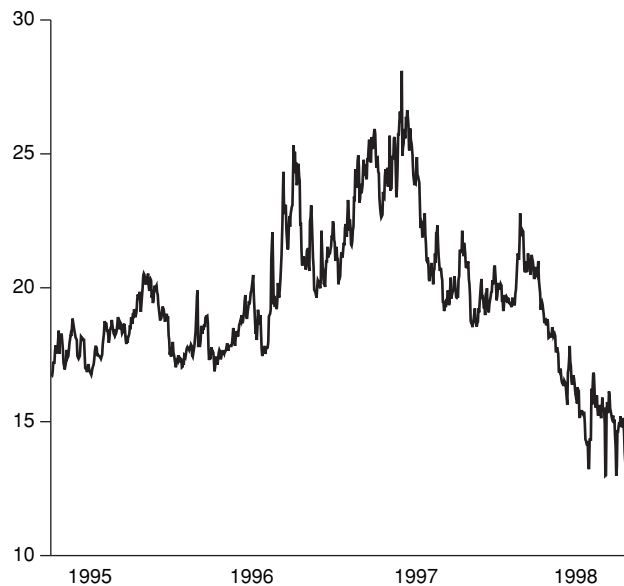
The Mexican banking system was taken over by the Dope, Inc. banking apparatus. So, what's the big surprise when the United States government runs a sting operation, called "Operation Casablanca," with some admittedly questionable practices, inside Mexico, and finds that "Mexican" banks are laundering drug money? They're not actually Mexican banks. It's the Hongkong and Shanghai Bank. It's the Bank of Montreal. They didn't have to run a sting operation to find that out; they could have asked me, I would have told them. It's obvious.

Of course, they only got the little guys, instead of going up the ladder to the City of London, where they should have gone, and should go, and must go, if we're going to solve this

FIGURE 7

Crude oil prices

(\$ per barrel, West Texas Intermediate)



Source: Wall Street Journal.

drug problem. So that's the secret behind Operation Casablanca.

So there's no Mexican banking system; you can forget it.

Now, take the question of the budget. Some 40-60% of the Mexican budget is based on oil revenues. But oil prices, internationally, have dropped by approximately 30%, one-third, since October-November of last year (see Figure 7). What do you think has happened to the Mexican budget as a result? It has blown out, and has been cut twice so far this year, to the tune of \$3.5 billion. They are about to cut it again, and what are they slashing? Debt payments to the banks? Not a chance; that you don't touch, not if you're an economist following the guidelines of Shultz and the IMF.

They're cutting social spending, they're cutting investment programs, they're cutting education, health, and so on and so forth. So, the Mexican federal budget is also gone, like the banking system.

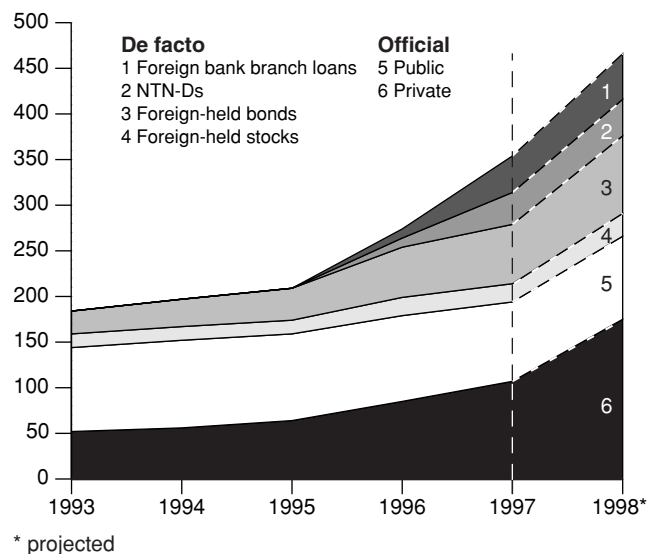
A third area of the Mexican economy that is also disappearing off the face of the earth, is the agricultural sector. The decline that we saw in beans and rice, characterizes the entire sector. Mexico has now turned into a major importer of agricultural goods. They're going to be importing 13 million tons of grain this year, although they don't have the money to pay for it. In 1998, Mexico will run a current account deficit, based mainly on a trade deficit, of something over \$20 billion.

In short, Mexico is in a mess. The bank bailout operation

FIGURE 8

Brazil: real foreign debt

(billions of \$)



Sources: World Bank; Central Bank of Brazil; EIR.

there was not a success for Mexico. It was only a success for the cancer. And if that's the model that's followed globally, we're going to see the same results on a global scale as we see in the case of Mexico.

The Brazilian bubble

Now let's look at the current hotspot: Brazil. Figure 8 shows Brazil's *real* foreign debt as of 1997, with our estimate of where it is heading for December 1998. The bottom two segments are the official foreign debt, which is made up of two components: the private sector's foreign debt, which has grown very rapidly in the last year, and the public sector foreign debt.

But, in addition to that, there are other areas of de facto foreign obligations, equivalent to Russia's GKO bonds, which we heard about from Rachel Douglas. These are actual obligations which Brazil has contracted, and must pay off out of its national wealth. The first of these is foreign investment in the Brazilian stock market, which has to be paid out as soon as the speculators decide to pull out. So, that's a foreign obligation of about \$25 billion.

The next segment is foreign-held government bonds. Now, bonds, according to the World Bank and other official statistics, are not considered "foreign debt," because they are issued domestically, inside the country. So, they are counted as domestic debt. But, if they are bonds held by foreigners, and there is free convertibility into the dollar, they are pretty much foreign obligations. When the foreign bond holders

cash them in, they will convert them into dollars, and so you effectively owe this abroad. We estimate that this category is approaching \$85 billion today.

The third segment is a special category of government bonds. This is where the lunacy really begins. These are dollar-denominated domestic bonds, which are like the famous “Tesobonos” in Mexico. Mexico issued \$30 billion of this stuff in 1994, denominated in dollars rather than pesos, and then, when it came due, they didn’t have the money to pay.

Well, in the case of Brazil, they are also issuing dollar-denominated domestic bonds, which are called NTN-Ds. Some say they really ought to be called “TNTs,” because that’s what is going to happen: they are going to completely blow up, like the Tesobonos. There are at least \$40 billion of these to date.

The final category of de facto obligations, is actually the most interesting, at least from an analytic standpoint. This is lending inside Brazil by Brazilian branch offices of foreign banks, which are increasingly moving into the country. The notorious Hongkong and Shanghai Bank, for example. If João in São Paulo borrows money from the HongShang Bank office in Brazil, he effectively owes that money to the home office of this bank, in London. So this is another form of disguised foreign indebtedness, which adds another \$50 billion to the total.

So, we are talking about a total real foreign indebtedness of Brazil, of about \$466 billion by the end of this year — which is getting up there pretty close to the half-trillion mark. The rate of growth of the official foreign debt alone is shocking: It stood at \$194 billion in December 1997, and in only three months it grew to \$212 billion — a 9.3% growth in one quarter. That is an annual growth rate of almost 43% — and again, that’s only the official part of the foreign debt.

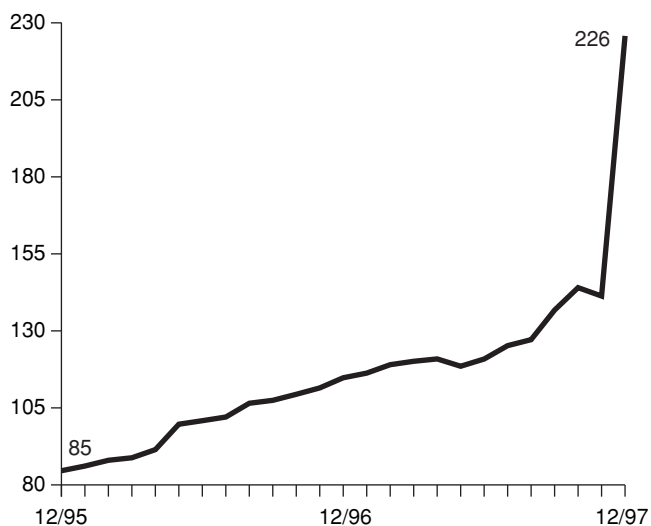
Now, let’s look at the government’s domestic debt, the public domestic debt (see **Figure 9**). These are Treasury bonds, just like the GKO’s in Russia, or Treasury bills here in the United States. But in Brazil, they are, of course, denominated in the local currency, the real.

Now, for purposes of conversion, you should know that \$1 is worth about 1.1 reals. So, it’s pretty close to a dollar. Thus, 85 billion reals would be about \$78 billion: That was the total amount of Brazilian Treasury bonds outstanding, as of December 1995. In December 1997, they owed 226 billion reals — a near tripling in two years. And you can see what has happened in the most recent period: This is exactly the hyperbolic triple collapse function that LaRouche has been talking about.

This is really an amazing curve; and the rate of growth is expected to take the total at the end of ’98 to about 340 billion reals. In other words, it will have grown another 50% over the course of this one year. This is a pyramid scheme. Why is the government issuing these bonds? Because they are *des-*

FIGURE 9

Brazil: treasury bonds outstanding
(billions of reals)



Source: Central Bank of Brazil.

perate to get their hands on money which they can then use to roll over and pay the existing debt.

This is a cancer that must grow, just to feed itself. It cannot long survive. You cannot accept the laws of existence of a cancer, and expect your nation to survive. You cannot have democratic respect for a cancer; cancers don’t have equal speaking rights; cancers don’t have equal voting rights. Cancers must be extirpated, or zap them with chemotherapy. Zap them with a New Bretton Woods proposal. That is what’s required here.

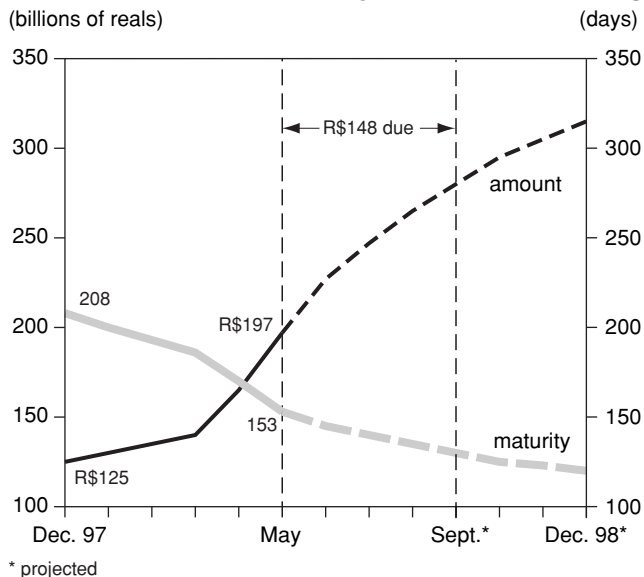
As bad as the foreign debt is, as bad as the domestic debt is, what comes next is worse. Figure 9 takes the public domestic debt picture up through December 1997. Now, let’s look at what has happened to the short-term component of that total domestic public debt, from December 1997 through May 1998, which are the last figures that we have available, and then project what is going to happen by December 1998.

Figure 10 presents both the amount of that short-term bonded debt, and its average maturity, or due date. In December 1997, the amount stood at 125 billion reals, which is about \$114 billion. By May, that had already grown to 197 billion reals. And at this same rate of growth, more or less, by the end of September and the Presidential elections in Brazil (the elections are on Oct. 4, if they make it to then), the total amount will have grown to about 280 billion reals.

Meanwhile, the average maturity of this short-term debt has been dropping, as the amount outstanding has been in-

FIGURE 10

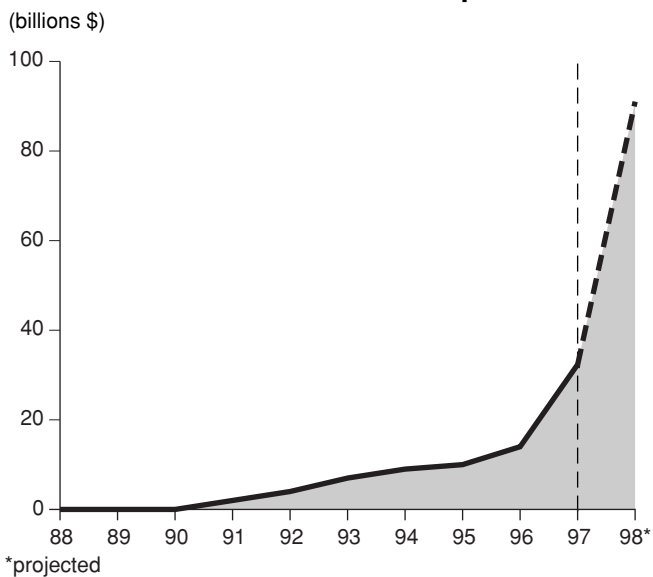
Brazil: short-term treasury bonds outstanding



Sources: *Folha de São Paulo* (Brazil); *EIR*.

FIGURE 11

Brazil: cumulative revenue from privatization



Sources: BNDES (Brazil); *EIR*.

creasing. The average maturity was 208 days for this packet of debt, back at the end of 1997. By May 1998, it had already dropped to 153 days. And it's heading down toward 130 and 120 days.

Again, as of May, the total amount outstanding was 197 billion reais. Over the next four-month period, from May through September, between now and the elections, 148 billion of that total of 197 billion reais of debt, comes due. Seventy-five percent of the outstanding short-term Treasury bonds of Brazil come due in the next four months. Do you think the government is going to be able to cover that?

If you do the calculations, the average amount coming due each week between now and the elections, is just over \$1 billion per week. That compares to about \$1.5 billion in GKO's coming due per week in Russia. So, Brazil and Russia are in the same situation. Same crisis; same cancer; same mess.

Now, what is the Brazilian government planning to do about this? Well, their problem is that, in addition to having to pay off 148 billion reais in short-term bonds in this period, there is another \$60 billion in foreign debt that has to be rolled over this year. Plus, Brazil is going to have a current account deficit in 1998 of about \$40 billion. So you are talking about a pretty monumental problem, a gaping hole in the range of \$250 billion worth of obligations of one form or another coming due. This is indeed a very demanding cancer.

So what will they do? The Fernando Henrique Cardoso government has come up with a very simple solution: They are going to sell off everything, including their grandmother.

They are going to turn the country over to the creditors. It's called "privatization."

"Privatization" means that you take everything that you own to the hock shop, to the pawn shop. That is exactly what privatization is. Except in this case, it is the IMF, the international speculators, and the creditor banks that are out there with their three golden balls hanging out, like pawn shops. And governments, like Brazil's, take them their entire country, and they say: "What will you give me for Companhia Vale do Rio Doce, the third-largest mining company in the world? What will you pay me for that?"

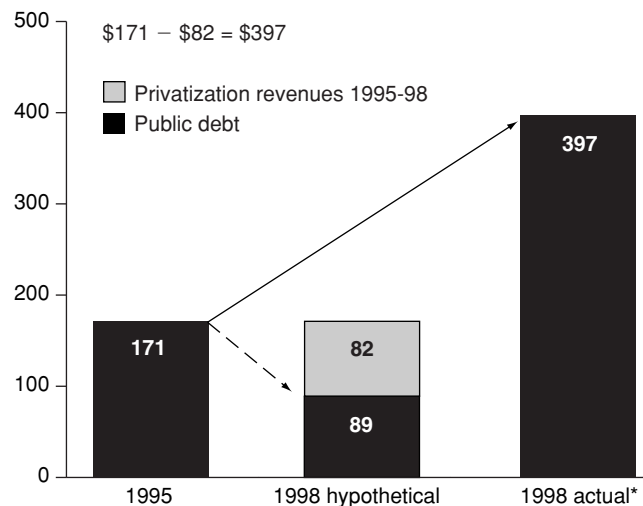
And George Soros says, "Well, how about \$3 billion? Or \$3.3 billion—such a deal!" Which is precisely what Soros and company paid for control of Brazil's Vale, the third-largest mining company in the world. And Vale now no longer belongs to Brazil. The government is also selling Telebras, the national phone company. This is a country of 160 million people. In area, Brazil is larger than the continental United States; this is a big country. It's not as big as Russia, but it's pretty big.

In **Figure 11** we show how Brazil is handing everything over. The cumulative revenue that Brazil had gotten from privatizations, up through 1997, was about \$32 billion. Over the course of 1998, they're planning to hand over to the pawn shop another \$60 billion worth of national assets. So, the whole country is being handed over. To do what? To pay off a very small portion of the amount of the speculative bubble which is coming due. It doesn't even cover a significant part

FIGURE 12

Brazil: public debt, privatizations, and bankers' arithmetic

(billions \$)



Sources: BNDES, Central Bank (Brazil); EIR.

of it. For example, the sale of Vale in 1997 covered only the interest payments on the government's Treasury debt, *for about one month*. For the third-largest mining company in the world, they got one month of interest payments.

One additional point that should be noted: like the pawn shop, privatizations today are a buyer's market. Brazil tried to sell off an electricity company earlier this year, but they couldn't sell it: They had to come back with a lower price. It's like the pawnbroker who says: "Nah. That's too much; I can't pay you that." The same thing happened with Rosneft, in the case of Russia, the second-largest oil producer in Russia. The asking price was too high. They were told: "Nah. Too much. We'll give you half that; or a nickel on the dollar. What do you say?" So, this is a buyer's market. Countries are going up for grabs, cheap.

Figure 12 gives you an idea of how this process actually works. The argument from the IMF and the bankers is that revenues from privatization can go to pay off the government's public debt, and countries can put their financial house in order. Well, if you look at Brazil, its combined domestic and foreign public debt was the equivalent of \$171 billion in 1995. From 1995 through the end of 1998, they will have privatized about \$82 billion. So, presumably, according to the IMF's logic, Brazil could use that \$82 billion to pay down the \$171 billion in public debt, and, everything else being equal (i.e., no contracting of new debt), the debt should be down at about \$89 billion by the end of 1998. Seems simple enough: you owe \$171, you sell off \$82 to the pawn shop, and you pay

off that much of your debt. So it should drop to \$89.

But that's not how it works: This is, again, bankers' arithmetic. The public debt will instead rise to \$397 billion by the end of 1998. It's a cancer.

Meanwhile, what has happened with Brazil's physical economy? Let's look at beans and rice, as we did with Mexico. In the case of Brazil, the price of beans has risen in the last six months by 180%. In the case of rice, the production in the country in 1998 will be 7% lower than it was in 1997. The national stocks of each of these, beans and rice, are at about one week's consumption. It's considered safe to have a minimum of two months' stocks. So, they're holding barely one-eighth of what they should.

Brazil is a country that was self-sufficient in most major agricultural products in the late 1980s. For example, wheat: Brazil is now the world's second-largest importer of wheat. Rice: It is the world's third-largest importer of rice. Cotton: Brazil is now the world's third-largest importer.

The handwriting is on the wall

As in Russia, and as in other parts of the world, and as is evidenced in this meeting and others that we've had across the United States, there is a groundswell of recognition that the world financial crisis is indeed serious, and that something drastic has to be done about it. The old axioms do not work.

In Brazil, even establishment luminaries who have defended the Establishment for a long period of time, such as Rubens Ricupero (he was Finance Minister, then Foreign Minister, and he's now the General Secretary of UNCTAD) are starting to speak up. Ricupero recently wrote an article saying that Brazil has to adopt a Hamiltonian, or protectionist, economic system. He argued for following the example of China, to develop self-sufficiency. China is saying "We're going to do it our way," Ricupero noted, so why shouldn't Brazil, too? So, when someone like Ricupero can talk that way, you know that the Earth is moving. And they are at least looking at the wall, to see if they can read the handwriting on it. Many are not yet scared enough to let Lyndon LaRouche help them figure out what to do, but that will come.

The real issue was indicated by the Prime Minister of Malaysia, Mahathir, a number of months back, when he said, and rightly so, as far as he went: How can it be, that in three months of speculation, 30 years of progress and development are being wiped out, just like that?

Mahathir is right, except that the crisis is even more serious than he indicates. It is not 30 years of development and progress that are being wiped out. What is being wiped out, unless we stop it, is *500 years* of the growth and development of Western civilization, and everything that is most vital about it. The concepts, the ideas, the value of human life, and the very concept of man which has allowed human society to exist, it is that which is under assault by the cancer of the IMF's global monetary system.

I say, it is time to rid ourselves of the cancer.

Bankers' arithmetic makes the cancer grow

Dennis Small here answered a question from the audience: "What made the debt go up so rapidly? How can you owe \$171 billion, pay \$82 billion, and end up owing way more?"

You must be from the old school of thought, where $2 + 2 = 4$. I hope there are no schoolchildren in the audience, because they will get a very strange idea of arithmetic, from the way the bankers do it.

It is a real question. How in the world can you start with \$171, pay off \$82, and end up with \$397? (See **Figure 12**.) That's a very good question; and it is, unfortunately, the reality of the situation that Brazil is in.

Think of yourself in the following situation: If you're a person who owes \$171,000, and you go to the pawn shop and sell off \$82,000 worth of something or other that you own, and you use that to pay your creditor, what could be going on, that you would end up owing \$397,000? Obviously, there is some process going on here, through which more and more debt is being piled up on you, no matter how fast you pay it off. The more you pay, the more you owe. There is something rigged about the game.

If we look at the other example of bankers' arithmetic, the case of all of Ibero-America (see **Figure 2**). They owed \$259 billion in 1980, and they paid off \$488 billion in 16 years. They really did: They paid \$488 billion in interest payments alone, not in amortization of the principal. That was additional. And yet, the debt grew from \$259 billion to \$657 billion. So, you ask yourself, how in the world can this be? How can you owe a certain amount, pay it off one and a half times over, and when it's all over, you owe more?

I'll tell you what is happening: They are *cheating* on the countries. It's not more complicated than that. How do they cheat? They cheat in two main ways. First, by forced devaluations of their currencies. Let's say you are the nation of Mexico, and you have an exchange rate of, say, 5 pesos to the dollar. Now, if you owe \$100, you have to sell enough of your goods to earn 500 pesos. Then you go to the bank and exchange the 500 pesos for \$100, and you pay your \$100, because the exchange rate is 5:1.

But, let's say the IMF, George Soros, and other people come along and force a devaluation of your currency, as just happened in Indonesia, Thailand, etc. All of a sudden, they tell you: "You know what, Mr. Gómez? The peso is not worth 5 to the dollar any more; the peso is now worth 10 to the dollar." Why? "Because we say so."

Wait a minute! That means that to pay \$100 in debt, you

now have to sell, not 500 pesos worth of goods, but 1,000 pesos worth. You have to sell, or export, or hand over from your country, *twice* the physical amount that you did the day before. Why? Because your currency was just devalued. You protest: "Wait a minute. That's not fair!" And the bankers and the IMF say: "What do you mean it's not fair? That's neo-liberal economics. Didn't you study at Harvard?"

That's one of the ways they cheat, but there's another. They have backups, you know, in case one doesn't quite work, they use the other, or the two work better together.

The other way they cheat, is called "the terms of trade." What does that mean? Again, say you are a Mexican, and you are selling whatever you export from Mexico. Let's take oil. The terms of trade means that the price of your oil exports drop, and the prices of your imports — machinery, consumer goods, and so on — increase. Let's say that when you first borrowed the money, in order to import one machine tool, you had to sell ten barrels of oil. Let's say that was the price equivalent. Well, what happens if the price of oil goes through the floor, and the price of the machine tool rises? That is called deteriorating terms of trade — otherwise known as robbery. It's like when you go to the pawn shop, and you want to sell them your gold watch, which is worth \$100, and they say, "Oh, I'm sorry, if you'd come yesterday, you would have gotten \$100, but the price just dropped. It's now worth \$50." And you say, "Hey, wait a minute. That's not fair!" And they say, "What's the matter? Didn't you study at Harvard?"

So, the deteriorating terms of trade means that the price that the Third World country gets for what it sells, is falling. And so, they have to run faster, just to stay in the same place. And the price of what they are buying is rising, so they have to run twice as fast just to stay in the same place. There are other tricks that they use, but devaluations and the terms of trade are the two main ones — you have to export more, and more, and more physical wealth, not just to stay even, but you fall further and further behind. You owe more and more, no matter how much you pay. And, there's no way you can win, because the game is rigged.

The only thing that can be done, is you've got to say, "Stop this, I'm getting off. I'm not going to do this anymore. We're not going to play the IMF game. We're going to set up a new monetary system. No devaluations. Fixed currencies. Your currency is worth what it's worth, predictably. In terms of trade, we're going to have fair prices for products and commodities, so that a profit can be made, so that you can invest and have physical economic growth."

The point on the bankers' arithmetic, the reason it is so ludicrous, is that the unit of measurement changes. And the unit of measurement is changing because the IMF and the bankers run the casino gambling house, they run the game. And it's a fixed game, and they *cheat* on you, and they say, if you don't like that, you are obviously a dummy, you didn't study economics at Harvard.

And, that's how bankers' arithmetic works.

Humanity's survival is a subjective question

Now that you have an in-depth view of the crisis, and face once again the fact that Mr. LaRouche is the only economist who has not only forecasted the depth of this crisis, but has put solutions on the table, the question cannot be avoided of what to do, of what you in this room must do.

This is not a matter of a particular program, as Mr. LaRouche said in his greetings to us [see last week's *EIR*, p. 6]. Those of us who have been working with him for about 30 years now, have left many beautiful blueprints for economic development, and financial reorganization and progress for mankind, on the tables of very many important, intelligent people. And they've moldered into dust.

There are three elements that I want to put on the table for your consideration, and then we'll open up for discussion here.

First, look at the principles behind the New Bretton Woods program, not the particulars. As recently elaborated again by Mr. LaRouche in the *EIR* and other places, what you have to look at, is the anti-imperialist principles that FDR stood for, and that he had adopted in the plans that he had for postwar recovery. These were in direct contradiction to the British Empire. They were, as you saw briefly in the speech on the New Bretton Woods that was shown in the video, a commitment to giving the right to economic progress and economic development to every nation of this world. There is no "First World," "Second World," "Third World," "Fourth World." There's one world of economic development, and of turning the United States and other nations—western Europe, Japan, and others—into massive exporters of technology, science, and machine tools to permit that progress to occur.

To do this, requires sovereign national governments, with control over their own credit, and a commitment to the improvement of their populations.

Now, when America did not follow this anti-imperialist concept of FDR, and went instead into the British-led East-West geopolitical fight, another institution actually came on the world scene, in order to fight for those American ideas. And this was the Non-Aligned Movement. It was founded in 1955.

This movement was discussed a lot by one of our early collaborators for a new, just economic order back in the middle of the 1970s, by the name of Frederick Wills. He was Guyanese. He was a Foreign Minister and Justice Minister of

the nation of Guyana. And he was around during this period, and he said that the concept of founding the Non-Aligned Movement among the developing countries, was actually very much the Revolutionary United States, the idea of doing what America had done at its founding in the Revolution of 1776 through 1789 against imperialism, and winning those exact same rights.

The leaders of the Non-Aligned Movement—Nehru, Nasser, Sukarno, I believe—were nation-builders, building great nations, and in fact, the Non-Aligned Movement was founded in Indonesia, in the city of Bandung. There's an anti-imperialist tradition there, in the tradition of the anti-British American Revolution.

What the Non-Aligned Movement attempted to do, was what we in the LaRouche movement have fought for, for over 30 years, and are still fighting for, which is to revive the principles of the American fight for development in this way, not only for the United States, but for the whole world. And that's the concept that we have to very much have in mind, and educate and agitate for, as we're fighting for this New Bretton Woods. And Mrs. LaRouche has put it on the table, in an even more direct way, in the idea of our allies in the developing sector coming together around this concept [see Helga Zepp-LaRouche, "What China Can Expect From Clinton's Visit," *EIR*, June 19, 1998].

The substance of morality

The second idea to have in mind is something which Mr. LaRouche has personally put on the table once again. In the next issue of *Executive Intelligence Review*, there will be an extensive article by Mr. LaRouche, just written in the last few weeks, entitled "The Substance of Morality." And, in his article, what he puts on the table, is the same question that we've mentioned numbers of times here today, which is that mankind has very specific physical requirements, in order to survive and progress and develop. But there is nothing *objective* about making sure that those requirements are carried out. It's a subjective question, it's a cultural question. And that you can have, and have had, a history of mankind, where mankind and civilizations, and countries, have failed, because of their subjective problems, to be able to save their civilizations.

One of the most dramatic contrasts in modern history, is the contrast between the American Revolution and the French Revolution. If you looked just at the slogans of these revolutions, you might think they were both for equality and democracy, and the rights of man, and so forth. But, if you looked at the cultural difference and depth between the ideas behind the American Revolution—the concept of creating a state which would provide every individual with the right to education, to development, and to progress—and the concept behind the French Revolution, which was effectively freedom to do your own thing *against* an oligarchy, but not *for* the development of the individual made in the image of God, this made all the difference in the world as to whether

you had a blood-letting, or you had a productive revolution.

And, this is the kind of question that Mr. LaRouche is putting on the table. And I want to urge you all to look to this, because there is no guarantee that we'll be successful, if we do not change the culture which we're in. We have a culture which, as John Hoefle said, doesn't seem to care that whole nations are disappearing in Southeast Asia, and which doesn't seem to care if poor people don't have health insurance and can't survive. And many sections of the population are just going to disappear.

So, we have to look to this. And Mr. LaRouche particularly points to the problems that we face, not just with the oligarchy we're confronting, which we've discussed a lot today, but the other great evil in our culture, which is a moral degeneracy, in which people have actually taken on the cattle-like qualities which the oligarchy would like to imbue in them. So that the practical, ordinary person may have a noble impulse, but under the conditions of practicality, day-to-day life, the stresses of what has to be done from day to day, they act brutish. They act less than human. And this evil in our neighbors, in the ordinary people, is the problem we have.

The great issue of culture, Mr. LaRouche says, is the "task of freeing the majority of the population from that moral and intellectual self-degradation which tradition imbues within prevailing popular opinion." And another way he puts it, quite directly, is: "The essence of freedom is the right to define oneself as a world-historical individual, rather than some self-debased libertarian fool."

The fight to exonerate LaRouche

The third issue is one that I'll deal with briefly, because it is something that is directly on the agenda politically in this month of June, which is the question of the exoneration of Mr. LaRouche, and dealing with the corrupt dictatorship that we have in the Department of Justice, and those who control the Department of Justice in this United States.

There is, at the present time, a phase-change in the American population on this question. When Mr. LaRouche, and Dennis Small, and my husband, and the others, first went to prison for political reasons in the late 1980s, it was hard to find someone around, in positions in Congress for sure, who would attack the FBI, attack the Department of Justice. They were all hiding under their desks.

But today, it is widely accepted that these are corrupt institutions. After all, we see the President of the United States being treated in precisely the way, almost point by point—I won't go through it—that the LaRouche movement was treated, over a matter of 15 to 20 years.

Publicly, you see prosecutors like Kenneth Starr, and many of his coterie, all of whom come from the Department of Justice—these guys are not independent practitioners, who happened to become evil. They were trained in the Department of Justice to do these kinds of things, to leak to the grand juries, to intimidate witnesses, and to carry out all the other

skullduggery that you've seen exposed day-to-day in the press.

So, at this point in history, we have an opportunity, because of the fact that this corrupt network for the oligarchy in the United States has gone so far, so public, to try to destroy the Presidency of the United States—to prevent it from acting on the ideas that we've put forward here for a worldwide change in the monetary system, a New Bretton Woods—that we can destroy this bureaucracy, and we can destroy it with the LaRouche case. In particular, we can destroy it by having

What you have to look at, is the anti-imperialist principles that FDR stood for, and that he had adopted in the plans that he had for postwar recovery. These were in direct contradiction to the British Empire. They were . . . a commitment to giving the right to economic progress and economic development to every nation of this world.

hearings on Capitol Hill around a bill called the McDade-Murtha Bill, which is also evidence of this paradigm shift. It's called the Citizens Protection Act. Since when did you know that we needed protection from our prosecutors? Well, that's what this bill says. We don't need to protect citizens from crime, we need to protect them from one of the biggest criminals, the ones in the Criminal Division of the Justice Department.

So, at this point, we in the LaRouche movement—and we urge you to join us—have a full-scale mobilization to get this Citizens Protection Act passed, to get more than a majority of Congress signed on to it. Already there are almost 170 Congressmen from both sides of the aisle signed on to this: to have hearings on prosecutorial abuse, centered around the LaRouche case, and attacks on African-American politicians, and from the Office of Special Investigations of the Justice Department; and to use this to clean out, once and for all, the "enforcer network" for the oligarchy, which prevents people in positions of power, and prevents Mr. LaRouche, who's under the cloud of this illegal, false prosecution, from being able to take the actions and leadership necessary to implement the New Bretton Woods, to stop what is our rapid descent into a New Dark Age.

I urge you to join us. Speak to the people out at the literature table, and then we can take this particular opportunity of a mobilization for justice in the United States, as well as economic justice, to turn the corner historically.

Pastrana victory in Colombia opens door for policy shift

by Gretchen Small

In a final round of voting on June 21, Conservative Party candidate Andrés Pastrana was elected the next President of Colombia, defeating the Liberal Party's Horacio Serpa, 50.4% to 46.5%. Running on a broad-based ticket called the Great Alliance for Change, Pastrana received a record number of votes for any Colombian Presidential election (6.1 million), and with them, a clear mandate to bring about what he promised: a change from the drug-dominated government of President Ernesto Samper Pizano, in which Horacio Serpa had served as Interior Minister.

The voter turnout was larger than projected, and so was Serpa's defeat. Serpa had run a demagogic campaign, mobilized a strong showing from the Liberal Party machine, and enjoyed the backing of the Samper regime, and the powers that placed and kept Samper in office: the Dope, Inc. apparatus. Colombians proved themselves, however, not yet so demoralized as to capitulate to a continuation of a narco government which has brought the country to the brink of anarchy and disintegration.

Samper, associated with the drug mob since the late 1970s when he first campaigned for drug legalization, had been elected President in 1994 with the aid of at least \$6 million from the Cali drug cartel. After the votes were tallied, proof that the cartel had bought the 1994 election was released by Pastrana, Samper's opponent in that election. Samper claimed that he "never knew."

Honest Colombians launched a mobilization to drive Samper out of office, and the symbol of resistance became the elephant, after some prominent individual remarked that not knowing \$6 million in drug monies financed your campaign, was as credible as claiming you didn't notice an elephant sitting in your living room. The United States weighed in, when President Clinton decertified the Samper regime as a non-cooperating nation in the battle against narcotics, and

then denied Samper a visa to visit the United States.

The regime held, however, through bribery and murder inside the country, overt political and economic backing from London, and a failure of nerve in other international quarters, including the U.S. State Department. A Colombian Congress elected by cartel monies, ruled that the President could not be held responsible for the fact that the cartels bought his election. When Colombian civilian and military leaders reportedly consulted U.S. Ambassador Myles Frechette in 1995 on their plans for a civic-military alliance to oust the narco-dictatorship, Frechette told them that any government which overthrew Samper would be harshly treated as a pariah state, since he had been "democratically elected." Subsequently, several leading opponents of the Samper-Serpa regime were assassinated, terrorizing other opponents of the narco-regime into silence.

But when Colombians had the opportunity on June 21, they delivered their own verdict on the Samper-Serpa regime: guilty, and booted out. Pastrana will take office on Aug. 7 with a clean slate, and an opportunity to change course.

Elephant-herding time

The change in government in Colombia also offers a window of opportunity for the United States to initiate a regional offensive to drive Dope, Inc.'s "elephant" out of its Andean lair entirely. There now exists a potential combination to deliver a regional blow against narco-terrorism: U.S.-Peruvian anti-drug cooperation has achieved uncontestable successes; the Banzer government of Bolivia is seeking similar U.S. and other international aid for its determination to free Bolivia from the drug trade during its five-year term of office; and now, despite the depth of cartel penetration of Colombian institutions, the people of Colombia are rallying.

As *EIR* has outlined in a recent series of analyses on narco-

terrorism in the Andes, a major policy battle has been raging for months within the Clinton administration over U.S. policy toward Colombia. To contribute to that discussion, we publish below the views of two Colombians active in organizing resistance to the cartel takeover: former Presidential candidate and retired general Harold Bedoya; and Lyndon LaRouche's associate Max Londoño.

There are two particularly dangerous false axioms which must be addressed. The first is the nasty piece of sophistry that narco-terrorism does not exist. At this stage, only such fanatics as the *New York Times* and George Soros's drug legalizers dispute that Colombia's two main terrorist groups, the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), are up to their eyeballs in the drug trade. Yet, nonetheless, the line prevails within parts of the U.S. government — in particular, the State Department — that since the guerrillas “only” run dope for the money, they can be turned against the drug trade as part of a peace deal which offers them a share in power. Ergo, the United States should encourage power-sharing negotiations with them.

The second, related, axiom, is that Colombia's Armed Forces constitute an equal threat to democracy, if not a bigger one, than the “guerrillas.”

This piece of wild lunacy was most recently reiterated by the *New York Times* in a June 22 lead editorial which called upon the Clinton administration to “terminate” aid to the Colombian military, because “support for the army undermines Colombia's various civilian institutions.” The *Times* objected to the fact that the White House anti-drug office and others in the U.S. military still speak of “narco-guerrillas,” a concept, they wrote, which the State Department says is merely “a label invented by the Colombian military to allow it to use the aid to fight guerrillas.”

Not surprisingly, the same arguments most recently appeared in the Hollinger Corporation's flagship paper, London's *Sunday Telegraph*. In two columns published on June 7 and 14, BBC World Affairs Editor John Simpson reminded his readers that Britain has a strategic interest in the outcome of Colombia's elections. He urged peace talks with the FARC and ELN, declared the war on drugs “unwinnable,” and suggested a deal be cut with the coca-growers.

Reality menaces

President-elect Pastrana has declared that his two top priorities are to secure peace and to restore economic stability to Colombia. But his strategy thus far for achieving these praiseworthy goals will not work. He will either have to change course, or he will fail.

The global financial and economic crisis began to hit Colombia with great force this spring. Unemployment officially stands at 14.5%, portending a major social crisis if not reversed. Financially, the situation has become precarious: The prices of two of Colombia's major exports, oil and coffee, are plummeting; the government's fiscal deficit hit 5%, and is

rising; and disinvestment from the stock market and other capital flight drove the peso down to new lows, to which the Samper government responded by raising interest rates to record levels (80% at one point in June).

But Pastrana, ideologically close to the Republican neo-conservative crowd in the United States, is a devoted free-trader, and he has already announced that he will draw up a plan for a “serious adjustment program” to entice “the international financial community” to bring investments into Colombia. This is hardly a viable proposition, in today's international financial maelstrom.

Likewise, on the terror and drug front. Pastrana has committed his government to reaching a “peace” deal with the narco-terrorists, and he has made various proposals to entice the FARC and ELN to the negotiating table. On June 9, he promised that he would treat coca cultivation as a social problem, and end all fumigation and eradication programs. The weekend before the elections, he sent a representative, Victor Ricardo, to meet with the legendary head of the FARC, Manuel Marulanda Vélez (alias Tirofijo, or Sureshot). The FARC used the opportunity to build up their clandestine chief's image as a folk hero, releasing a picture of Tirofijo meeting Pastrana's representative, the first photo of Tirofijo released in ten years.

Upon election, Pastrana promised that on inauguration day, he intends to order the military to withdraw from five municipalities demanded by the FARC — an area totalling some 40,000 square kilometers — to signal his willingness to negotiate. He suggested that the FARC would agree to wipe out coca-growing in areas under their control, and added that he wished to meet, personally with Tirofijo, if possible, that very week.

There are no signs, however, that the FARC is sitting around waiting for nice offers. Tirofijo will not meet, nor will negotiations begin, until five conditions are met, the FARC's Mexico-based international spokesman Marcos Calarcá replied: 1) Paramilitary groups are to be dismantled; 2) all “social protest” will be permitted; 3) rewards offered for the capture of guerrilla leaders will be cancelled; 4) the military must pull its troops out of the south of the country; and 5) last, but not least, the government must commit itself never to link the FARC to the drug trade, nor even to use the expression “narco-guerrillas.”

As for the illusion that the FARC has an interest in reducing coca cultivation, Calarcá reiterated that the FARC “at no time can take responsibility for eradicating these crops.”

Indeed. In April 1998, Colombian Defense Minister Gilberto Echeverri Mejía told Argentina's *Clarín* daily that, in November 1996, the Samper government had requested of novelist Gabriel García Márquez that he ask his friend Fidel Castro to use Cuba's contacts with the FARC, to encourage the FARC to negotiate. The FARC's answer, conveyed by Cuba, was simple: “The FARC says that they are not going to negotiate, because they are winning the war.”

No to the proposed invasion of Colombia!

The following are excerpts from a policy statement issued on June 12 by Maximiliano Londoño Penilla, president of the Ibero-American Solidarity Movement of Colombia. Subheads have been added.

“If Colombia needs international support, it will have to ask for it: resources, organization, aid. Of course, there is always the option of calling for an invasion, but it would have to be an absolutely critical situation. The only thing that’s clear is that we cannot lose Colombia.”

This was the provocative statement of James Zackrison, an analyst from the Pentagon’s Office of Naval Intelligence, in a recent interview with the Colombian magazine *Cambio* 16.

The Anglophile school of thought

Zackrison is a mouthpiece for the Anglophile school of thought in Washington from which Luigi Einaudi, the decades-long *éminence grise* of the U.S. State Department for Ibero-American affairs, also draws his inspiration.

These ideologues, on the one hand, promote the dismantling of the armed forces of our nations, so that we cannot defend our sovereignty against narco-terrorism, and then, in the face of the “security crisis” thus created, insist on the use of supranational military force to allegedly solve the problem they have created.

Washington’s so-called “hawks” (hard-liners) as well as the so-called “doves” (who favor negotiation with terrorists) represent two sides of the same coin. Both promote the dissolution of the national military forces of the region, which they would replace with rapid deployment forces under the aegis of the Organization of American States (OAS) or of a supranational system coordinated by the United Nations—a security system led in fact by the same international financial oligarchy, based in London, which controls the International Monetary Fund, the World Bank, the United Nations, and the World Trade Organization. . . .

In the spring of 1996, Zackrison wrote for the *Joint Force Quarterly*, a publication of the U.S. National Defense University, a review of EIR’s book, *The Plot To Annihilate the Armed Forces and the Nations of Ibero-America*. . . .

In his review, Zackrison denied the existence of such an anti-military policy, dubbing the view a “strange conspiracy theory.” But, he did admit that the book “is on the list of

required reading of various military academies and war colleges in the region,” and warned that “students of Latin American affairs who ignore it do so at their own risk. . . .”

The fact is, that Colombia has another alternative, beyond the two usually presented—either to concede to the narco-terrorists or to call for a foreign invasion, both of which would lead to the destruction of the Colombian nation-state. That third option is to wage war against narco-terrorism, as has been done with relative success by the government and Armed Forces of Peru. The Peruvian example has two main characteristics:

1. President Alberto Fujimori, with the firm support of Peru’s Armed Forces, has declared total war against narco-terrorism, and has proven his readiness to take major risks—on the personal, political, and national levels—to win that war.

2. The Peruvian government has developed a viable policy of cooperation with the Clinton government in Washington, in which the two nations support each other in battling a common enemy, without falling into the trap of violations of national sovereignty.

LaRouche’s approach

Contrary to what Mr. Zackrison and his friends in London would have us believe, there do exist forces inside the United States who are neither pro-invasion “hawks,” nor “doves” who would surrender all to the terrorists. This option has been repeatedly presented in Washington over the years by Lyndon LaRouche; and, certain circles in and around the Clinton administration have echoed some aspects of this approach, as seen in the case of Peru.

The Clinton administration should embrace LaRouche’s recommendations regarding both strategic and regional security questions, as well as economic and international financial matters. In the midst of the worst financial crisis to have struck humanity since the Black Death of the 14th century, a crisis before which the world’s usurious and decrepit monetary and financial system is collapsing, it is essential to replace it with a New Bretton Woods system, to establish the basis for a worldwide economic recovery. . . . This is the only way to assure lasting peace on this planet. This is the only way to stop cold the British plot against the nation-state.

On the question of hemispheric security, Washington should decisively support the governments of the region in their fight against narco-terrorism, while maintaining a disciplined respect for the sovereignty of nations. The pretense of using the so-called “peace process” as an instrument for justifying a reduction or dismantling of the region’s military forces, must be rejected.

The absurd idea of invading our nations with UN blue helmeted troops and hordes of non-governmental organizations (NGOs) . . . will only boomerang against the United States, . . . fanning the flames of “narco-nationalism.” . . .



Colombia and the U.S. can jointly defeat narco-terrorism

Gen. Harold Bedoya (ret.), former Presidential candidate for the Colombian Force Movement, was interviewed by telephone from Washington, D.C., by EIR Ibero-American Affairs editor Dennis Small, on June 16.

EIR: General Bedoya, in looking at Colombia, one sees a nation at war. The majority of voices one hears are, frankly, voices of pessimism: those who say the war against narco-terrorism has been lost, and that you therefore have to negotiate the surrender of the country; or, those who say that Colombia cannot win by itself and must therefore call for a foreign or supranational invasion of Colombia. But yours has been a voice of optimism, saying the nation *can* be saved. Is this the case? And if so, why are you optimistic?

Bedoya: In Colombia, we are in a situation in which there has been a clear case of the state surrendering to the interests of terrorist and drug-trafficking groups. All of this stems from the electoral fraud which occurred in 1994, in which the drug mafias in effect came to power by buying votes and consciences, with drug money.

All this has led to the fact that the government that was elected with the money of corruption, has facilitated an indecent process which has brought the nation of Colombia to its knees before the crime syndicates. And all of this occurred simply because there has been a government which has not had the moral authority and legitimacy to confront the corruption generated by drug trafficking, and to confront the drug-trafficking mafias, which were in effect their partners during the 1994 political campaign which brought them to power, and which has enabled them to coexist with them for the past four years.

This is the reality in Colombia today. That is why we need a radical change in the upcoming June 21 elections, so that the history of the country can begin to straighten itself out, and so that the next governments, and especially a government not imposed by the current President, can have sufficient independence and freedom to confront the violence and corruption caused by the drug trade, with legitimacy and authority.

EIR: You use the term “narco-terrorism.” There are those who insist that there is no such phenomenon, of an organic

link between drug trafficking and terrorism. What do you think of this?

Bedoya: Unfortunately, there are people here who want to deny that this is a reality. Those who have most wanted to deny it are people involved in that activity, who are the same drug traffickers, the same terrorists, and the same government which, to all intents and purposes, has coexisted with them, and which has allowed this state of violence and drug trafficking to exist, directly, which no legitimate state would allow.

But this is not my discovery. It is recognized by the U.S. State Department itself, by the U.S. Congress, by neighboring countries. This is a reality, and one cannot deny this reality, in which we know that they [the terrorists] run the laboratories, including the processing and export of drugs. It is to deny a reality which the whole world has already accepted.

EIR: Some say that, to reach a peace agreement with the FARC and ELN, it is necessary to make certain concessions: military evacuations, negotiations, and so on. There have even been people who have spoken of the need to legalize drugs—for example, those linked on an international level to the famous megaspeculator George Soros. What is your opinion of such negotiations and supposed peace accords?

Bedoya: The Colombian Constitution does not allow the handing over of territory to the drug-trafficking mafias. We already had an experience in the region of Caguán, where territory was evacuated and handed over to the drug traffickers, and this led directly to an increase in drug cultivation, an increase in drug production, and an increase in terrorism. This is precisely the major problem we face—aside from the fact that it violates the national Constitution—because the Penal Code clearly states that to hand over, or to dismember, national territory, is a crime of treason against the state, which cannot be accepted under any circumstances.

Now, the issue of legalizing drugs is absurd. We have to fight the drug-trafficking mafias, so that not only will they not continue to produce drugs, but so that they cannot continue to cause the horrendous damage to which the youth and the entire world are being subjected through drugs. We know that worldwide, there are millions of citizens, of youth, who are lost, because of the activities of the narcos. I believe

that what we have to do here, rather than legalize drugs — it makes no ethical sense to do this — is to make drug-running a crime against humanity, and we should try the drug mafias in international courts, as befits any civilized society in the world.

EIR: Given the evident problem of drugs and narco-terrorism, certain sectors which say that they don't favor negotiating or handing everything over to narco-terrorism, are proposing instead a possible foreign invasion of Colombia. For example, an interview with Pentagon analyst James Zackrison was recently published in the magazine *Cambio 16*, in which he argues that the Colombian Armed Forces are not capable of resolving this crisis. These same sectors have proposed the demilitarization of countries like Colombia, and, having helped create the problem, they go on to argue that supranational or United Nations troops, or some such, have to be sent in to invade the country and solve its problems.

I assume that you oppose this approach, but I would also like to know what the positive alternative is. What can Colombia do to combat this plague?

Bedoya: First of all, we Colombians are hoping to change an illegitimate, corrupt, and mafiosi government, which is the one we have, which is linked to the drug trade, so that, once changed, we simply achieve the legitimacy needed to be able to combat crime. The point is, that those who have deals with the mafia can't fight it. Battling the mafia with those who are part of the mafia is absurd. Therefore, the first thing that must be done is to put an end to the mafia in politics.

Regarding the question of invasions: Colombia doesn't need invasions. What we need here is support and international help to take on these battles, above all with the realism required. Unfortunately, what we face here is that, every time the mafias are fought by the forces of order, international human rights organizations appear to fight and persecute the forces of law and order who are fighting against the drug trade.

The day that the drug trade is understood to be the main violator of human rights in the world, these things will begin to be straightened out. Unfortunately, there is a double standard that is preventing the world from learning what is going on in this country.

The world must understand that the principal violators of human rights in the world are the drug mafias and those who sponsor them, be they politicians, terrorists, growers, processors, launderers, or weapons traffickers. These are the mafias which must be fought. And, if there is to be an invasion, then all countries which are involved in this activity would have to be invaded.

I have said that what we need here is an "Alliance of the Nine," of the nine countries that are most involved in this fight, so that among the nine, we resolve the problem. The

first, logically, are producer countries such as Colombia, Bolivia, and Peru; then, consumer countries, like the United States; transit countries, like Mexico; countries involved in money laundering in Europe and in the introduction of drugs, like Spain; countries which sell the chemical precursors, like Holland and Germany; and countries which sell weapons to the drug mafias, like the former Iron Curtain countries and Russia. These are the "Group of Nine," as I call them, which must meet and resolve the problem, because they all have a major responsibility: some as coca paste producers, others as coca leaf producers; some as consumers; others as money launderers; others as sellers of precursors (the European countries). Among them all, I am certain that we can solve the problem.

This is not a matter of invading, because otherwise we would all have to invade the United States, or Mexico, or Spain. So, this is not a matter of invasion. The mafias are not Colombian, they are international; they exist in every country in the world, and they are all responsible. If we produced and consumed all the drugs, we could perhaps think that it is just Colombia. But it is also a U.S. problem, where the amount of drugs consumed is equivalent to the entire GNP of Colombia, which shows the gravity of the problem. So, we can't be naive in the face of this reality; we must take it on.

EIR: What can the United States do, concretely? There is a lot of interest in the United States, perhaps a little late, I would say, regarding the Colombia problem, in the Congress and in other places. But the concrete question is: What should the United States do to help Colombia resolve this problem in a sovereign way?

Bedoya: What I am recommending is that we all face up to it and say that we are all responsible. Second, the United States has to have a great Marshall Plan for Colombia, to help recover all the agricultural areas that have been destroyed by drug cultivation and violence. We have to inject capital and technology, everything necessary to agriculturally develop a country like Colombia. We need capital, technology, marketing to come in — everything a country needs. I presented this when I was in the United States, and it seems to have been well received there.

That is, on the one hand, we have to have a partnership for progress through a Marshall Plan, and ally in the fight against drugs.

On the other hand, we must confront the mafias through fumigation, through helicopters, through radar, through support for the forces of law and order, for the Armed Forces, giving them the assistance they need. And for once, commit ourselves, instead of persecuting the soldiers when they carry out their duties, accusing them — constantly, in the State Department — of violating human rights. There must be an alliance like the one we had with the United States when fighting communism in Korea, and against China, where the

The Penal Code clearly states that to hand over, or to dismember, national territory, is a crime of treason against the state, which cannot be accepted under any circumstances.

communists were the violators of human rights, not those fighting the communists. Well, we have to do the same thing here.

But everything here is the opposite: The State Department has refused to understand that the alliance is with everyone, that we must ally to confront this problem. And the United States must also commit itself to fighting its people who produce the inputs, the vast drug-dealing inside the United States, the money laundering, the sale of precursors, the contraband. One mustn't forget that millions and millions of dollars worth of contraband enter here, which launder the drug dollars.

So, let's unite, and I am certain we will solve the problem. This is not a problem of invasions, but of partnerships and alliances.

EIR: A moment ago you mentioned a Marshall Plan, of the need to develop the countryside. You are known for the relationship you have developed with the Colombian people, in each of your activities throughout your military career. What can you tell us, broadly speaking, of the role of the Armed Forces and its links to the people? What is your experience, in this regard, in Colombia?

Bedoya: Look, the problem of drugs here is so serious that the Armed Forces are participating, and must continue to participate, in the fight against the drug trade, because the drug trade has also become a terrorist act. The only organizations that have the capacity to confront the terrorist mafias are the Armed Forces, the forces of law and order. That is why they must be supported. And so, along with these Marshall Plans of which I spoke, it is necessary to create regional military commands, especially throughout the southern part of the country, to help to agriculturally and industrially develop all those areas.

And, simultaneously, we must continue to combat drug cultivation, the laboratories, the whole network of drug production. This has to be done, and the Armed Forces are the best for this job, but they need genuine backing. The United States, in reality, has practically denied the Armed Forces this support. Instead, they have been marginalized in every way and, in some ways, persecuted.

What I believe is that the United States has to form an alliance and learn that Colombia's Armed Forces are the best allies and the best partners the United States has in the fight

against terrorism. But they must change their strategies, because until now, the equipment they have given is obsolete. The little military aid has amounted to meager amounts of money. A lot of resources are needed: helicopters, planes, fumigation, radar, intelligence equipment, and so on.

I believe that this must be done, but seriously. Not saying that a fight is being waged, when in reality practically nothing is being done.

EIR: What you are saying about the role of the military is not unlike what has happened historically in the United States. At certain points, there have been close ties between the Armed Forces and the people. For example, the Army Corps of Engineers led the construction of railroads in the 19th century, and so forth.

If we talk about a similar role in Colombia, one must take into account Colombia's irregular geography, and its vast infrastructure requirements. What role could the Armed Forces play in that regard?

Bedoya: As I said: We have to create regional military commands for development, where the Armed Forces, in the conflict zones, use engineering units to create roads, highways, health, needed security—including the centralized handling of government or state revenues.

We already have experience in that: We've done it, we did it during the period when I was commander in many regions, during 1988-89. Surely this is remembered in the United States. We did a good job throughout the Guaviare region, where we got production going in that agricultural zone, but unfortunately without sufficient help.

A great deal of U.S. aid is needed. When U.S. Ambassador Myles Frechette had just arrived here, I proposed to him that this be done throughout the southern region. Unfortunately, Ambassador Frechette didn't listen to me. We could have done this, and we would have gained four years, or five, or seven years, with that kind of activity.

So, military engineers, the Armed Forces, have a very broad capacity to work in the countryside, in agriculture, with the peasantry. The people like them, they like the Armed Forces. Thus, the Armed Forces can be a powerful instrument in this fight.

I am certain that the next government—and I don't believe it will be Mr. Serpa, because that gentleman has no interest in anything of this sort. On the contrary, he has encouraged

Colombia doesn't need invasions, but a partnership for progress through a Marshall Plan. What we need here is support and international help to take on these battles.

this entire problem of drug trafficking and terrorism. But the other candidate, Dr. Pastrana, is studying the necessary support for dealing with this whole problem of violence. He will surely have the backing of the United States, and he will be able to undertake works to benefit the people.

EIR: So there should be a close civil-military alliance in a country like Colombia, so that the Armed Forces, the government, and the people jointly fight against these problems and develop the country.

Bedoya: Yes, this is what must be done, and I guarantee that this would resolve things. I guarantee that if this is done with intelligence, with will, and the United States commits itself to help—not just with rhetoric and with constant government accusations against the forces of law and order, but real help—this can rapidly be solved.

EIR: With regard to the broader issue of the nation-state: There are those who say nowadays that, because of globalization and the Information Age, it is no longer necessary to have a nation-state, and that sovereignty is a thing of the past. Similarly, they argue that the Armed Forces no longer have a role to play. In fact, I have seen cartoons in the U.S. press of a Colombia divided into parts, as if it were Bosnia, stating that a nation-state is no longer needed. What do you think of this, of the role of the nation-state?

Bedoya: That's absurd, because every nation has its borders. We face very serious threats: We have the international drug mafias, the international mafias of terrorism. We still have not resolved many border problems: We still have areas that have not been defined, and further, we have highly dangerous criminals, such as the mafias of contraband and of common crime.

When countries face these kinds of threats, they have problems, and they cannot do away with their forces of law and order. This would be tantamount to saying the U.S. should deactivate its military forces so that Mr. Hussein can do what he likes around the world. The United States would have no control over its own borders.

This must be seen from a realistic standpoint: Every country has its problems. There may be some countries that don't need armed forces. Every country should be sovereign, but you can't impose a straitjacket on the entire world, when the problems faced are of a different scope.

EIR: There have been statements coming out of the House of Lords in London, arguing that nothing can be done in the Colombian situation to combat the drug trade, that drugs are a global reality, and that Colombia should simply accept a process leading to the legalization of drugs, and stop fighting so hard. These were the instructions that these gentlemen, so comfortably situated in London, gave to Colombia.

Bedoya: It would be like saying that the British Army, or the Spanish Army, should be deactivated, although they have not dealt with the problem of the IRA or of ETA. Or, that the Israelis, who have been unable to solve their problems with the Palestinians, should deactivate. That is absurd.

The fact is that there are a lot of theoreticians, a lot of rhetoricians, who talk about peace, which they unfortunately don't understand. They don't know the problem and they want to solve things from their armchairs. Reality is otherwise: Countries have their problems, which they have to solve sovereignly.

EIR: Apart from drug trafficking, Colombia also has very serious economic problems, difficulties with its banking sector, and so on. At the same time, Colombia is immersed in a world in which there already exists a generalized international financial crisis: the situation in Japan, Indonesia, Mexico, Brazil. How should Colombia relate to these other countries, especially in light of the international financial crisis?

Bedoya: Well, the serious problem Colombia has, is drug trafficking. If we solve the problem of terrorism and drugs, we are a country which, by virtue of its natural wealth, its geostrategic location in the world, the quality of its land and its climate, could become the most developed country in all of Latin America. Unfortunately, we have an internal problem of corruption, of violence, and of drug trafficking, which we have been unable to resolve. With this problem resolved, I am certain the country would move forward.

We have highly serious problems of corruption today, which have virtually brought the economy into total crisis. And because the violence has increased, unfortunately the costs of any commercial operation—investment, money, credit, any activity—are high. Because as long as there is no calm, in any country, not even its own citizens are going to risk investing.

We could have major international companies here. But we are unable to do this, until the problem of violence is

resolved. I believe that, once this problem is resolved, Colombia is a country that will enter into an accelerated process of development.

EIR: In the aftermath of the first round of the Presidential elections, where do things stand? What do the results mean for the country? What will happen in the second round? And, what is the future of your movement, Colombian Force?

Bedoya: I think that the upshot is that the country is polarized into three groups: the liberal group, the conservative group, and the independent group, all more or less with the same forces. The independent group is anti-corruption, anti-political establishment, anti-violence. And it is logical that they back the aspirations of the Conservative Party candidate. The other is the candidate of the same government which has led the nation into a state of violence, a state of corruption, a state of drug trafficking, and which has virtually done away with the community.

We are faced with a fraudulent and dangerous state, which I am certain is going to fall in the elections of June 21, next week. And the country will enter into a process of accelerated recovery. The entire world has both the right and the duty to give its support to this government so that the country can move forward.

EIR: And your role, and that of your movement?

Bedoya: Colombian Force is a truly independent movement, perhaps the only independent movement the country has. It is a movement that is fighting against corruption, against violence, against misused political customs which are what governments have imposed every four years, without democratic alternatives for change. We are fighting all this.

I have offered Colombians a secure and ordered state, so that they can take the path toward the future, with dignity and with development. At this point, we have joined forces with the candidate of the Conservative Party, Andrés Pastrana, to put him into the Presidency of the Republic. And we will begin to address the serious ills the nation faces.

As a group, the Colombian Force Movement will continue, because it is an independent group. It has not fused with any other group, and it will continue to fight under the banners of dignity, of work, of justice, of order. These are the nationalist sentiments that I have been defending since the beginning of my campaign.

EIR: So, neither General Bedoya nor Colombian Force are going to disappear from the Colombian political scene?

Bedoya: No, absolutely not. They will continue, and are already consolidated, because we garnered, in a very difficult political campaign, 200,000 votes—beyond the millions of votes which, undoubtedly at the last minute, through the manipulation of the polls and the media, were siphoned off to other politicians.

EIR: You said that your movement is independent. According to information we have received, this independence is not only one of ideas and proposals, which have definitely given the drug traffickers and the narco-terrorists a headache. Colombian Force is also independent with regard to its finances, which is very different from other political campaigns in Colombia. And, that independence has now brought some financial problems to you and to Colombian Force. What is the situation?

Bedoya: The situation is that, for there to be electoral reimbursements, for the state to recognize some of the expenditures, you have to get at least 5% of the total vote in the last elections. I, my movement, won 1.84% of the vote. And so, there are no electoral reimbursements, and this has left me with a debt of approximately 500 million pesos, or some \$500,000.

So I owe this. I think that Colombians, and the entire world, are going to have to help me resolve this, because I am fighting against corruption, against the drug mafias, against international crime. That is the great campaign, the great enterprise which I have ordered and organized, but I have, unfortunately, not received the support, either nationally or internationally, for this great endeavor, which, after all, is a fight against the international mafias.

This campaign is what has allowed this country to be in the process of reordering itself. And I am certain that the June 21 elections, the election results, are going to be against the mafias. I feel victorious in this, because I fought a war without quarter for seven months, and I believe the results will soon be evident.

I call on my friends in the United States and internationally, as well as Colombians, to help me achieve this contribution, which is so important to resolve not only the problem of the debts I have, but so that this movement can continue into the future, truly independent of corruption and crime.

EIR: It is clear, as we noted at the beginning of this interview, that your voice is one of optimism, under very difficult circumstances. In that regard, I want to congratulate you, and thank you for having given us this opportunity to talk with you. Any final message for our readers?

Bedoya: Yes, my message is that, in this world, we definitely have to globalize ourselves, not just in the economic sense, but also globalize ourselves against the mafias, against corruption, against terrorism, which has no borders, and which operates as criminal organizations in Colombia just as it operates in any other part of the world. Therefore, we must unite. And the true democrats in the world, among whom I include myself, need to make many international alliances, because the world is made up of millions of inhabitants with whom we must find solidarity to live in peace, with order, and without violence and drugs. When all is said and done, that is the purpose of any citizen of the universe.

Peru cabinet shuffle makes IMF nervous

by Luis Vásquez Medina

During the first week of June, Peruvian President Alberto Fujimori fired Jorge Camet, the man who had served him as Finance Minister for seven years, during which time he faithfully enforced International Monetary Fund policy in the country. The cabinet reshuffling also included the sacking of the ultra-liberal Prime Minister, Alberto Pandolfi. At the same time, Fujimori announced that his government would invest more than \$600 million to help rebuild in those areas of the country hit hardest by harsh weather because of El Niño. In a further confirmation of this shift to heterodoxy, on June 22, Labor Minister González Izquierdo stated that “from now on, the government won’t intensify the privatization process.”

Predictably, these decisions have made the IMF extremely nervous. In a June 22 statement from Washington, the Fund warned, in diplomatic but nonetheless very clear language, that Peru should not by any means consider abandoning the neo-liberal, free-trade policies it has imposed since 1991.

EIR has learned, from reliable sources, that the Peruvian President has been very much affected by the collapse of the Japanese economy, and by what is happening to his close friend, Malaysian Prime Minister Dr. Mahathir bin Mohamad. Nor is there any escaping the harsh reality of Peru’s economic crisis, revealed in macroeconomic figures for the first few months of this year. In the first quarter of 1998, Peru’s Gross Domestic Product dropped by 0.5%; there was runaway inflation, and the national currency, the sol, had been devalued to the point of breaking the psychological barrier of 3 sols to the dollar. Outgoing Minister Camet had promised that this exchange rate would only be reached in mid-1999. Between January and March, the trade deficit reached the historically high level of \$906 million. The current account deficit of \$1.1 billion for the first quarter has already exceeded that for all of 1997.

IMF program on the ropes

As much as the radical monetarists deny it, these figures signify the unravelling of the IMF’s economic program. Barring some miracle, such as the unlikely possibility of a reversal in the Asian crisis, or the recovery of the world metals market on which Peru depends, the next few months

will see the country plunged into extreme crisis.

Not even foreign reserves, officially at \$10 billion, can alleviate the pressure against the sol, for the simple reason that this figure is a fictitious one. Forty percent is made up of bank reserve ratios and other obligations in foreign currencies, including funds from privatizations which entered the country on a one-time basis. What is actually available is no more than \$2.5 billion.

Some economists are predicting that a coming devaluation will be no less than 40%. As things are going now, by year’s end, the current account deficit will have reached the unprecedented level of \$3.5 billion, or 8% of GDP.

This crisis was not provoked by El Niño, as some allege. It is the result of the IMF’s economic model, based on the stupid theory of comparative advantage. Its application has transformed Peru into a net exporter of raw materials, while destroying production for the internal market in both urban and rural areas. As a result, Peru is now totally dependent on imports, including food. Moreover, deflation in the world commodities market has caused the cancellation of more than 75% of all the country’s mining projects, valued at \$7 billion. The agreements signed with the big international mining cartels were supposedly going to solve all of Peru’s economic problems.

On the financial side, the IMF model has created a \$6 billion internal speculative bubble which could blow up at any time. The rate of default and arrears in bank loans is approaching 30%. In the so-called “consumer” banks, largely Chilean-owned, the situation is even worse. These, for example, lent money to parents to purchase school supplies for their children, at interest rates of more than 150%!

A significant portion of this domestic speculative bubble is the private banks’ foreign debt. In the last two years, this has grown at rates of 200%, and is now at the astronomical figure of \$3.5 billion. Moreover, 70% of these supposedly “Peruvian” private banks are in fact owned by the British Commonwealth, through its Chilean and Spanish front-men. In the event of a sol devaluation, they would automatically go into bankruptcy. Given the rate of dollarization of the Peruvian economy (70% of the money supply), these banks would have no means of preventing a devaluation from affecting domestic prices. So, what has already occurred in several Asian countries would also be repeated in Peru: Everything gained through years of sacrifice to stabilize the economy, would evaporate in a matter of hours.

The stark reality portrayed by recent financial statistics appears to have had a sobering effect on President Fujimori, who is seeking reelection. But there is also pressure from the other side. Individuals such as Mont Pelerin Society ideologue Carlos Boloña, the fascist who also has his eyes on a run for the Presidency in the year 2000, says that President Fujimori must deal with the crisis by letting the laws of the market operate freely, and allowing an enormous devaluation of the sol.

Israel's 'Islamic' terrorist ties exposed

by Joseph Brewda

The director general of the Israeli Foreign Ministry, Eytan Bentsur, has publicly admitted that Israel has been in contact with the "Islamic fundamentalist" Taliban regime in Afghanistan. He has also admitted that Israel has been in touch with the former government forces of Burhanuddin Rabbani, which the Taliban overthrew in 1996, but which still control the northern third of the country. This previously secret contact has not only involved separate meetings with Afghan diplomats from both camps, in Europe, the United States, and Israel, but also the transfer of hundreds of thousands of dollars to the Taliban regime, for "humanitarian purposes." Bentsur told the London *Times* on June 18, that Israel is intent on ensuring that it has good relations with whoever ultimately controls the country.

Bentsur's confession follows a mid-June exposé on Israel's "Afghan card," in the *Foreign Report* of London, which says that Israel became involved in Afghanistan in 1991, with the intent of setting up intelligence bases along the border with Iran, to aid in launching a strike against Iran's nuclear installations. On behalf of that war plan, the report says, in recent months "Israel opened up two secret channels: the first with the previous Afghan government and the second with the present Taliban regime in Kabul," and that Israel "hopes that its Afghan ties will enable it to install listening devices and advanced spying equipment adjacent to the Iranian border." This report comes as the U.S. Zionist lobby continues to condemn the Clinton administration for attempting to improve relations with Iran, a nation that is supposedly "only months away" from acquiring nuclear weapons.

In a related deployment, Israeli Prime Minister Benjamin Netanyahu has been trying to build up Israel's presence throughout Central Asia. According to the Saudi daily *Hayat*, Netanyahu is currently attempting to mediate between Tajikistan and Rabbani's forces across the border in Afghanistan, which are largely composed of ethnic Tajiks. Also, Netanyahu met with Uzbek President Islam Karimov in Tashkent in May, to discuss Afghanistan and Iran, among other matters. The possibilities for outside meddling are great. Tajikistan and Uzbekistan, as well as Iran, have repeatedly warned about the dire effects the continuing war in neighboring Afghanistan is having on their nations, and the region as a whole.

While British and Israeli coverage of these revelations focus on Israel's ambition to open up a new eastern front against Iran, and Arab coverage has emphasized the new evi-

dence of Israeli penetration into oil-rich, Muslim Central Asia, the exposé's greatest importance is in further demonstrating Israeli patronage of "Islamic terrorism." Far from being something new to the region, as these papers have reported, Israel's involvement in Afghanistan dates back to at least 1980, when Britain and the United States gave Israel a franchise to train "Afghan mujahideen" who were fighting Soviet occupation.

How terrorism really works

Following the 1988 Soviet pullout from Afghanistan, these mujahideen "freedom fighters" were found to be expendable, and were dumped onto the job market—in the process, they were reclassified as "Islamic terrorists." About 10,000 of the mujahideen were Arab volunteers, who drifted back to North Africa and the Mideast, where many were recruited into indigenous "Islamic terrorist groups." But, the network as a whole remained under British, Israeli, and others' control—whatever its dupes might think—and constitutes the backbone of the British-run "Islamic terrorist international" today.

These mujahideen veterans are also the core of the military forces of the deposed Afghan government of Rabbani, and the Taliban forces which replaced him. For such reasons, Afghan regions under Taliban control remain an important base of operations for the "Islamic terrorists" whom Britain uses to destabilize the Mideast, West Asia, and the Indian Subcontinent. They also give Netanyahu a pretext to justify his sabotage of the Oslo peace accord.

To this end, Afghanistan has become the headquarters for the main funder of this new "Islamic terrorist international," Saudi billionaire Osama bin Laden, who, with his uncle, the late Salim bin Laden, first began bankrolling the Afghan mujahideen back in 1980, at the request of British Prime Minister Margaret Thatcher and U.S. President George Bush. From his hideout in the mountains of southern Afghanistan—and occasionally from his fashionable estate in Wembley, England—bin Laden routinely calls for the murder of U.S. servicemen, and the assassination of President Bill Clinton. Bin Laden has taken credit for car-bomb attacks against two U.S. military bases in Saudi Arabia, in 1995 and 1996, which together killed more than 20 U.S. soldiers.

On June 10, in an ABC-TV interview broadcast from Afghanistan, bin Laden called for killing Americans worldwide, prompting the U.S. State Department to issue a travel alert. Two days later, he ordered new anti-American terror attacks.

Among the major beneficiaries of bin Laden's largesse are Hamas and Islamic Jihad, whose 1996 Jerusalem bus-bombing spree paved the way for Netanyahu's election as Prime Minister in the spring of that year. Informed observers see in Netanyahu's Afghan doings, new signs of an upcoming Israeli "Islamic terrorist offensive," to finish off the Oslo Accords, once and for all.

Rwandans appeal to Organization of African Unity to help restore peace

The following “Appeal to the OAU to Restore Peace and Security in Rwanda” was issued by Rwanda’s Rally for the Return of Democracy and Refugees (RDR), over the signature of its President, François Nzabihimana.

Brussels, May 21, 1998

His Excellency Mr. Blaise Compaoré
President of the Republic of Burkina Faso
Current Chairman of the OAU
Ouagadougou, Burkina Faso

cc. Heads of State and Government of OAU member countries

Your Excellency, Mr. President:

Our organization, the RDR, is a political rally of Rwandan citizens resolutely committed to the rule of law in Rwanda and to democracy, as the basis for true reconciliation, and lasting peace and development in our country. We have repeatedly condemned the genocide carried out against Tutsis, as well as the ongoing genocide of Hutus. We have demanded that the authors of crimes of genocide, of crimes against peace and humanity, and of human rights violations, regardless of their positions or ethnic group, be identified and forced, each individually, to answer for their acts. In our view, the International Court for Rwanda is the only appropriate framework to try those responsible for such crimes. The purview of this court should be extended so that it may try not only crimes against humanity, as defined in Resolution No. 955/1994 of the United Nations Security Council, but also, beyond the limits of its statutes, crimes against peace and war crimes. Our organization, the RDR, consistently urges all Rwandans to honor the memory of all the victims of the Rwandan tragedy, without exception, and to avoid exploiting, for political purposes, the ordeals that have created such sorrow for the Rwandan people and their families, as well as for all of humanity. Thus, we address this memorandum to you, as a call to all heads of state and government of the OAU countries, requesting you to undertake a major initiative to save peace in Rwanda, in order to prevent the total disintegration of our violence-torn country.

1. Understanding the Rwandan conflict

Wars against the population and genocides in violation of international law.

To date, Rwanda has lost 40% of its population through crimes against peace and against humanity, in a war declared against the population. As of July 1994, over half the population, i.e., nearly 4 million people, were either dead, displaced within the country, or refugees abroad. Figures released by the Census Bureau of the Interior Ministry of the RPF [Rwandan Patriotic Front] government show that, at the end of 1994, 2,101,250 people had died as victims. Estimates made in mid-1997 brought the figure up to 3,150,000 deaths, which include both victims of genocide—including refugees in Zaire—and of the many different massacres, such as in Kibeho in April 1995. This extermination policy has continued—meeting only silence from the international community, contrary to the Convention for Prevention and Repression of the Crime of Genocide of Dec. 9, 1948—since the peace agreement was broken subsequent to the RPF’s war of aggression against Rwanda launched from Ugandan territory on Oct. 1, 1990.

With support from the Ugandan authorities and with the personal complicity of President Museveni, then Chairman of the OAU, this war laid the basis for a dramatic chain-reaction of unprecedented violence. Crimes against peace and against humanity were committed, and impunity was institutionalized, in defiance of international law. Thus, both the UN Charter signed on June 26, 1945 in San Francisco, and the OAU Charter of May 25, 1963, have been trampled on since 1990. As you know, these Charters demand equal sovereignty for states and non-intervention into the internal affairs of member-states, and unreservedly condemn subversive activities on the territory of sovereign neighbor states. Ugandan support for the RPF war of aggression in Rwanda was in breach of the OAU Convention of Sept. 10, 1969, concerning specific aspects of the refugee problem. This Convention clearly calls on member-states to “forbid refugees residing in their respective territories from attacking an OAU member-state with use of arms, or media methods likely to create tensions among member-states.” According to Clause 102 of the United Nations Charter, these African Conventions are an integral part of the international law so flouted. The Rwandan conflict, which has spread into all of the Central African region, is thus outside of international law.

Today, overwhelming evidence is increasingly being turned up, proving how treacherously the RPF army tried to cover up its responsibility in the genocide of April 1994. The evidence particularly concerns the shooting down on April 6, 1994, of President Habyarimana’s plane, which was also

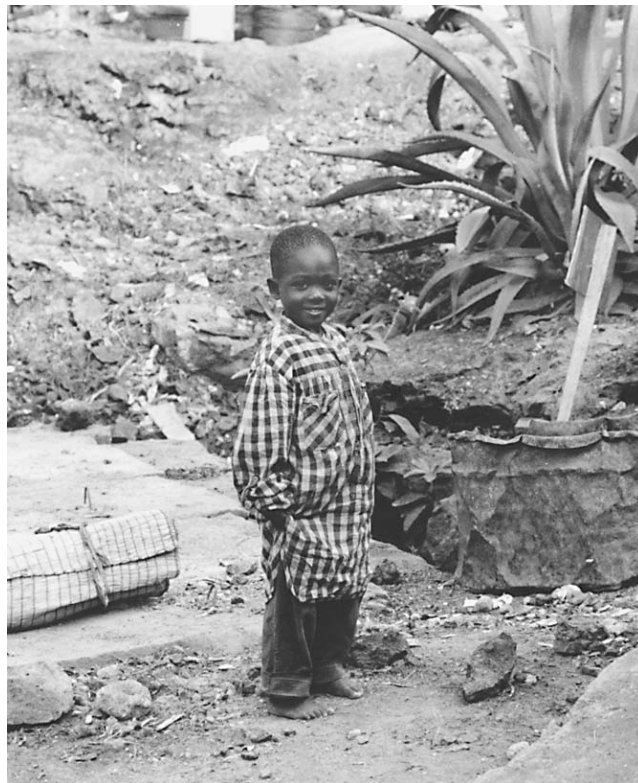
carrying his Burundian counterpart Cyprien Ntaryamira, as well as their closest aides and the French crew. Available reliable testimony points to the RPF and their accomplices as having planned and carried out the attack, in defiance of the peace agreement signed in Arusha on Aug. 4, 1993. In the opinion of the UN Commission on Rwanda, in Report S/1994/1405 of Dec. 9, 1994, this attack “sparked off serious, premeditated violations of human rights, including systematic, generalized, blatant violations of humanitarian international law, crimes against humanity and acts of genocide.” It is outrageous that this genocide be shamelessly exploited by the very RPF regime that is largely to blame for setting it off.

A strategy for taking power carried to extremes.

We recall that in 1990, the problem of Rwandan refugees was in the process of being solved. The UN High Commission for Refugees and the OAU General Secretariat, who took part in the relevant negotiations, are privileged witnesses to this undeniable historical fact. Ex-Ugandan Prime Minister E. Kategaya stated on Oct. 3, 1990, before the Ugandan Parliament, that his government “had worked together with the Rwandese government to find a political solution for the large population of Rwandese refugees, and that the last meeting, held in Kigali during July 27-31, had led to promising paths toward a solution.” So it is permitted to deny the legitimacy of the October 1990 war, which the media attempt to portray as a war of refugees fighting for their legitimate, inalienable right to return to their country. This war against the Rwandan people was rather conceived of as a strategy for taking power by stirring up extremism.

Apologists for the Kigali regime continue to impose upon public opinion the Manichean view that the RPF is the “nice liberator” that went to war to stop genocide. To spread this lie, paranoia is even allowed to take precedence over facts, and inordinate importance is given to certain isolated elements that are systematically deformed. In this way, the 1994 genocide gave the RPF unlimited credit, or a blank check, with which they can justify all past and present atrocities for which they carry obvious political and criminal blame. This is also true with respect to the genocide of Rwandan and Burundian refugees in ex-Zaire. International and Congolese human rights organizations possess proof of the genocide. In a report dated April 2, 1997, (E/CN.4/1997/6/add.2), the High Commissioner’s special envoy on Human Rights, Roberto Garreton of Chile, spoke of crimes of “collective privation of life.” This is an understatement for what must be called “genocide,” according to the terms of the Convention for the Prevention and the Repression of the Crime of Genocide of Dec. 9, 1948. Mr. Garreton mentions over 50 precise places in his report and lists the facts about this genocide, which was characterized by “premeditated massacres, dispersal of refugees toward inhospitable areas, systematic blocking of humanitarian aid,” etc.

In July 1997, a UN mission, including Mrs. Bacré Wanly Ndiaye from Senegal and Jonas Foli from Ghana, respec-



A Rwandan refugee in Goma, Zaire, 1994. The Rally for the Return of Democracy and Refugees charges: “Under the cloak of banalizing war and genocide, the Rwandan Patriotic Front is escalating its war against the population, with a view to eliminating any potential opposition to its ethno-fascist regime.”

tively, rapporteur for summary executions, and expert on forced disappearances, in addition to Roberto Garreton, examined over 100 cases of massacres, torture, rape, plundering, and serious violations of human rights. All these violations, according to the experts, had “a systematic character, as products of prior preparation.” We know that nighttime flights of armored C-130 gunships, armed with rocket cannons, raked refugee camps, killing thousands of innocent people. These crimes were admitted to by General Kagame in an interview with the *Washington Post* of July 9, 1997, where he claimed credit for Mr. Kabila’s victory. Arrogantly presenting Mr. Kabila as a pawn, Kagame claimed he had planned, well before October 1996, the AFDL [Kabila’s] forces’ military offensive and then put it into effect. Given the triple objective of dismantling the Hutu refugee camps, destroying the structure of the militias and overthrowing Mobutu, the AFDL forces “were not able to do it alone.” On the same occasion, Kagame announced that the United States had taken “the wise decision of letting him act.” So, there can be no doubt that the AFDL and the RPA [Rwandan Patriotic Army] coldly implemented a deliberate strategy of exterminating Rwandan and Burundian refugees, and the international community knew it. Although the United Nations team investigating mas-

sacres of refugees in ex-Zaire is blocked by the Kinshasa regime and has not been able to conclude its report, the facts are there and the genocide has been documented in ample eyewitness accounts.

A moral systemic crisis, more a political than an ethnic problem.

General Kagame, RPF president, Rwandan Vice President, Defense Minister, Commander-in-Chief of the Armed Forces, and, because of these several positions, the true “strongman of Rwanda,” described these genocidal “events” as a “wind of change,” when he was invited to the European Parliament in mid-January 1998. The loss of so many human lives, he said, was “the price to pay for eradicating the evils that deprived our societies of a positive direction.” This triumphalist perception only shows his inability to understand the tragedy which has changed the future and the history of our country, of Africa and of all of humanity. By approving the genocide of a people in this way, Kagame banalizes the absurdities of a total war against a people. He finds an odious justification and sublimates the suffering of an entire people by building it up into a cardinal virtue. A nation has been destroyed, communities have disappeared, and Kagame dismisses this permanent loss for humanity, as part of “positive direction.”

Our organization knows that, under the cloak of banalizing war and genocide, the RPF is escalating its war against the population, with a view to eliminating any potential opposition to its ethno-fascist regime. This has led to large-scale massacres, political assassinations and “disappearances,” especially of those refugees recently forced back to Rwanda, who were persecuted and deported in “death convoys,” in violation of the 1951 Geneva Convention on Refugees. All types of deprivations go on in the prison death-houses, overpopulated by 130,000 inmates who are crammed in, four per square meter, and of whom only one-third have even been booked with a record of charges. Many of these prisoners stay and die in jail simply because their property has been seized by members of the RPF, the RPA, its Abakada militia, or protégés of the regime. Many of those who survived the genocide and the massacres, just because they did manage to survive, are humiliated and slandered as being close to dignitaries of the old regime, and accused of trying to appear harmless.

Specialists of our country’s history and the majority of the Rwandan people know that the Inkotanyis, the name deliberately chosen by the RPF to attack Rwanda, were an infamous militia whose history goes back to the 19th century. This militia, well known for their atrocities and vandalism, helped consolidate a reign of over 40 years of violence, between 1850 and 1895, within the country and against neighboring countries. Then King Rwabugiri undertook several military campaigns as wars of aggression against Burundi, Tanzania, Uganda, and the Congolese province of Kivu, and at the same time put down popular uprisings within Rwanda.

Analysis of the major conflicts in Rwanda’s history leads one to state, without the slightest doubt, that all the tensions in Rwanda are of a political nature, whereas the problem of ethnic groups is only secondary, but an aspect which is often made use of in furthering the fundamental problem: a just, fair sharing of political, economic, and cultural power, as well as social justice. This analysis is valid for what happened during the famous social revolution of 1959, as well as for today.

History, and perhaps the International Court for Rwanda in Arusha, will establish the accuracy of this important fact, doing justice to the entire Rwandan people, whose different ethnic groups have been the victims of a collective guilt campaign by perfidious manipulations of public opinion. Indeed, if the Rwandan conflict is fundamentally ethnic in nature, how can it be explained that the president of the infamous Interahamwe, Robert Kajuga, was one of the hundreds of young Tutsis belonging to this militia, whereas the president of the RPF, Alexis Kanyarengwe, and many of his collaborators, including the current President of the Republic, Pastor Bizimungu, are Hutus? Similarly, the campaign of collective slander against all “ex-dignitaries of the Habyarimana regime,” of whom many are in the present RPF-dominated government, is unfounded and serves a perfidious purpose.

However, a certain racist, fascist ideology continues to see the ethnic factor as the underlying element of the Rwandan problem, presenting Hutus, Tutsis, and Twas as animal species, separate from the rest of humanity, born and genetically predestined to destroy one another. This is a revisionist attempt to revive racism and the ideology of “inequality of the races.” Thus, in the far-right circles, there is a comeback of ideas opposed to human progress of the black people, that deny them the capacity to think and to be rational. The advocates of Hegel and various other Arthur Gobineaus speak once again of an “ahistorical” Africa, a “total prisoner of the natural spirit,” unable to advance and develop. This is not very far from the roots of Nazism, which justified the extermination of the Jews by claiming outright that “the Semitic race, compared to the Indo-European race, really represents an inferior type of human nature.”

According to an account published in the newspaper *The Shariat*, Ugandan President Yoweri Museveni reportedly gave away the secret of what is happening in Central Africa, when he stated, on April 4, 1997, that: “[his] mission is to see Eritrea, Ethiopia, Sudan, Uganda, Kenya, Tanzania, Rwanda, Burundi and Zaire become federal states under one nation. . . . As Hitler did to bring together Germany, we should also do it here. Hitler was a smart guy. . . .” We have good reason to believe that the RPF is deeply motivated by this kind of ideology. Exalted by their militaro-fascist power, the RPF criminally takes advantage of the apathy of an international community, which is paralyzed by guilt because of its failure to assist people endangered by the genocide. This is, in turn,

exploited by the RPF in order to export their strategy of war to other African nations. They plan to upset the geostrategic realities in Central and Eastern Africa, and beyond. The Secretary General of this Front, Denis Polisi, stated on June 15 in Brussels, that "Rwanda has become a centerpiece in the region" and that "nothing will be done without going through" the RPF. He added that "Rwanda has just solved the problem of Zaire and is getting ready to solve others in the region." What hegemonist arrogance!

2. Glimmers of hope persist

It may be safely stated that, until October 1990, ethnic groups were starting to be significant only with respect to socio-ethnic tradition and family accounts. Following the democratic process sparked by the 1989 collapse of the communist system, a great majority of the Rwandan people started to opt for human rationality. A certain mobilizing faction wanted to replace the violent ethnic-based policy by a process of dialogue within a pluralist, democratic society. This faction held that the ethnic issue is not synonymous with backwardness, anarchy, or withdrawal into one's identity. Examples such as Scotland or Catalonia can serve as models to prove that ethnicity does not necessarily feed into disunion. Just as with other African ethnic groups, spread out over several countries and across border areas, it was excluded that our people should consider the Rwandan nation in terms of ethnic criteria. The countless interethnic marriages in Rwanda give ample proof to this fact, so often deformed by propaganda in the media. In spite of the intense violence wreaked upon them, the majority of the Rwandan people continue to reject the creation of a "Hutuland" or a "Tutsiland" in Rwanda; these concepts are indeed similar to apartheid, a crime against humanity, against which our people will fight with determination to save their integrity. This majority of the Rwandan people want reconciliation in order to build a pluralist society of solidarity, of sovereign, free men and women, which maintains constructive, friendly relations with the regional and international community.

Our organization, the RDR, which is among the best representatives of those holding this opinion, asserts that a nation is characterized not by ethnic groups or languages, but by a community of ideas, interests, affections, memories and hopes. We think it is criminal to revive a kind of Hitlerian "pan-Germanism," which would "measure the skulls of people" and then tell them "you have our blood, you belong to us." We share and respect the spirit and the letter of the OAU Charter and the African Human Rights and Peoples' Charter which were adopted by the different legislative bodies of our country. Taking inspiration from the Universal Human Rights Declaration, these charters hallow the principle of the sovereignty of peoples and citizens, including their inalienable right to only obey a government democratically elected by the people, which is our ultimate demand.

3. Acting to save peace in Rwanda

We hope the OAU will answer our urgent appeal to support our efforts, as regards this existential challenge for our people and for all of humanity, which is a disgrace for Africa. We say that propaganda will not solve the Rwandan conflict. The solution can only be based on the truth about everything that contributed to igniting this conflict. The causes and effects of the Rwandan tragedy are better understood by analyzing the entire complex network of causes and effects linked to the breakup of peace through the war of aggression against Rwanda undertaken from Uganda in October 1990. It is the aggressor who has taken power in Rwanda, not with the ballot boxes, but by force of arms. This aggressor has lost all credibility since the attack that claimed the lives of Rwandan President Habyarimana and Burundian President Ntaryamira, on the evening of June 4, 1994, triggering genocide and a chain-reaction of deadly violence, for which he carries enormous blame.

The international community in general and UN and OAU member countries in particular, who failed to meet their obligations, including that of taking "measures necessary for maintaining and establishing international peace and security" in Rwanda and in our region, could still change their attitude and once again give hope to the Rwandan people and humanity. The Rwandan people will thank you for your contribution to the search for a lasting political solution, guaranteeing the rule of law, the truth about the Rwandan tragedy, justice and democracy, which are the bases for true reconciliation and lasting peace and development in Rwanda. Concretely, we request you to use your powers of Chairman of the Organization of African Unity, so that the following goals might be met during this next term:

1. Rwanda be put back on, and kept on, the list of countries managed by the OAU's Central Mechanism for conflict prevention, management and resolution;
2. Genocide and massacres of the Rwandan people be permanently stopped;
3. Unreserved condemnation of the genocide against Rwandan and Burundian refugees in Congo ex-Zaire;
4. Maintaining and increasing effective, urgent humanitarian efforts for survivors of the genocide and massacres in Rwanda;
5. Protecting, aiding, and not expelling Rwandan refugees seeking exile in various African countries;
6. Diplomatic support for a political settlement of the conflict and mediation towards the opening of negotiations between the RPF-dominated Rwandan government and different opposition groups, in view of restoring constitutional legality and democratic institutions in Rwanda.

With our deepest gratitude for your intervention to save peace in Rwanda, we extend to you, Mr. President, our respect.

International Intelligence

House of Windsor sends documents to the shredder

The *Sunday Times* of London reported on June 22 that much of the personal correspondence of the Queen Mother has been destroyed, under orders from her younger daughter, Princess Margaret. Such correspondence is usually not destroyed, and is kept at the royal archives. The letters destroyed date from the last ten years. The newspaper points out that these were not simply thank-you notes, but substantive correspondence, and that the last ten years has been the most controversial for the royal family.

Although details of what was destroyed are not given, it is known that the Queen Mother corresponded with Princess Diana, whose grandmother, Lady Ruth Fermoy, was the Queen Mother's closest friend of until Lady Fermoy's death in 1993.

Among others with whom the Queen Mother corresponded were Sir Fitzroy Maclean, the Balkan expert; Lord Runcie; Lord Coggan; Lord and Lady Callaghan; and Lord and Lady Carrington.

As reported in Kitty Kelley's 1997 book *The Royals*, the Queen Mother, 97, has long been the custodian of secret family documents, including those pertaining to the House of Windsor's pro-Nazi proclivities both before and during World War II. (See Scott Thompson, "The Immorality of the House of Windsor," *EIR*, Nov. 28, 1997.)

Trial begins for mayor of Tehran

Tehran Mayor Gholamhossein Karbaschi has gone on trial in Iran's capital city, on charges of embezzlement, fraud, and mismanagement of funds. According to wire reports, Karbaschi has been very aggressive in defending himself, and lashed out at the judge, accusing him of improper questioning.

Informed observers expect that Karbaschi will be found guilty, but that the sentence (maximum ten years, a fine, and a ban

on public activities) may be mitigated. President Mohammed Seyyed Khatami has emphasized the importance of treating all citizens as equals before the law, to ensure the rule of law. As mayor, Karbaschi had reportedly granted small bonuses to those of his associates who were particularly efficient in implementing his plans for mass housing units, reorganizing city infrastructure and services, and building parks and recreation facilities for youth.

Karbaschi was arrested and detained in April, and released on bail following the intervention of the supreme authority in Iran, Ayatollah Khamenei. Karbaschi is a leading member of the Rafsanjani-Khatami political current associated with reconstruction and political reform.

Experts report effects of sanctions against Iraq

On June 12, Peter Pellet, a professor in the Department of Nutrition at the University of Massachusetts, presented evidence on the effects of the sanctions imposed on Iraq, starting with its invasion of Kuwait in 1990. He spoke at a panel discussion at the Middle East Institute in Washington, D.C.

Pellet has long experience in Iraq from the mid-1960s through 1989, and has served on three UN Food and Agriculture Organization missions to Iraq since the Gulf War, the most recent in 1997. He reported that random surveys conducted on all three missions showed severe deficits in children—measured for weight for age, height for age, and weight for height—as a result of sustained undernourishment; in 1989, by contrast, the nutritional profile for children in Iraq was very close to international standards. Five times the number of adults now show signs of severe undernourishment than in Tunisia, which has a nutritional profile similar to that of the pre-Gulf War Iraqi population.

Pellet's conclusions were backed up by Raymond Janssens, head of the Middle East-North Africa desk at Unicef. Aside from reporting on increased infant, under-five, and maternal mortality rates, he

stressed that the nutritional effects of the sanctions come not only from insufficient food, but also from the totality of the destruction of the economic infrastructure; he particularly pointed to that related to public health, such as water supply, sanitation, and sewage disposal, and electricity availability, all of which play an important role in preventing the spread of infectious diseases and the ability to combat them. He reported that only 50% of people in rural areas have access to safe drinking water. The incidence of typhoid, a waterborne disease, has increased from 2,000 cases in 1991 to 27,000 cases in 1997.

In 1990, Iraq had achieved universal primary education. Now, 20% of six-year-old children don't even enter school, and there has been a general deterioration of education in the country.

Judge's sacking reopens Robert Maxwell mystery

The Spanish judge who ruled that the death of British media magnate and intelligence agent Robert Maxwell on Nov. 5, 1991 was an accident, has been fired by the Spanish government because of mental illness, the London *Guardian* reported on June 20. Judge Isabel Oliva had been put on trial twice and investigated for incompetence. Spain's highest judicial authority declared her unfit to serve on the bench because of "permanent incapacity."

Maxwell ostensibly drowned after falling off his yacht, which was in Spanish territorial waters. The investigation was handled incompetently and Oliva declared his death an accident. Her ruling had two consequences. By not declaring it a suicide, Maxwell's life insurance was paid out. And, by not declaring it murder, a possible trail to British intelligence or other intelligence authorities was neatly covered up. Maxwell was known to have been an intelligence operative working variously for the British, Israeli, and Soviet services. The collapse of his \$3 billion media empire has yet to be fully explained. It is believed that he had strong ties to the Russian mafia.

THE ISRAELI government has agreed to allow Hamas leader Sheikh Ahmed Yassin to return to Gaza, following a two-week fundraising trip to the Persian Gulf. The sheikh reportedly raised tens of millions of dollars for his terrorist group. The London *Daily Telegraph* chuckles that since Yassin's release from prison, Hamas has become a "state within a state" in the territory controlled by Yasser Arafat.

THE KOSOVA Liberation Army, a guerrilla group, called on June 20 for a "general mobilization" of Kosovars and "a decisive confrontation" with Serbia. On June 19, Ibrahim Rugova, a leader of a peaceful political movement for Kosovo's independence, expressed his concern at the guerrillas' activities for the first time, saying that the group should be brought "under control" of ethnic Albanian political groups.

INDONESIAN President B.J. Habibie pledged on June 20 to free imprisoned Fretilin rebel leader José Xanana Gusmao, if the world recognizes East Timor as "an integral part of Indonesia." Former colonial ruler Portugal immediately rejected the offer, as did Nobel Prize laureate, Fretilin separatist leader José Ramos Horta.

VIETNAM has declared that India, as a nuclear power, will contribute toward global and regional stability. The Vietnamese leadership told visiting Indian Minister of State for External Affairs Vasundhara Raje that it fully understood New Delhi's decision in going ahead with the tests.

ERITREA has called for an international peacekeeping force to come into the territory disputed by it and Ethiopia, Yaman Gebre Meske, adviser to Eritrean President Isaias Afwerki, said on June 14. The call for a peacekeeping force is in line with demands for such a force to intervene at various points in East Africa, coming from Ugandan President Yoweri Museveni.

The *Guardian* expects that calls for reopening the investigation could be made following this development.

Shortly before Maxwell's death, in 1991 a book was written by Seymour Hersh, titled *The Samson Option, Israel's Nuclear Arsenal and American Foreign Policy*, which charged that Maxwell had conspired with the Israeli Mossad to kidnap and silence Mordechai Vanunu, an Israeli engineer employed at the super-secret Dimona nuclear weapons plant in the Negev Desert. Vanunu had appeared in London in 1986, offering to "tell all" about the Israeli nuclear weapons program. When Maxwell's died, there was speculation that his death might have had something to do with this affair. (See Jeffrey Steinberg, "Exposé of Israeli Nuclear Arsenal Raises Urgent U.S. Policy Questions," *EIR*, Dec. 6, 1991.)

Will 'Indonesia crisis' come to Kuwait?

Kuwait may be headed for a crisis like that which destabilized Indonesia, according to an article in the German daily *Frankfurter Allgemeine Zeitung* on June 9, by Cairo-based correspondent Wolfgang Koehler. Reviewing the debate in the Middle East and Persian Gulf, around the implications of the Indonesia crisis for the region's autocratic leaders, Koehler wrote that even Egyptian President Hosni Mubarak is trying to assure his people that the economic situation of the country will remain stable.

Koehler pointed to the oil-rich Gulf countries as being vulnerable, given the economic crisis they are being hit with because of the falling price of oil. He cited the Deputy Prime Minister of Kuwait, Sheik Sabah al Ahmad al Sabah, who warned that Indonesian-style events could hit Kuwait if the government does not act to reverse the revenue collapse and consequent budget deficits. The Iranian news service IRNA reported on June 15, that a conflict had broken out between the Kuwait parliament and the government. The parliament is demanding that the Interior Minister face questioning, regarding his apparent inability to fight crime and drug

abuse. The report says that the parliament could be dissolved and new elections could be held within two months. IRNA also noted rumors that the United States had intervened, to prevent escalation of the crisis, something which the Kuwaiti Foreign Minister flatly denied.

Saudi Arabia is also being hit hard by the oil price collapse. Both Saudi Arabia and Kuwait paid out billions of dollars during the Persian Gulf War, and are still being prevailed upon to finance the presence of U.S. troops in the region. As a result of the squeeze, inhabitants of the sheikhdoms, who are accustomed to subsidized medicine, housing, and a tax-free existence, are now being subjected to austerity measures.

Did Israel explode a nuclear bomb?

Israel's Deputy Defense Minister Silvan Shalom was asked in the Israeli Knesset (parliament) whether Israel had detonated a nuclear device in Eilat Bay, the newspaper *Ha'aretz* reported on June 18. The question was asked by Labor Party Knesset member Rafi Elul, who claimed that the International Atomic Energy Agency (IAEA) had reported that such a blast took place on May 28, causing an earthquake.

Shalom at first refused to answer the question, then later issued a denial. He said, "Elul's statement is groundless and completely lacking a factual basis. Israel is a signatory of the International Nuclear Test Ban Treaty. That is a commitment Israel upholds, and it calls on other countries to join the Treaty."

An Arab Israeli source told *EIR* that the origin of the report is an Egyptian professor who claims that this was not the first such test, and that the IAEA or the Comprehensive Test Ban Treaty Organization, both based in Vienna, have been investigating the allegations. The source says that the Egyptian government has taken up the issue, and will bring it up for discussion at the July 22 meeting of the Arab League.

A spokesman for the IAEA, contacted by *EIR*, denied the report.

Brawl over U.S. Justice Dept. corruption spills into Canada

by Jeffrey Steinberg

The fight to clean out rampant corruption in the permanent bureaucracy in the U.S. Department of Justice has spilled over into Canada. A coalition of Ukrainian and other eastern European community activists, civil rights groups, and opposition members of the Canadian House of Commons has launched an effort to remove former U.S. Department of Justice official Neal Sher from his position as senior consultant to the Canadian Justice Department's war crimes unit. During 1983-94, Sher was the director of the U.S. Justice Department's Office of Special Investigations (OSI), the so-called Nazi-hunting unit. For two years after he left the U.S. Department of Justice, Sher was executive director of the American-Israeli Public Affairs Committee, the semi-official Israeli lobby in the United States, and a group that has been investigated by the Federal Election Commission for illegal funding of candidates. He is now a partner in the Washington law firm of Schmeltzer, Aptaker & Shepard.

Sher had started working at OSI in 1979, the year the unit was established by the U.S. Congress. During his tenure as OSI chief, the unit came under intense scrutiny by Congress, the media, an independent commission sponsored by the Schiller Institute, and the U.S. Sixth Circuit Court of Appeals—all, as the result of a series of high-profile cases in which OSI prosecutors were found to have committed a host of crimes, including fraud upon the court, systematic suborning of perjury, and withholding of exculpatory evidence from defendants.

The most famous case of prosecutorial misconduct by the OSI under Sher, was against John Demjanjuk, a Ukrainian-born retired auto worker from Cleveland who was falsely accused of being the Treblinka, Poland concentration camp gas chamber operator "Ivan the Terrible." All the while that Sher et al. were working toward Demjanjuk's denaturaliza-

tion and extradition to Israel, to stand trial for war crimes, OSI had evidence in its possession that Demjanjuk was innocent of the charges.

Demjanjuk was convicted in Israel on the basis of OSI "evidence," primarily forged documents supplied by the Soviet KGB. After he was sentenced to death by hanging, the Israeli Supreme Court overturned his conviction, when more evidence was gathered showing that he was innocent. The Sixth Circuit U.S. Court of Appeals reopened the U.S. case against Demjanjuk, restored his citizenship, and harshly criticized the OSI for perpetrating fraud upon the court.

The Demjanjuk case was raised again in May in Canada, as a central feature of the drive to dump Sher from his lucrative consulting post with the Canadian government.

McDade-Murtha parallel

It is precisely the kinds of prosecutorial abuse for which Sher stands accused, that prompted Reps. Joseph McDade (R-Pa.) and John Murtha (D-Pa.) to introduce the Citizens Protection Act of 1998, a bill now awaiting action by the U.S. House Judiciary Committee. The McDade-Murtha bill would create a permanent oversight body, outside the Department of Justice, to investigate allegations of crime by DOJ prosecutors and other employees, and to determine whether the cases should be referred for criminal prosecution. The bill itemizes a number of the most egregious crimes that are committed frequently by Federal prosecutors, in their zeal to win convictions or guilty pleas from defendants who, in an increasing number of cases, are targeted because of their racial or political beliefs. The McDade-Murtha bill now has more than 170 co-sponsors, and there is a groundswell of support from all across the United States for the House Judiciary Committee to hold extensive public hearings on the crimes of the Justice

Department (see article, p. 66).

The drive for hearings on the McDade-Murtha bill is not the first time in recent years that the criminal misconduct of the DOJ permanent bureaucracy has caused a public outcry. On Aug. 31-Sept. 1, 1995, the Schiller Institute sponsored independent hearings into the pattern of abuses by the DOJ. The action was taken after the U.S. Congress failed, on several occasions, to follow through on commitments to take on the growing pattern of prosecutorial abuses by the Federal government—even after the slaughter of 86 people in Waco, Texas by Federal agents.

The Schiller Institute independent hearings were co-chaired by former U.S. Rep. James Mann (D-S.C.) and noted civil rights attorney JL Chestnut, and focussed on three patterns of DOJ abuse: “Operation Fruehmenschen,” the DOJ-FBI campaign against African-American elected officials; the railroad prosecution of Lyndon LaRouche and a score of his political associates, a case former U.S. Attorney General Ramsey Clark has described as the most outrageous instance he has ever encountered, of systemic abuse by Federal prosecutors; and the crimes of the OSI, particularly the fraudulent prosecution of Demjanjuk and the persecution of Austrian President Kurt Waldheim.

The Sher controversy

As noted, it was the abuses by the OSI, particularly in the Demjanjuk case, that helped spark the revolt against Sher in Canada. On Jan. 31, 1995, the Canadian Minister of Citizenship and Immigration, Sergio Marchi, and the Attorney General-Minister of Justice, Allan Rock, announced that Canada was intent on revoking the citizenship of and deporting four Canadian citizens accused of committing crimes against humanity during World War II. The ministers said that Canada had overhauled its strategy for dealing with alleged war criminals, adopting the revocation/deportation approach long employed by the OSI in the United States.

On Dec. 12, 1997, the new Attorney General-Minister of Justice, Anne McLellan, announced, in a joint press conference with Minister of National Defense Art Eggleton, that the Canadian government had hired Sher to act as a paid adviser to the war crimes unit. Since the 1995 announcement by Machi and Rock, the Canadian unit had opened 14 new cases.

Sher's appointment was hailed by the Canadian Jewish Congress (CJC), the Canadian branch of the World Jewish Congress, headed by Seagrams Corp. boss Edgar Bronfman, who is also a national commissioner of the Anti-Defamation League of B'nai B'rith (ADL). The WJC, along with the ADL, have served for years as liaisons between the Israeli government and Israeli intelligence, and the various “Nazi-hunting” units in the United States, Canada, Great Britain, Australia, as well as with Soviet bloc intelligence agencies, prior to the collapse of the U.S.S.R. The Sixth Circuit Court ruling overturning the Demjanjuk denaturalization, singled out the ADL for harsh criticism. The group was cited by the court

for conducting a public relations campaign for Demjanjuk's conviction that emboldened OSI prosecutors to violate the law, and of paying a senior OSI official, Alan Ryan, to make a high-visibility trip to Israel on the eve of the Demjanjuk trial, which the court viewed as an attempt to interfere in the proceedings.

The ‘Nazi-hunter’ and the terrorist

The CJC boasts of its role in the war crimes prosecutions by the Canadian government. A recent CJC news release, from its Committee on War Criminals, states: “The issue of Nazi war criminals is a top priority of Canadian Jewish Congress. CJC had standing before the Deschenes Commission of Inquiry on War Criminals in Canada in 1986. Active liaison was maintained with the Justice Department during implementation of a major recommendation of the Deschenes report by passing a bill permitting trials of suspects of war crimes and crimes against humanity in Canada. CJC monitors the prosecution of alleged war criminals and maintains close contact with the RCMP [Royal Canadian Mounted Police] and the Justice Department.”

Accompanying the release was a photograph of two officials from the RCMP meeting with a CJC “private investigator,” Steven Rambam, a longtime member of the terrorist Jewish Defense League (JDL) of the late Rabbi Meir Kahane, who, as a minor, spent time in jail in the United States for carrying explosives.

Rambam had gone to work for the CJC after he had penned an inflammatory story in the *Jerusalem Post*, accusing Canada of being a safe-haven for Nazis. The *Jerusalem Post* is owned by the Hollinger Corp., whose president is a Canadian, Conrad Black. Ex-JDLer Rambam appeared, along with Sher, in May 1997, at several CJC-sponsored rallies throughout Canada, demanding accelerated prosecutions of alleged Nazis hiding in Canada. Sher was also a featured speaker at the CJC's 21st plenary assembly, in Winnipeg, Manitoba, on May 24-25, 1997.

Sher and Rambam made quite a combination. In 1985, the JDL was publicly identified by FBI director William Webster as the leading domestic terrorist group in America. Rambam was closely associated, at the time, with the national director of the JDL, Irv Rubin. The JDL, between August and November 1985, carried out a series of terrorist attacks, some targetting victims of OSI persecution:

- On Aug. 15, 1985, Tschirim Soobzokov was killed by a booby-trap bomb, which was placed on the front porch of his Paterson, New Jersey home. Soobzokov had been an early OSI target, after *New York Times* reporter Howard Blum named him as a leading war criminal in a book, *Wanted: In Search of Nazis in America*. Soobzokov successfully sued the *Times* and Blum, and won a hefty settlement. A JDL spin-off, the Jewish Defense Organization, had targetted Soobzokov for elimination.
- On Aug. 16, 1985, a Boston police officer was severely

injured while attempting to defuse a pipebomb at the offices of the Arab-American Anti-Discrimination Committee (AADC). An anonymous caller claimed responsibility for the bomb in the name of the JDL.

- On Sept. 7, 1985, another accused Nazi war criminal under OSI investigation, Elmars Sprogis, was the target of a JDL pipebomb planted at his home in Brentwood, New York. A neighbor was severely injured in the explosion.

- On Oct. 11, 1985, Alex Odeh, the head of the Santa Ana, California office of the AADC, was killed by a bomb which had been attached to the door of his office. Three JDL terrorists who fled to Israel, were later identified as the killers. Odeh had been targeted by both the JDL and the JDO.

- On Nov. 29, 1985, the Washington, D.C. headquarters of the AADC was bombed, causing thousands of dollars in damage.

Groundswell against Sher appointment

Not everyone in Canada was pleased at the Sher appointment. Several members of the Canadian Parliament reported that they were inundated with letters and phone calls, protesting the appointment. Reform Party Justice Critic Jack Ramsay, and New Democratic Party Justice Critic Peter Mancini both told the press that they had received numerous letters from Ukrainians “who are so concerned that perhaps there might be overzealous prosecution of people in that community.”

Those concerns prompted Ramsay to press for hearings in the Standing Committee on Justice and Human Rights of the Canadian House of Commons. The hearings took place on April 28, 1998, and produced some shocking revelations, including the fact that Sher was under criminal investigation by the U.S. Justice Department’s internal watchdog agency, the Office of Professional Responsibility (OPR). Sher failed to inform the Canadian Justice Department of that probe at the time he accepted the consultancy. Both Sher and John Sims, Canada’s Assistant Deputy Attorney General, Citizenship and Immigration, Department of Justice, testified.

Under questioning from Ramsay, Sher admitted that in 1989, a formal complaint to OPR was filed against him by Rad Artukovic, the son of the late Andrija Arukovic, a California resident who was extradited to Yugoslavia on charges that he had committed war crimes while he was a senior official of the Croatian government during World War II. The OPR complaint charged that Sher had knowingly used false affidavits from the Belgrade government to obtain the denaturalization, and that he had delivered perjured testimony during the Artukovic trial in Los Angeles in 1986.

Nine years after the complaint was filed, the OPR still has not resolved the matter, suggesting that there is some solid foundation for the charges against the former OSI boss. Sher tried to dodge the issue of his failure to inform Sims and other Canadian Justice officials of the OPR probe by lying further. First, he tried to cynically dismiss the nine-year OPR probe, saying, “anybody can make an allegation. For 32¢ American

you put it in an envelope, you make the allegation and then it gets leaked.” Later, he claimed that he spoke to the “people” at OPR. “I don’t know what their ultimate report’s going to be, but they have told me specifically, that the allegation against me is totally unsubstantiated.”

Sims expressed concern that Sher had not informed the department of the pending case before he accepted the consulting contract, which gives Sher a potential annual income of Can\$107,000.

Progressive Conservative Justice Critic and House Leader Peter MacKay told the Canadian press after the hearing that the government should cancel the contract with Sher. “It’s a little shocking to think that somebody that is being relied on heavily by the Canadian government is himself under investigation for potential—and I key on the word potential—fraud perpetrated on the court. It comes as a bit of a disappointment that the Canadian government didn’t do their research first and have that knowledge themselves. I think he should be paid for his advice and sent packing.”

Ramsay expressed doubts about Sher’s testimony on the OPR probe. “What I found interesting is that the investigation is not over and yet he knows the results of it, at least in part,” Ramsay said.

Demjanjuk case revisited

Much of the exchange between the members of the Justice and Human Rights Committee and Sher revolved around Sher’s role in the Demjanjuk case as head of the OSI during Demjanjuk’s prosecution in the United States and Israel. Sher defiantly persisted in calling Demjanjuk a Nazi war criminal, despite the fact that both the U.S. and Israeli courts found him innocent of the only charges ever brought against him.

Liberal Party member Andrew Telegadi at one point quoted from Judge Gilbert Merritt, the Chief Judge of the Sixth Circuit Court of Appeals in Cincinnati, Ohio, who presided over the Demjanjuk appeal. In a Nov. 14, 1997 interview with the Israeli newspaper *Ha’aretz*, Judge Merritt stated, “Today we know that they—the OSI, the prosecution in the case, and the State Department—lied through their teeth. Even when they knew without a doubt that Demjanjuk was not Ivan the Terrible. But they hid the information from us. I’m sorry I did not have the information at that time. If I did, we would never have ruled in favor of his extradition to Israel.”

Ramsay later returned to the Merritt statement. He told the hearing that he had personally spoken with Judge Merritt, who voiced concerns that the probe of Sher and the OSI’s misconduct in the Demjanjuk case may have been a white-wash, since it did not lead to prosecutions of any Justice Department officials who carried out the fraud upon the court.

Ramsay also attacked Sher’s continuing smearing of Demjanjuk as a “war criminal.” “I am concerned when . . . you make a statement that Mr. Demjanjuk is guilty of mass murder when no court has determined that. I’m very concerned about

that, and if I might just finish that line of thought, our duty, at least part of it on this committee, is to protect our rule of law and the presumption of innocence,” he said. “Now, when I hear someone make that kind of statement, I ask myself, where is there evidence of a respect for the presumption of innocence when you declare someone to be a mass murderer, when no court of law has made that determination?”

Documentation

Canadian MPs grill Sher on OSI lying

Excerpts from the hearings of Canada’s House of Commons Standing Committee on Justice and Human Rights on April 28, on the appointment of former U.S. Office of Special Investigations Director Neal Sher to be adviser to the Canadian Federal War Crimes Unit.



Neal Sher

Reform Party MP Jack

Ramsay: I think that it’s necessary, because of the time that you’ve taken dealing with that case [Demjanjuk], just to read from the decision of the United States Court of Appeals for the Sixth Circuit. . . . On Nov. 17, 1993, the Sixth Circuit Court of Ohio determined that OSI attorneys procured Demjanjuk’s extradition as a result of prosecutorial misconduct that constituted a fraud upon the court. . . .

I would like to read further their judgment. They said this:

“Thus, we hold the OSI attorneys acted with reckless disregard for the truth and for the government’s obligation to take no steps that prevent an adversary from presenting this case fully and fairly. This was fraud on the court in the circumstances of this case where, by recklessly assuming Demjanjuk’s guilt, they failed to observe their obligation to produce exculpatory materials requested by Demjanjuk.”

I have a note here that you made the statement that he was a mass-murderer after your appointment to the Canadian justice department. Is that true?

Neal Sher: I consider him to have been involved in the Holocaust. To have been a guard at Sobibor was to have been a participant in mass murder. . . .

Liberal Party MP Andrew Telegadi: Mr. Sher, in terms of the justices the OSI has dealt with, and in the case

of Ivan the Terrible in particular, what comments do you have regarding Judge Gilbert Merritt of the Sixth Circuit Court of Appeals, who moved to extradite Ivan the Terrible to Israel, and the subsequent comments he made about the OSI? . . .

Sher: His rulings speak for themselves. I do not necessarily agree with the legal conclusion that he draws from the facts, which everyone accepts, but that is the statement the court made, and it stands.

Telegadi: Afterwards, he’s quoted as saying—and if I’m wrong in my quotes, you correct me—that:

“Today we know that they—the OSI, the prosecution in the case and the State Department—lied through their teeth. Even then, they knew without a doubt that Demjanjuk was not Ivan the Terrible, but they hid the information from us. I am sorry that I did not have the information at the time. If I did, we would never have ruled in favor of his extradition to Israel.”. . .

Sher: Now I see where you’re getting that from. He did make those comments, but not in the decision. He made those comments, if I’m not mistaken, in November 1997, in a very extraordinary interview with an Israeli newspaper. . . .

Ramsay: I want to ask you this: I was in touch today with a senior agent of the Office of Professional Responsibility who confirmed to me that the OSI attorneys, including yourself, are under investigation as a result of complaints of misconduct in the Artukovic case. They tell me that the investigation began in approximately 1989 and is very close to being concluded. It is a very long investigation. Some of the complaints of misconduct are very serious. He confirmed as well that whether these complaints will be found valid or not, nevertheless these are what they are: the fraudulent use of false affidavits, perjury on the part of yourself. Are you aware of this investigation? . . .

Sher: Of course I am. . . . Yes, I know I am. . . . You raised the case of Andrija Artukovic, who was a very notorious individual—he’s dead now—and it is important to have some context. But in answer specifically to your question, yes, of course I’m familiar with the allegations his son has levelled against OSI, and even a specific one, a serious one, he levelled against me personally. . . .

After he was extradited, his son, who is a very devoted and a very loyal son, filed complaints about the way in which the case was handled during extradition. He made some specific allegations that among volumes and rooms full of documents there were some old statements by people who had given subsequent statements that might have been inconsistent. . . .

The son also made the allegation that I committed perjury, that I lied to a Federal judge where I gave testimony in 1985 or 1986—I’ve forgotten exactly when—to the effect that when I went, with my boss and another head of a companion office that handled extraditions, to Belgrade in 1984 or 1985, to discuss the matter, I had somehow given false or misleading testimony to the judge when I said we were not pressing the

Yugoslavs to demand extradition, which we weren't.

Now, he made the allegation. Anybody can make an allegation. For 32¢ American, you put it in an envelope, you make the allegation and then it gets leaked.

I was very concerned about that. I was interviewed and I frankly spoke to the people of the Office of Professional Responsibility. I don't know what their ultimate report is going to be, but they have told me specifically that the allegation against me is totally unsubstantiated. . . .

Interview: Jack Ramsay

People have concerns about retaining Sher

Mr. Ramsay is the Reform Party's Justice Critic in the Canadian House of Commons. He was interviewed by Scott Thompson on June 8.

EIR: How do you account for this lack of a background check on Neal Sher?

Ramsay: Well, I can't account for that. And, when Mr. Sims appeared before the committee, when Mr. Sher appeared, and I asked Mr. Sher to confirm that there was an investigation as to the conduct of the OSI [U.S. Department of Justice Office of Special Investigations], including his own conduct on the Artukovic case—after Mr. Sher validated that there was, in fact, an investigation—I asked Mr. Sims if he was aware of that. He said, “No.” And, that was very surprising. He later, after the meeting, sent a letter to Shaughnessy Cohen, the chairman of the committee, saying that he recalled afterwards that, last fall, Mr. Sher had brought this case to his attention. So, that's where that stands. He said in his statement before the committee that, “no,” he had not been aware of this. And then later, he said that his memory had failed him, and that later he did recall it, because Mr. Sher had made mention to him of that fact.

But, Mr. Sher did not make any mention of that when he appeared before the committee. So, I'm a little bit concerned in that area.

The real issue, is whether there is any grounds for these complaints [against Sher]. . . . So, what I'm interested in, and I think the community, particularly the Ukrainian community, is interested in, is whether the Office of Professional Responsibility in the United States has looked into these allegations in the Artukovic case, or any other case that has been brought to their attention—with a complaint—to determine whether or not it is valid.

So, I would very much like to know what the U.S. Department of Justice has determined as a result of Rad Artukovic's complaints.

Now, it's been nine years, I understand, since the thing started. And so, I don't know when it will finish. I understand it's close to being finished, and I don't know whether the findings will be reported. But, yes, we have some real concerns about a lack of a proper background check in light of the fact that many of these complaints were sent through to the Justice Department once—or prior to the hiring of Mr. Sher.

In fact, some of the members of the Ukrainian community in Canada met with the Justice Minister, and expressed their dismay over his hiring—based upon the Demjanjuk case, not upon the Artukovic case. And so, there was a clear signal sent to the Justice Department that people had concerns about retaining Mr. Sher for the purposes that they had retained him. . . .

What I'm concerned about, is answers to some of the allegations that have been raised by the people who are writing me. And not only myself, but other members of Parliament. That's why I asked for Mr. Sher to appear before the committee, so that we could place these allegations before him and have him respond to them, so that we could then send his response out to all the people who expressed a concern. What is the result of the OPR's investigation into the handling of the Artukovic case by Mr. Sher and other attorneys within the OSI? . . .

Now, all of the information that we have received, based upon the Demjanjuk case, is fine and dandy, but what I need, and what I'm interested in, is any evidence that ties Mr. Sher directly into the—he says he didn't know about this case and he wasn't the director at the time that the investigation started. But, he was the director at the time of the extradition of Mr. Demjanjuk to Israel as “Ivan the Terrible.” And so, this was a very important case. And yet, he's saying he didn't have hands-on knowledge of this.

If there's any evidence to show that that is not true, or that would refute what he's saying, I'm interested in that. . . .

EIR: What about Sher's comments that Demjanjuk is still, in his mind, a mass-murderer?

Ramsay: If you read on in the testimony, you'll find that I questioned him on that. He made a public statement that Demjanjuk was a mass-murderer. And, I questioned him on the lack of respect for the presumption of innocence contained within that remark, when there has been no court that has found him guilty of anything. But, . . . his response—and it's there if you've got the transcript—to the statements of the Israeli Supreme Court, which indicated that he [Demjanjuk] was a guard. And, so, that's his rationale for making that statement. I don't buy it, but that's his rationale. . . .

My concern goes, as far as the fact that there . . . does not seem to be respect for the presumption of innocence. . . .

‘You can’t use false evidence in court’

Mr. Artukovic spoke about the OSI actions against his father, Andrija Artukovic, with Scott Thompson on June 11.

EIR: Please give us the details of your complaint to the U.S. Justice Department’s Office of Professional Responsibility against Neal Sher and the OSI.

Artukovic: . . . I assumed that they [the OSI] were dealing on the up-and-up. I didn’t agree with them. I thought they were wrong, and I thought we would beat them. What I didn’t count on, was that they were going to use false evidence. . . . The 1985 extradition decision by the Los Angeles court was based upon three affidavits. Each affidavit was false.

EIR: Were they written by Neal Sher?

Artukovic: No, these were affidavits that were brought over by what was then Communist Yugoslavia. But, the OSI had the expertise to recognize that these were phony. And, rather than carry out their policy, as they talked about publicly at the time, which was to rigorously scrutinize and independently corroborate Communist source evidence, they didn’t do anything of the sort. And, what they basically said was, well, we don’t have to look at—corroborate—this evidence, because it’s being offered in extradition. . . . But, the fact remains that they used false evidence, and therefore the extradition order they obtained was a fraud. And, the question is: Who is responsible for the false affidavits? . . .

They claim they had nothing to do with it. Well, years later, under the Freedom of Information Act, I found out that they’re the ones who told the Yugoslavs which testimonies to use. And, they had, in violation of their own public policy, utilized false Communist affidavits without checking them out.

And, they were previously rejected by the U.S. District Court in 1959. And, then they promised the Communists that nothing that was contained in the affidavits that the Communists brought in would be challenged by the defense. They said that the defendant may not attack the truthfulness of any statement made by your witnesses. So, in other words, if the witness is lying through his teeth, you can’t attack him.

In 1988, a book came out . . . and I saw that OSI must have other false affidavits by the same perjury. . . . And, when I got *prima facie* evidence of that, I filed a complaint with a U.S. Attorney in Los Angeles. And, then, he kicked the ball

to Washington. An investigation, then, in early 1989. Now, it’s been kicking around for a while, but, at first OSI, they denied vehemently—they said that the documents that I said that they had, didn’t exist. Well, they do exist. And, in fact, I saw them with my own eyeballs last year in Washington.

The Justice Department finished their investigation somewhere around 1996, and they’ve been duking around for the last couple of years, trying to figure what to present.

EIR: Did you also discover that Neal Sher, or someone else, went to the Yugoslavs and said, “Look, why don’t you move for extradition”?

Artukovic: Well, what I found out was this: He was subpoenaed from Washington to testify in the proceedings in Los Angeles in February 1985. The purpose of his testimony was to tell the court who had initiated the proceedings: Was it the Yugoslavs or the U.S.? And, if you look at his testimony, that was the whole reason why he was doing the activity in Washington. He kept avoiding the question. . . . He said, “Look, I couldn’t tell them to do it.” And, I tried to simplify the point. And, he said, “We did nothing to cajole the Yugoslavs to take any action.”

Well, a couple of years later under the Freedom of Information Act, I get the cables from the U.S. Embassy in Belgrade. They show he was over there on a trip, and the purpose of the trip was to get the extradition going. And, that, according to the cable—according to the Embassy official—the Yugoslavs said they would take our request for extradition under advisement.

EIR: So, you’ve got perjury.

Artukovic: Well, that’s what I was concerned about, and the guy complained that they said that the U.S. didn’t do anything. Here I’ve got cables going back from the U.S. Embassy, back to the State Department, back to the Justice Department, saying the opposite.

Then, I got a diplomatic note from the Yugoslavs, saying that they decided to go along with the action for the extradition, based upon a suggestion given to them by the U.S. Justice Department delegation. That was in the diplomatic note where they gave notice that they finally decided to go along with the OSI.

EIR: Was there a national security aspect to this case? Was your father working with U.S. intelligence in any way?

Artukovic: No. . . . I’ve never seen any indication of that. But, what I did find interesting was that the Yugoslavs thought that if they cooperated with OSI on this, they could get the FBI and the U.S. intelligence organs to crack down on Croatian anti-Yugoslav activity in the U.S. . . . My position is really a simple one: You can’t use false evidence in an American courtroom for any reason. I don’t care who you are. I don’t care how great you think your motivation is. You can’t use false evidence.

Battle over McDade-Murtha smokes out DOJ thugs

by Debra Hanania-Freeman

In an interview with an *EIR* reporter the week of June 22, Dennis Boyd, the executive director of the National Association of Assistant U.S. Attorneys, the organization that represents the permanent bureaucracy within the U.S. Department of Justice which is mobilized to stop the “Citizens Protection Act of 1998” (H.R. 3396) at all costs, boasted nervously that the number of co-sponsors for the bill has been “shut down”; that his group has made sure that the number of co-sponsors “stopped at around 150.” The statement is only true in Dennis Boyd’s dreams.

In fact, at the time that Boyd made his wishful claim, the number of co-sponsors of H.R. 3396, sponsored by Reps. Joseph McDade (R-Pa.) and John Murtha (D-Pa.), hit 171, and was still climbing, as elected officials, civic and political activists, and thousands of ordinary citizens across the nation continued to join with the LaRouche movement drive, to make sure that this critical piece of legislation, which aims to halt the political lynchings and gross prosecutorial misconduct commonly associated with the U.S. Department of Justice and its permanent bureaucracy, gains a full hearing on Capitol Hill.

In late June, for the second time in less than a month, a powerful delegation of state legislators joined the Schiller Institute on Capitol Hill, in approximately 60 congressional meetings. This latest delegation included Howard Hunter (D-N.C.) and Toby Fitch (D-N.C.), both of whom served on the Independent Commission to Investigate DOJ Misconduct (known as the Mann-Chestnut Commission); Harold James (D-Pa.); Leanna Washington (D-Pa.); John Martinez (D-Conn.); Charles Hudson (D-La.); Arthur Morrell (D-La.); Thomas Jackson (D-Ala.); and, Glenn Lewis (D-Tex.). They delivered the same message being conveyed by their counterparts back in the Congressional districts: a firm insistence that members of Congress sign on as co-sponsors, and that they

work to ensure that hearings on the bill feature the most dramatic cases of Federal prosecutorial abuse, including the decades-long targetting of black and Hispanic elected and public officials (the FBI’s “Operation Fruehmenschen”); the Office of Special Investigations (OSI) cases, such as that of Ukrainian-American auto worker John Demjanjuk; and, the politically motivated frame-up of Lyndon LaRouche and his associates, a case that former U.S. Attorney General Ramsey Clark has said “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 bill’s author and principal co-sponsor, Representative McDade, is seeking 218 co-sponsors—an absolute majority of the U.S. House of Representatives. Normally, a bill’s sponsor might seek such a majority in order to bypass House rules and procedures, and bring a bill directly to the floor for a vote. In this case, however, McDade has said that he is seeking 218 co-sponsors, so that he can ensure that the bill gets a full hearing. In introducing the legislation, McDade’s stated desire was to force a far-reaching public probe of the pattern of hideous abuses that is a commonplace practice of the permanent bureaucracy that controls the DOJ.

DOJ mobilizes to defeat bill

As the drive, spearheaded by the LaRouche movement brings the number of co-sponsors closer to the 218 threshold, the DOJ permanent bureaucracy, considered to be one of the most powerful institutions inside the Federal government, is fighting back as if its very survival were at stake.

When the legislation was introduced, on March 5, House Speaker Newt Gingrich (R-Ga.) referred the bill to the House Judiciary Committee, chaired by Henry Hyde (R-Ill.). Al-

though Hyde likes to boast that his committee “has vigorously conducted oversight in the 105th Congress,” and that he has held nearly 60 oversight hearings, it is no secret that Hyde, under strict orders from Gingrich, has made sure that his committee steer clear of any infringement of the DOJ permanent bureaucracy’s freedom to continue their reign of terror.

Hyde’s office claims that hearings on the bill, which he has sent to George Gekas’s (R-Pa.) Commercial and Administrative Law subcommittee for mark-up, will indeed occur. But, so far, no date for any hearings has been set. Well-informed Congressional sources say that Gingrich’s original instructions to Hyde were, simply, to stall. Gingrich fears that public hearings on McDade-Murtha, especially at a time when Americans are expressing increasing outrage at the conduct of independent counsel Kenneth Starr and his team, would cause an uncontrollable popular protest, far beyond that fostered by the recent hearings into Internal Revenue Service abuses, and would bring the Speaker’s drive to put the impeachment of President Bill Clinton on the Congressional agenda by early July to a grinding halt.

Additionally, sources say, Gingrich fears that such hearings would not only serve to promote the exoneration of Lyndon LaRouche, who he has placed at the top of his enemies list, but could turn the economist into a veritable “folk hero,” and remove whatever obstacles still stand in the way of LaRouche playing a prominent leadership role in solving the global financial crisis.

So, it is no surprise that, as the number of co-sponsors moves within range of the 218 threshold, the original “stall tactic” has been abandoned in favor of far more aggressive measures. In fact, the Justice Department’s entire gestapo apparatus, and all of its appendages throughout the Federal bureaucracy, have been set into motion.

Prosecutors lobbying door-to-door

When the Schiller Institute delegation arrived in Washington on June 16, they already knew that the National Association of Assistant U.S. Attorneys (Naausa) had put out an alert to all of its members, identifying the bill’s co-sponsors by name, and demanding that immediate measures be taken to roll back McDade-Murtha, to prevent hearings, and to stop it from ever coming to a vote. A letter to this effect had also been sent to all members of Congress. But, the state legislators were shocked to learn that the group was sending Assistant U.S. Attorneys door-to-door, in a so-called “lobbying effort.” Rumors were flying that implicit threats of reprisals were being delivered to members who had already signed on as co-sponsors.

The delegation learned that several Representatives, whose professional staffs frequently include former prosecutors, found that members of their staffs had been recruited in the drive to stop the bill. In at least one case, a co-sponsor’s chief of staff saw to it that his boss’s name was withdrawn from the legislation! Fortunately, the state legislators were

able to persuade that member to reinstate his co-sponsorship before the week was out.

Reno jumps into the fray

Then, on June 18, the concluding day of the highly successful Schiller Institute-sponsored lobbying effort, Attorney General Janet Reno devoted the opening part of her weekly press briefing to a harsh attack on the bill. She said it represented “an unjustified and unwarranted interference” into the activities of DOJ attorneys. She asserted that the “sponsors of this bill are trying to solve a problem that really doesn’t exist.”

Reno insisted that the DOJ’s Office of Professional Responsibility, which is itself one of the centers of the permanent bureaucracy’s power, was perfectly capable of ensuring that “our attorneys continue to conform to the highest ethical standards.” But, she provided no explanation for OPR’s failure to act to curb a single case of prosecutorial abuse. Reno also chose not to comment on the fact that U.S. District Judge Falcon Hawkins, in a stinging 86-page order issued in February 1997 in which he dismissed the notorious “Operation Lost Trust” frame-up cases and ordered that they not be retried because of “egregious prosecutorial misconduct,” singled out the Office of Professional Responsibility, as well as the DOJ’s Public Integrity Section, for knowingly covering up the misconduct.

EIR has also learned that Reno, whose record of protecting the permanent bureaucracy can be traced back to her catastrophic actions in 1993 during the Waco incident, has sent a letter to Judiciary Committee Chairman Hyde, and to the committee’s ranking Democrat, John Conyers (Mich.), in which she argues that requiring Federal prosecutors to comply with the same laws and rules governing the defense lawyers whom they argue against in court, would have a “disruptive impact on Federal prosecutions.”

The letter claims that by creating a list of “punishable conduct,” and by establishing an independent review board, the McDade-Murtha bill “would give defendants and their lawyers the means to disrupt prosecutions” by allowing them to force investigations of allegations of misconduct.

The letter is accompanied by a 14-page “DOJ Analysis of H.R. 3396,” which purports to demonstrate that the bill is “vague and unclear,” and that it would disrupt and inhibit Federal law enforcement. The memorandum complains that the bill would establish “exceptionally harsh” penalties for prosecutorial abuse and misconduct, and begs the committee that “there is no justification for putting this cudgel in the hands of defendants and their lawyers.”

Reno’s staff has also reportedly prepared a letter, co-signed by former Attorneys General Richard Thornburgh and Griffin Bell, and currently being circulated to other former Attorneys General, urging that the bill be repudiated. It was the infamous Thornburgh Memorandum, which Reno turned into a regulation, that self-empowered the Department of Justice to exempt its attorneys from the ethical and judicial rule by which all other lawyers must abide.

Heavy-handed tactics may backfire

However, considering the high premium placed on keeping the DOJ's permanent bureaucracy unscathed and unchecked, opponents of McDade-Murtha are not willing to leave the drive to kill this bill solely in the hands of lawyers.

The Federal Law Enforcement Officers Association (FLEOA), which represents 14,000 investigators and police officials in such Federal agencies as the Bureau of Alcohol, Tobacco and Firearms; Customs; the Drug Enforcement Administration; and the criminal investigative sections of all branches of the U.S. military, is actively lobbying against the bill, and paying personal visits to members of Congress.

Mark Spaulding, the FLEOA legislative director, who is himself a Pentagon investigator, told *EIR* that "our unit brought about the prosecution of Congressman McDade for bribery and corruption." Spaulding tried to dismiss the legislation as nothing more than McDade's animus toward the DOJ for what Spaulding defended as a legitimate, though failed, effort to jail the Representative. (McDade was indicted in 1992, after being subjected to a four-year investigation. His ordeal lasted until August 1996, when a jury finally found him innocent of all charges.)

The FBI Agents Association has also thrown its heavy artillery against H.R. 3396. In a June 22 interview, FBIAA

president John S. Sennett, who expressed anger at the legislation, said his group has been assured that "the bill is going nowhere; it will not pass." Agent Sennett said that the assurance that "McDade-Murtha will die in committee" came from the FBIAA's General Counsel, Ed Bethune. Sennett confidently described Bethune as being "very well connected in the Republican Party." Sennett's claim is not unwarranted.

In fact, the record shows that Bethune has been the private attorney and adviser to Gingrich, and helped draft the strategy for Gingrich's own (unsuccessful) defense against charges of ethics violations. Gingrich was ultimately found guilty of the charges, and still owes hefty fines.

Clearly, this array of forces is intended to intimidate the bill's supporters. And, given their record of reckless abuse, they are, indeed, an intimidating group. But, the success of their tactics is heavily dependent on their ability to operate "in the shadows." Some Washington observers believe that, simply by virtue of the fact that they have been forced out in the open, their heavy-handed tactics to kill this legislation will backfire. Meanwhile, the drive to gain 218 co-sponsors for H.R. 3396 continues to build, in what is shaping up as the most important domestic policy battle to take place on Capitol Hill in decades.

Kenneth Starr to bring indictments in Virginia?

Independent counsel Kenneth Starr is making preparations to bring indictments against associates of President Clinton in the "rocket docket" of the notorious Eastern District of Virginia, according to various reports. Starr has recently leased almost 6,000 square feet of office space close to the Federal courthouse in Alexandria, and, as reported by former U.S. Attorney Henry Hudson, Starr is hiring former Federal prosecutors who used to work for Hudson in Virginia.

During a CNN report on how Starr could move his entire case across the river from Washington, D.C. to northern Virginia, Hudson boasted: "The U.S. District Court in Alexandria probably has the fastest-moving docket in America. It's been dubbed the 'rocket docket.'" More important, the Eastern District of Virginia is known for its almost 100% denial of all defense motions, and pro-government juries which are composed heavily of Federal employees.

Hudson should know. When Justice Department prosecutors fell on their faces in the first trial of Lyndon LaRouche and his associates in Boston in 1987-88, they

moved the LaRouche case to Hudson's office in Alexandria, where prosecutors were guaranteed a rigged court and jury. Hudson and his office were later found to have committed a "constructive fraud on the court," when they illegally shut down publishing companies operated by associates of LaRouche, in order to set the stage for the "fraud" trial of LaRouche — yet, the unjust convictions of LaRouche and his associates were allowed to stand by the Alexandria court and the equally corrupted Fourth Circuit Federal appeals court in Richmond, Virginia.

Despite a number of recent setbacks, Starr is desperately pushing ahead with both indictments of associates of the President, and a report to the House of Representatives which could be used to launch impeachment proceedings. On June 25, the U.S. Supreme Court rejected Starr's efforts to obtain confidential notes of a conversation between the late White House aide Vincent Foster and Foster's attorney. And, the firestorm around Starr's leaks to the news media is continuing, in the wake of Steve Brill's "Pressgate" article in the inaugural issue of *Brill's Content* magazine.

Starr is under intense scrutiny for his admissions that he gave confidential "background" briefings to selected reporters concerning his investigation of the President; at the same time, an investigation of allegations of witness-tampering and payoffs to Starr's key witness in Little Rock, David Hale, is also ongoing. — *Edward Spannaus*

Book Reviews

Smear artists and sex scandals, then and now

by Edward Spannaus

Anatomy of a Scandal: An Investigation into the Campaign to Undermine the Clinton Presidency

by James D. Retter

Los Angeles: General Publishing Group, 1998
320 pages, hardbound, \$22.95

Although there have been many useful accounts published in various locations, exposing the fraud of one or another of the innumerable scandals hitting President Clinton, the utility of *Anatomy of a Scandal* is that it pulls many of these accounts together, along with the author's own original research, into one book. But beyond that, what is the most unique and challenging element of this book is its leitmotif, drawing the parallels to a much earlier politics-and-sex scandal—that wielded 200 years ago against Alexander Hamilton.

But first, President Clinton. Retter dissects each of the major scandals hitting the President, starting with Gennifer Flowers and Paula Jones, and running through Whitewater, Troopergate, and others, to show how each was contrived by Clinton's enemies, and in most cases aided and abetted by money from Richard Mellon Scaife.

Retter begins with Gennifer Flowers, and piece by piece, he tears her stories apart, from her bogus claim that Clinton improperly got her a state job to keep her from talking, to her peddling heavily edited tapes of phone conversations with Clinton to the *Star* and *Penthouse*, which, when Retter actually listened to the tapes, prove absolutely nothing. For example, take Flower's widely publicized allegation that she had a 12-year affair with Bill Clinton. How many people know that she claimed to have begun this affair in 1979 or 1980, in a hotel in Little Rock that wasn't built until 1982? Or that when she was first accused of having an affair with Clinton, she absolutely denied it, and her lawyers threatened to sue the purveyor of the story? That was Larry Nichols, whom Governor Clinton had fired from his state job in 1988, for spending most of his time trying to rally support for the Nicaraguan Contras; in January 1992, Nichols apologized for his attacks on Clinton, and added that "a London newspaper" had offered

him half a million dollars for a story.

Nichols also said in early 1992 that he didn't know anything about drug-running and gun-running at Mena airfield in Arkansas. But, as Retter writes: "That, however, was before producer Pat Matrisciana came to Little Rock and offered to put Larry Nichols in an anti-Clinton video called "Circle of Power," soon to be followed by the "Clinton Chronicles." Suddenly, Larry Nichols knew a great deal about Mena airport, smuggled drugs, and Bill Clinton's personal life."

That kind of girl

In the first version of Paula Jones's complaint in her sexual harassment suit, she claimed that then-Gov. Bill Clinton made a sexual advance toward her, and that she had exclaimed, "I'm not that kind of girl." Besides documenting that the preponderance of evidence shows that Jones is lying about what happened, Retter also does what Clinton's lawyers were not allowed to do: to show that Paula Jones in fact *was* "that kind of girl."

Moreover, Retter shows that Paula Jones's sworn statements about when the alleged incident took place are false. In her lawsuit, Jones says that she was summoned to Clinton's room by trooper Danny Ferguson at about 2:30 p.m. on the afternoon of May 8, 1991. She claims that she returned to the registration desk 20 or 30 minutes later, that she was extremely shaken and upset, and left the conference shortly thereafter. What Retter shows, is that Clinton gave a speech at the hotel at 8:00 a.m., then went back to the Governor's Mansion for a luncheon with a delegation of European industrialists, and was at the Mansion all afternoon. (It has been reported, since the book's publication, that Clinton's lawyers were aware of the discrepancy, and were saving it for the trial.)

Retter also takes apart Ambrose Evans-Pritchard's and Chris Ruddy's accounts of the "murder" of Vincent Foster; he shows the role of Richard Mellon Scaife in financing the Vincent Foster murder theories and other nefarious propaganda activities, and he chronicles many of the falsehoods in the Jerry Falwell-financed and -distributed "Clinton Chronicles." Retter goes on to provide useful background on televangelists Falwell and Pat Robertson, and also on talk-show blowhard Rush Limbaugh—showing what frauds and hypocrites they are.

The first political sex scandal

Retter's research shows that Clinton is not the first to be so victimized in Washington politics.

Our first Treasury Secretary, Alexander Hamilton, was set up beginning in 1791 in a plot, engineered by Aaron Burr, in which he was entrapped into a sexual relationship with Maria Reynolds, and then blackmailed by her witting husband. Documents concerning the affair were leaked, probably by Thomas Jefferson, to a smear artist named James Callender, who published them during the 1796 campaign, subsidized by Jefferson's money.

Hamilton then decided to "come clean" (just as many are

urging President Clinton to do today). Hamilton published a lengthy account of the entire affair, which he naively expected would bring the matter to an end. But instead, Callender then denounced Hamilton's confession as a lie, claiming that Hamilton had *never* had an affair with Maria Reynolds, and that he was using the story of the affair and blackmail to cover up a vast embezzlement scheme involving the U.S. Treasury!

As Retter writes, in his introduction to the chapter on the Paula Jones case:

"Alexander Hamilton could attest that, with sex and politics, honesty is not always a good career move. But the Maria Reynolds affair showed that, with a strange lady in a hotel room, prudence dictates knowing the literal route taken by the lady to the room, and the political route taken afterwards. Revealed also is the inestimable value of someone like James Callender; for what good is a scandal without a smear artist to spread it around?"

Then, and now

Retter opens a later chapter—dealing with Richard Melton Scaife, Ambrose Evans-Pritchard, the Vincent Foster case, and the "Clinton Chronicles"—with the following:

"Sex and the sleaze artist *then*:" in which Retter describes Jefferson's rivalry with Hamilton, and Jefferson's subsidy of Callender to smear Hamilton, which Callender carried out in his series of pamphlets called *The History of the United States for 1796*, following the publication of which "editors editorialized, partisans demanded investigations, and Hamilton was put in the impossible position of trying to defend a negative."

"Sex and the sleaze artist *now*:" in which Retter writes: "Unlike James Callender, who never saw the front door at Monticello, smear artists are not always down-on-their-luck hacks. Sometimes they hail from Oxford, take high tea, and have hyphenated last names, like Ambrose Evans-Pritchard, Washington correspondent for the London *Sunday Telegraph*. . . ."

Retter does not explore the deeper parallels between the plots launched by British-Swiss intelligence agent Burr¹ against Hamilton, the architect of the "American System" of economics, and those launched by British intelligence agent Evans-Pritchard against the President of the United States today.² For that, one must turn to *EIR*. But *Anatomy of a Scandal* is a useful compilation of documentation and anecdotes about the perpetrators and conspirators who have carried out the defamation of President Clinton over the past few years—and for that, it deserves wide circulation.

1. See Anton Chaitkin, *Treason in America: From Aaron Burr to Averell Harriman*, second edition (New York: New Benjamin Franklin House, 1985).

2. Regarding the role of Ambrose Evans-Pritchard, see especially "New 'Diana Wars' in Britain Put Focus on LaRouche," *EIR*, June 19, 1998.

Will Michigan become 'euthanasia capital'?

by Linda Everett

Over the coming two months, the people of Michigan will effectively decide whether their state officially becomes the euthanasia capital of the United States. As leaders of nations grapple with the horrific impact of the global economic collapse, Michigan appears poised to accommodate a campaign to legalize genocide—as defined and condemned by the post-World War II Nuremberg Tribunal—against its sick, elderly, disabled, and indigent citizens, the same people whom Hitler claimed were "not worthy of life," and had murdered, 50 years ago.

How did this happen? How did this once-proud heart of the nation's auto industry come to find itself submitting to the explicitly Nazi agenda of the country's most aggressive euthanasia groups, Malthusian foundations, and "ethicists"?

These forces, supplemented by the efforts of billionaire parasite and euthanasia advocate George Soros to destroy U.S. medicine with more than \$30 million in programs aimed to promote the culture of death, succeeded in Oregon last year to make "physician-assisted suicide" legal. Now, they've joined a coalition of Michigan leaders, including Doug Frasier and Irving Bluestone, the retired president and vice-president of the United Auto Workers (UAW), respectively, to train their guns at Michigan, where Jack Kevorkian's "assisted-suicide" campaign has thrived for nine years. At the same time, Kevorkian's attorney is running for governor on a platform calling for legalizing "assisted suicide" and drugs. Will Michigan become just one big burial ground?

First 'useless workers,' then 'useless eaters'

Two decades ago, General Motors, Chrysler, and Ford began to cut their domestic workforces in half, by hiring cheap labor in other countries. Michigan has lost more than 38% of its auto jobs to "globalization" policies over the last 20 years. The deindustrialization of Michigan's auto industry robbed the state of the productive economic base it needed to produce wealth, and to continually raise the living standards of the population. Economic policies that favored speculation and gambling casinos replaced sound economic principles that assured production of the goods, infrastructure, health care, education, research, and all the essential services necessary to develop the citizens' power of reason, enabling them to see and solve the problems before them.

Instead, we see today, that much of the Michigan population hails the very antithesis of technological progress and



Jack Kevorkian (left) with attorney Geoffrey Fieger, an accomplice in his crimes. Fieger is now running for the Democratic gubernatorial nomination in Michigan, while the “assisted-suicide” lobby is working to ram through a pro-euthanasia ballot initiative in the November elections.

solving problems; they hail Jack Kevorkian, who has admitted to causing the deaths of 120 people, as their “hero” who gives “compassion” (death) to those who couldn’t get help in life. Shall this be Michigan’s new growth industry — suicide doctors for its unemployed workforce, for its vulnerable populations whom the state can no longer support?

Kevorkian’s grisly history

In 1990, Kevorkian, an unemployed Michigan pathologist, gained notoriety when he advertised his homemade “suicide” machine to provide death on demand. His first victim was an Oregon woman who had Alzheimer’s disease and whose husband coerced her into “choosing” a “death with dignity.” The husband had initiated contact with Kevorkian and completely arranged her “suicide,” because he said her disease had progressed so badly that she was forgetting her tennis appointments!

Since then, Kevorkian has terminated the lives of about 120 physically or mentally disabled people with deadly gas, lethal injection, and cyanide. His attorney and accomplice, Geoffrey Fieger, has buoyed public support for the killings with outrageous lies about each victim. Some of Fieger’s lies have backfired.

For instance, Fieger announced that one Kevorkian victim was a 35-year-old California woman who “suffered horribly from dozens of life-threatening diseases,” and had to travel to Michigan for Dr. Kevorkian’s help. In fact, the victim was

a male transvestite from San Francisco, who was in no danger of dying.

In August 1990, two months after “Dr. Death” eliminated the first “suicide” victim in what he called his first “experiment,” he presented court testimony that said the “voluntary self-extermination” of those with “mortally diseased or crippled lives . . . can only *enhance* the preservation of public health and welfare” (emphasis in the original). Since then, he has endorsed the experiments Nazi doctors performed on concentration camp victims, has attempted to open a killing center (it closed after one murder), and proposes to do brain experiments on live prisoners (who’ll then be killed) to “study” criminal behavior.

These Hitlerite actions should have tipped off authorities that a lunatic was at large — especially since police and other authorities long suspected a sexual element was at work with “Jack the Ripper.” Former U.S. Surgeon General C. Everett Koop warned that Kevorkian fit the FBI profile of a serial killer. Yet, from the very first “suicide” to the latest murder, Kevorkian’s killings have always been cast as a “right to die” issue. From the start, much of the Michigan legislature, the courts, the Michigan State Medical Society (MSMS), Michigan State University’s Medical Ethics Resource Network (MERN), the American Civil Liberties Union, and the media have all legitimized this Nazi campaign as a “patient’s rights” issue. Indeed, Kevorkian’s agenda was promoted and furthered by ethicists and medical professionals who used it to

establish Nazi medical policies nationally, under the guise of “compassionate” end-of-life care.

Ethicists ‘more reasonable’ than Hitler

A key accomplice in that effort is “ethicist” Dr. Howard Brody, longtime chair of the Michigan State Medical Society’s Bioethics Committee. As chair of the MSMS Forum on Physician-Assisted Suicide, its forums on End of Life, and its forums on Guidelines/Safeguards for Physician-Assisted Suicide, and as chair of the Michigan Commission on Death and Dying, Brody has led scores of meetings yearly involving 36 medical, legal, and religious organizations statewide, to “explore” assisted suicide as a state policy.

But, he says, society doesn’t need your consent for it to have you exercise your right to die. Brody, who has been director of Michigan State University’s Center for Ethics and Humanities in Life Sciences since 1985, oversees hundreds of its forums, which, with millions of dollars in Kellogg and Fetzer Foundations grants, brainwash medical professionals, students, academics, state leaders, and the population at large in its statewide “JustCaring” community “education” project. This health care rationing project forces people to think in terms of “lifeboat ethics,” then manipulates them into deciding “democratically” whom society will kill by denying treat-

ment. Again, they don’t need your consent to kill you—it’s decided “democratically.” Brody co-founded and led the Center’s MERN project for years, and still disseminates its rationing ethic to hospital ethics committees statewide.

Brody says he’s just facilitating a discussion, but his pro-death sentiments are clear as day. As he wrote in his 1975 “Introduction to Ethical Decisions in Medicine”: “While the bioethicist is not shy about his goals of creating a new culture, he is desirous of doing it in a more reasonable (and more effective) way than Hitler set about doing it.” Instead of creating the resources necessary to uplift the condition of mankind, Brody used the sociopath Kevorkian as a way to prime the state of Michigan to accept Hitler’s ethic: Some lives are “not worthy” to be lived.

No limits to death

As Kevorkian’s epidemic has progressed unabated, he has killed many victims who had *no* physical disease, only depression or mental distress. He’s left their bodies in motel rooms, in his van, or on the back seats of cars left in hospital parking lots around the state. He affected the guise of a respected medical professional by wheeling the bodies into hospital emergency rooms, or by having hospital staff unload bodies from his car. Even here, the Southeast Michigan Hos-

Assisted suicide before the courts

Since Jack Kevorkian began murdering people through “assisted suicide” in 1990, there has been a flurry of legal activity in the Michigan legislature and the courts. As we shall detail, the courts have generally upheld the ban on assisted suicide, which was passed by the legislature in 1993, and which has been ruled a “common law” crime. But juries have failed to convict Kevorkian, and, at the same time, the Supreme Court has failed to set a clear standard outlawing the euthanasia practice. Thus, there remains a clear and present danger that, if a referendum approved the practice, the Federal courts would rule it a “democratic” right.

The landmark 1997 Supreme Court decision on cases of assisted suicide in Washington State and New York, ruled that such action was not a “constitutional right,” and that states could ban the Nazi practice. However, it left the door open for states to legislate specific conditions under which doctor-assisted murder could occur.

1992: Two counts of murder for assisted suicide by Kevorkian are thrown out by a judge, on the grounds that assisted suicide is not a crime.

February 1993: The Michigan legislature passes an explicit ban on assisting in suicides.

1994: The Michigan Court of Appeals strikes down the law on a technicality, adding that there is no constitutional right to suicide.

The Michigan Supreme Court upholds the ban on assisted suicide, and adds that assisted suicide is a common-law crime in Michigan.

April 1995: The U.S. Supreme Court refuses to hear Kevorkian’s appeal of the above ruling.

May 1995: The Michigan Court of Appeals upholds a lower court’s 1991 permanent civil injunction against Kevorkian carrying out assisted suicides.

March-May 1996: Kevorkian is acquitted by juries in cases involving the killing of four patients.

August 1996: Oakland County Prosecutor Richard Thompson, who had brought the above cases, is voted out of office.

January 1997: New Oakland County Prosecutor drops all charges against Kevorkian.

1997: U.S. District Court rules that the Michigan Supreme Court’s upholding of assisted suicide as a common-law crime, is unconstitutionally vague.

April 1997: State of Michigan issues a standing Cease and Desist Order against Kevorkian’s activity. So far, his blatant violations of the order have not been challenged.

pital Administrators Association tried to accommodate him, while trying to stop the embarrassing flow of bodies to their hospitals. In March 1998, they asked Oakland County's Chief Coroner, Dr. L.J. Dragovic, to design "dumping spots" where Kevorkian could unload the bodies of his victims (sometimes two a day), and rid the hospitals of the problem.

Kevorkian's latest atrocity is his most ghoulish crime yet. On June 7, 1998, Kevorkian's team injected Joseph Tushowski, 45, of Las Vegas, Nevada, with lethal drugs. "He certainly couldn't inject himself," Dr. Dragovic said. "He was quadriplegic," due to a gunshot wound to his spine. Dr. Dragovic described the Kevorkian team's actions as a slaughterhouse: "They didn't even take off his sweater, they pulled down his pants, ripped his belly open, and chopped out his kidneys," he said.

Kevorkian then announced the kidneys were available for transplants, and that he and his team had used standard transplantation techniques in an undisclosed sterile environment (they even wore surgical gowns). Kevorkian identified this as the second part of his program of harvesting organs of his victims to save lives. But the organs were useless, of course, because of the lethal drugs used, and the fact that the donor was dead (not just "brain dead") when the organs were removed.

The third part of Kevorkian's plan is putting victims into a coma and harvesting their organs as needed!

"Jack the Ripper's" medical team included the lunatic psychiatrist Georges Reding, whom Kevorkian trained to assist in suicides, and Neal Nicole, who originally worked with Kevorkian at one of the first and only jobs Kevorkian had been able to hold in his adult life, at Pontiac General Hospital. Nicole was Kevorkian's guinea pig when he transfused blood from a corpse into him and co-workers, nearly killing them. Nicole has supplied Kevorkian with lethal gas, and preps Kevorkian's victims for suicide.

On April 14, 1998, police charged Nicole with first degree criminal sexual assault of a five-year-old girl, whose quadriplegic father, Thomas Hyde, was killed by Kevorkian. Nicole lived with Hyde's girlfriend for several months afterwards. A source who has worked closely with Kevorkian and Fieger reports that the two would have Nicole "console" widows of Kevorkian's victims, if they were wavering from their support of Kevorkian and had to give court testimony about their spouses' deaths. On more than one occasion, with more than one widow, the "consoling" occurred in the bedroom. Kevorkian himself faces assault charges stemming from a May 7, 1998 altercation with police who attempted to question him after he dropped a body off at Royal Oak Hospital.

Kevorkian's lawyer for governor?

Kevorkian's attorney, Geoffrey Fieger, is more of a partner in crime than anything else. He has fought off any prosecution of Kevorkian by deliberately lying, misleading the courts, obstructing prosecutors' investigations into the homi-

cides, or by using unethical courtroom tactics, including deliberately causing a mistrial.

Kevorkian always prescribes the same treatment for every victim, no matter what their condition: death. Yet jurors have let themselves be duped by Fieger to believe that Kevorkian wants to "end his patients' suffering"—not kill them. Time and again, juries have not convicted him.

Now, Fieger, 48, is campaigning with \$1 million of his own funds for the Democratic gubernatorial nomination, and is the front-runner in a three-way Democratic race against Republican Gov. John Engler. The state Democratic Party wants a united-front among all three candidates against Engler. By actually ordering all candidates not to attack one another, the party makes itself as complicit as Fieger in promoting these Nazi crimes against Michigan's physically disabled (about 13% of the state's population) and the state's mentally ill (about 10% of the population). How different is that from the Conservative Revolution's Engler, who has closed 15 mental health facilities since taking office in 1991, leaving the mentally ill homeless in the streets?

When *EIR* asked Fieger, at his first campaign event on Feb. 10, 1998, what he thought about decriminalization of drugs, he yelled: "I can get you all the drugs you need to commit suicide. And, I think we should stop arresting people for using drugs."

Will the Democratic Party endorse his decriminalization of drugs, as well?

Now, Fieger, whose wife reportedly has filed twice for divorce, alleging that he beat her, has been publicly excoriated as "unfit to be governor" by his former campaign manager, Sam Riddle. Riddle, who managed Jesse Jackson's 1988 Presidential campaign in Michigan, says Fieger brought him on to secure the vital African-American vote from Detroit. Riddle now regrets that he built Fieger up as a "champion of minorities and unionists." Fieger is anything but. In March, Fieger facilitated Kevorkian's murder of a 21-year-old African-American youth from Detroit who was depressed, but slowly adjusting to near total paralysis caused by a spinal cord infection. Instead of getting him more emotional support, Kevorkian and Fieger got him murdered.

The role of the press

None of this could have happened without the Michigan press, especially the scab newspaper the *Detroit Free Press*, which for six years had given banner headlines to every hideous lie that Kevorkian or Fieger fed them. They have thereby fostered the already endemic—and *wrong*—popular notion that "nothing could be done for these patients; suicide was their only answer." What these patients need are the medical and scientific breakthroughs—and optimism basic to a sound economy (see Linda Everett, "What Kevorkian's Victims Need Is Science, Not Suicide," *EIR*, July 7, 1995).

The *Free Press*'s 1997 "exposé" of Kevorkian ("The Suicide Machine: Understanding Jack Kevorkian, the People

Soros pushes plan for hospital 'dying rooms'

One of the major promoters of euthanasia is the international multibillionaire currency speculator George Soros, whose hundred-million-dollar campaign to transform the United States into an "open society" aims to destroy any state or Federal laws that ban or restrict the practice of Nazi euthanasia, or the free use of all drugs. Soros personally funds both campaigns, along with his New York-based Open Society Institute and its Project on Death in America, which he launched to promote the culture of death.

Soros believes that doctors should be allowed to kill patients with lethal injections. To that end, he has funded: **Compassion in Dying**, the group which initiated Oregon's suicide law, and spearheaded challenges to New York and Washington State laws banning assisted suicide; the **Oregon Death With Dignity Legal Defense Fund**, which defends the law from repeal efforts; and the **Death With Dignity Education Center** in California, whose board includes the nation's most aggressive euthanasia storm-troopers, who propose that doctors directly or indirectly

murder elderly, disabled, and chronically or mentally ill or depressed individuals.

In his Nov. 30, 1994 speech at Columbia Presbyterian Medical Center in New York City, Soros complained that U.S. doctors are too focussed on "curing disease and prolonging life" with "aggressive" and "unnecessary medical interventions" that are "more expensive than proper care for the dying." He says that the government should help families care for "dying patients" at home "by the least expensive means," and should reimburse hospitals for "preparing a patient for death" in hospital dying rooms.

Soros's Project on Death in America has funded more than \$30 million in programs that retrain doctors and medical staff in 25 medical schools and 35 medical institutions across the United States. PDIA also funds scores of studies that affect Michigan, such as profiling how African-Americans and other minorities decide to end life-saving treatment for themselves, or for chronically ill children. The PDIA also organized a landslide of far-reaching ballot initiatives, backed with hundreds of millions of dollars in grants from foundations, such as Robert Wood Johnson's "Last Acts" campaign. Soros's own mother, who belonged to the Hemlock Society, asked him to help her commit suicide, "if necessary." She died per Soros's prescription, at home with no interventions, since, Soros said, even feeding her would have prolonged her death.

Who Came to Him and the Issue of Assisted Suicide") still lied about this sociopath, who gets a charge out of painting with human blood.

The fact is that many of Kevorkian's victims, like Susan Williams, were trapped in a well of pessimism and refused treatment. Williams complained that her doctor did nothing to treat her multiple sclerosis for eight years—yet, she never sought a new doctor, an MS expert, or the latest treatments or aids that could have helped her. She said she wanted to die, because she was a burden to her parents (her husband deserted her); she was disgusted with life, was depressed every day the sun shined, and refused psychiatric help. So, Kevorkian eliminated her. Yet, the *Free Press* claims that "physician-assisted suicide" allows patients to regain "control" over their lives, by allowing them to maintain control over their deaths!

When the depressed Elaine Goldbaum, who had MS, sought Dr. Death after she was repeatedly brutalized by hired caretakers who ran up \$30,000 in charges on her credit card, did the *Free Press* demand that Michigan change its unregulated home-attendant programs? No, it promoted Goldbaum's "right to die." The *Free Press* suggests suicide options such as "terminal sedation," death by dehydration, and recommends suicide "experts," such as Timothy Quill, who tells doctors to use lethal injections on chronically ill, disabled, or depressed

patients who can't kill themselves. The newspaper now promotes a more "sensitive" assisted suicide than Kevorkian's—that proposed by the Merian's Friends suicide initiative, a Michigan group.

Putting euthanasia into the law

On May 27, Merian's Friends submitted 379,000 petition signatures—considerably more than the 240,000 required by the state—to place a "physician-assisted suicide" voter initiative on the Michigan ballot in November 1998. The group, named after an Ann Arbor woman, Merian Frederick, who died by Kevorkian's hand in 1993 at age 72, has tried to distance itself from "Dr. Death," but not from his aim: legalized euthanasia.

The group paid National Voter Outreach, a professional signature-gathering operation from Nevada, \$1.50 per signature to help their foundering campaign. Carol Poenish, co-founder of Merian's Friends, told a conference of the Hemlock Society how they misrepresented what the petition was about to get people to sign up: "I just went out to ask if they'd sign a petition for assisted suicide. And, they said, 'Yes, I hate that,' and they'd sign away."

Had the population read all 12 pages of the petition's fine print, they should have been horrified. The proposed law is

far more dangerous than Oregon's. It lets doctors prescribe lethal drugs to "terminally ill" patients who request them. The drugs can be taken orally or administered via the patient's nasogastric or gastrostomy tube. Who is to know, if a relative were to inject legally obtained suicide drugs into the feeding tube of a patient who had reversed her decision to commit suicide? Ron Bishop, a co-founder of the group, admitted to the *Detroit News* that it would be "perfectly appropriate" for doctors to give lethal injections to patients unable to kill themselves. Who would know? Under the Michigan suicide law, the cause of death in *all* doctor-induced suicides will be reported as the *disease* for which the deceased was being treated. Who is to investigate?

The law would set up a state oversight commission of 14 doctors and 3 members of the general public—all of whom would be required by this law to be *in favor of assisted suicide!* All records of patients, suicides, investigation of abuses, and any committee action, would be kept completely secret and would be *exempt* from disclosure under the Freedom of Information Act.

Is there room for abuse? You bet! If a patient kills himself under this law, his death would not be considered a suicide for the purpose of voiding a life insurance policy. So, it's likely that benefactors would manipulate sick policyholders into "choosing" suicide—which is what several spouses of Kevorkian's victims did, and reaped the insurance benefits. Even John Westover, outgoing president of the Hemlock Society, admits that "you can't tell entirely whether someone's family is coercing them into wanting assisted-death. But, what the Hell, I am not worried about my kids pushing me off because they want my money. Of course, it will happen, there will be abuses."

The co-chairmen of Merian's Friends span the political spectrum, including Macomb County Prosecutor Carl Malinga; Wayne County Prosecutor John O'Hair; Mariann Mahaffey, president, Detroit City Council; former Michigan Gov. William Milliken; former Detroit Mayor Coleman Young (now deceased); Peter Fletcher, former Republican National Committeeman; Arthur Johnson, past president NAACP; several former state representatives; Mel Ravitz, Detroit City Council; a former director of the state Department of Mental Health; and UAW leaders Frasier and Bluestone.

At present, the Michigan state legislature has before it Senate Bill 200, a proposed state ban on assisted suicide, sponsored by Sen. William Regenmorter (R). The bill has passed both houses, but will not go into effect until spring 1999, under normal procedures. It could go into immediate effect, however, if it receives a few more votes before it is signed by Governor Engler.

But that ban, endorsed with a considerable bipartisan vote after nine years of legislative action on the issue, can be overturned if voters pass the suicide initiative in November—something which the Hemlock Society USA, the most aggres-

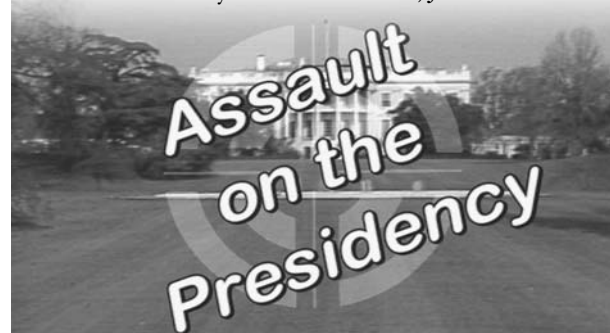
sive euthanasia group in the country, intends to achieve. Hemlock's 1998 annual conference was held in June in Ann Arbor, in order to throw its full support into the Michigan campaign. Many Hemlock leaders hail from the U.S.-British Euthanasia and Eugenics Societies which, only decades ago, sought the forced sterilization of minorities and immigrants and the killing of handicapped newborns. Privately, Hemlock has always demanded the right to Nazi euthanasia anywhere, at any time, for any reason, for anybody, no matter what their age.

At present, Hemlock is in a scramble to cover up a slip that exposed the real goals behind its propaganda about "self-determination for end-of-life decisions." Last December, Hemlock's executive director, Faye Girsh, endorsed the idea that guardians (including state institutions) be given the legal right to murder sick children and the mentally ill elderly. Her words: "A judicial determination should be made when it is necessary to hasten the death of an individual whether it be a demented parent, a suffering severely disabled spouse, or a child. Consultants should evaluate what other ways might be used to alleviate the suffering and, if none are available or are unsuccessful, a non-violent, gentle means should be available to end the person's life."

This is what is in store for Michigan, unless its citizens come to their senses, and assert their self-respect, in favor of the dignity of human life, and against Nazi euthanasia, in whatever guise it comes.

**"Long before Paula Jones,
long before Monica Lewinsky,
there was a conscious decision, made in
London, that there would be a full-scale
campaign to destroy Bill Clinton,
and to destroy, once and for all,
the credibility of the office of the
Presidency of the United States."**

—Lyndon H. LaRouche, Jr.



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Anti-China sanctions find little enthusiasm

On June 18, Craig Thomas (R-Wy.), chairman of the East Asia and Pacific Affairs subcommittee of the Senate Foreign Relations Committee, chaired a hearing, at which witnesses presented a "more balanced" view of U.S.-China relations, in contrast to the antics in the House, which has played host to a number of former Reagan-Bush administration officials pontificating about the threat that that tie poses to U.S. security.

Thomas, who is circulating a bipartisan letter urging senators to vote against new China sanctions, stated that most of the bills pending on China "involve sanctioning, or otherwise castigating China for its behavior in a number of fields." He stated, "On the eve of the President's trip, the China-related amendments threaten to challenge our relationship, just at a time in its development when it is most critical to advance vital interests."

Joseph Biden (D-Del.) closed the hearing with some advice for Assistant Secretary of State for East Asian and Pacific Affairs Stanley Roth, who represented the Clinton administration. "Don't let yourself be too concerned about this malarkey about the transfer of technology through satellites to China, and whether the President sold American interests for a campaign contribution," Biden said. "That is a diversion. You should act as if it doesn't even exist, in my humble opinion, because that investigation will go on. . . . I predict it will determine that nothing wrong was done."

Biden urged the administration not to adopt a bunker mentality, thinking that every Republican lawmaker opposes the President. "Don't let that [the investigations] affect your willingness to cooperate even with some Republican senators who may criti-

cize you on that front. There are really two separate goals. One is laden with heavy political interests; . . . the other is laden with a national interest. I'd focus on the national interest and not worry about the political interest, because my 'editorial comment' is that no one believes the President of the United States, for a campaign contribution, would sell out the national security of the United States of America."

On June 22, John Warner (R-Va.) said that he would move to table four pending amendments sponsored by Tim Hutchinson (R-Ark.) to the Defense Authorization bill, that would impose sanctions on China for various policies including forced abortions and human rights violations.

McCollum pushes prison privatization bill

On June 19, House Crime Subcommittee Chairman Bill McCollum (R-Fla.) introduced the Free Market Prison Industry Reform Bill, which will allow private industry, for the first time in American history, to bid on labor, facilities, and private industrial projects in the Federal prisons, and to sell goods produced therein on the open market. The bill would also turn over management of the Federal prison system to private management.

McCollum, in a press conference, motivated his proposal, saying that it is a crime that so many American firms are going overseas for cheap labor when they can get it right here at home, in U.S. prisons, where thousands of able-bodied men are doing nothing and are a drain on taxpayers. The bill would phase out mandatory source preferences, i.e., that the Federal government can only buy its furniture and

other prison-made items from the Federal prison program UNICOR. These rules were adopted in the Federal prison system when it was set up in the 1930s, to create a guaranteed market for the goods produced in the system, and to prevent prison labor from unfairly competing with free labor.

Asked what the prisoners' rate of pay should be, McCollum said, "Nothing. They will be contracted for their labor, not their wages." He later corrected himself, saying that the prisoners would receive some small portion of the money paid by the company to the prison for their labor, but most of it would go to the prison to cover the cost of upkeep, restitution to the victims' and their families, and so forth. Asked what type of jobs they would do, McCollum said, "Anything that doesn't involve security concerns."

McCollum said that his subcommittee would hold a hearing on June 25, amazingly fast for a bill that, as yet, has no co-sponsors.

House votes to terminate tax code

On June 17, the House approved the Tax Code Termination Act by a vote of 219-209, which mandates that no taxes will be collected under the 1986 Internal Revenue Act after Dec. 31, 2002, except for self-employment taxes, unemployment compensation, and the Railroad Retirement Act. It also calls for the implementation of a new tax system that is "simple and fair," and that it says should be passed by July 4, 2002. However, the House GOP did not offer a plan to replace the current system.

Jim Bunning (R-Ky.), who managed floor debate for the GOP, said the bill "would simply force Congress to

... pull the Federal income tax code out by its roots and replace it with an income tax system that is fair and understandable.”

Democrats were unanimous in calling the bill an “irresponsible act” to give Republicans something to point to in this election year. Charles Rangel (D-N.Y.) laughed at the idea that Republicans are going to come up with a replacement plan, and castigated them for failing to do that over the last three years during which they have controlled Congress. He also attacked the notion that Congress has to be “forced” to come up with a new tax code. All the Republicans have to do, he said, “is take their consensus from the people and pass a decent, respectable, fair, and equitable progressive tax bill. They should not force themselves to do it.”

Select panel on China created in the House

On June 18, the House voted 409-10 to create a select committee “on U.S. National Security and Military/Commercial Concerns With the People’s Republic of China.” It will have the authority to investigate a broad range of matters dealing with charges of alleged transfers of U.S. technology that have improved China’s offensive missile capabilities.

Included under its mandate is the conduct of the Clinton administration and defense contractors involved in satellite sales to China, as well as alleged efforts by the Chinese government to influence such policies through political contributions, bribery, and other forms of influence peddling. Chris Cox (R-Calif.) will chair the new committee, and Norm Dicks (Wash.) will be the ranking Democrat.

House floor debate seems to have been based almost entirely on articles by *New York Times* reporter Jeff Gerth, the same reporter who started the Whitewater scandal in 1992 with an article that was later debunked by the *Arkansas Democrat-Gazette*. Rules Committee Chairman Gerald Solomon (R-N.Y.) inserted into the record 10 articles from April, May, and June 1998, no fewer than seven of which were authored or co-authored by Gerth.

Democrats did not object to creating a committee based on newspaper reports of dubious accuracy, but rather on whether an investigation would turn into a platform for bashing the Clinton administration and its China policy. Martin Frost (D-Tex.) said that he supported the creation of the select committee, “but I do so with an important caveat: If this investigation wanders from the focus of determining the answers to the questions at hand, and if some of my colleagues insist upon demagoguing this issue, they risk damaging not only the legitimacy of any of the findings of the committee, they risk damaging the integrity of this institution.”

Tobacco bill goes up in smoke

On June 17, the tobacco bill, after almost four weeks of consideration on the Senate floor, was returned to committee to await an uncertain fate. Its end came after two votes. One, a closure vote to cut off debate, received 57 votes (60 are required). The second was on a point of order against the bill raised by Appropriations Committee Chairman Ted Stevens (R-Ak.), who objected that the bill, as written, violated both the 1974 Congressional Budget Act and last year’s budget

agreement, because it exceeded the spending allocations of the Commerce, Science, and Transportation Committee. The vote to waive the requirements of the budget act, got only 53 votes.

Reaction to the two votes was swift and sharp, and showed that the two sides are farther than ever from an agreement. Democrats expressed amazement that Republicans would move to kill a bill after insisting that it would only pass with amendments that they wanted, including the repeal of the marriage tax penalty, increased funding for drug interdiction, and the cap on lawyers’ fees (which was adopted the previous day). John Kerry (D-Mass.) told reporters after the vote that what they had witnessed was “a concerted strategy to deprive the kids of America of the best opportunity we’ve had to be able to provide them with an option not to smoke.”

On the next day, Minority Leader Tom Daschle (D-S.D.), following through on a pledge from the week before to attach the bill to any legislation that “comes down the pike,” offered the tobacco legislation as an amendment to the Energy and Water Development Appropriations bill. It was tabled by a vote of 54-44.

Republicans complained that the bill included too much spending and new taxes. House Speaker Newt Gingrich (R-Ga.) suggested a slimmed-down version that would feature a public awareness campaign and incentives to states to reduce teen smoking, but would not include the taxes and the public health measures included in the version offered by John McCain (R-Ariz.). House Minority Leader Richard Gephardt (D-Mo.) said, “We’re not going to vote for a fig leaf bill; we’re not going to vote for a blank piece of paper so they can say they’ve passed anti-smoking legislation.”

U.S. support said to be vital to Cambodia peace

Former Australian Ambassador to Cambodia Tony Kevin, appearing at the National Press Club on June 22, urged the United States to support the election process ongoing in Cambodia. He said that the U.S. reaction is "crucial to Cambodia's chances of resuming normal relations with the outside world."

He also spent a great deal of effort refuting the prevailing view in Washington of Cambodia and Hun Sen, in particular, calling Prince Norodom Ranariddh and his father, King Sihanouk, "morally tainted" for their collaboration with the Khmer Rouge, including in the Khmer Rouge's plans in July 1997 to overthrow the Phnom Penh government, using co-Prime Minister Ranariddh as a figurehead. Hun Sen foiled the plot, whose true extent was uncovered by the *Phnom Penh Post*, based on Khmer Rouge papers discovered in May 1998.

Kevin was especially harsh toward the *Washington Post*, which blacked out the Khmer Rouge papers, saying that the *Washington Post* "doesn't like to cover anything that doesn't go their way."

Clinton says U.S. seeks reconciliation with Iran

In a statement on June 18, President Clinton said that United States is seeking "a genuine reconciliation with Iran based on mutuality and reciprocity and a sense the Iranians are prepared to move away from support of terrorism and distribution of dangerous weapons," as well as Tehran ending its opposition to the Middle East Peace process.

Iranian Foreign Minister Kamal Kharazmi, speaking from Madrid, Spain, responded that the United States must end its "hostile policies" toward Iran before any normalization could occur. Of particular concern is U.S. opposition to building a Caspian pipeline in Iranian territory.

The first hint that the United States was responding to the opening created by Iranian President Mohammed Seyyed Khatami's Jan. 7 interview with Cable News Network, occurred with Secretary of State Madeleine Albright's June 18 speech at the Asia Society in New York. She praised the Iranian people and the democratically elected government, and suggested that there is a path now available, for normalization of relations between the two countries. Albright cited Iran's successful internal crackdown on drug trafficking, and praised the Iranian government's humanitarian treatment of Afghani and Iraqi refugees inside the country. She cited President Khatami's recognition of Yasser Arafat as the legitimate representative of the Palestinian people as a sign that Iran was softening its opposition to the Middle East peace process. Albright acknowledged that the United States has quietly been working with Iran bilaterally in brokering the cease-fire in Afghanistan, and on several other issues that she chose not to elaborate.

McCaffrey testifies vs. dope 'harm reduction'

White House drug policy adviser Gen. Barry McCaffrey (ret.) submitted written testimony to the Senate Foreign Relations Committee in June, strongly condemning the "carefully camouflaged, exorbitantly funded, well-heeled elitest group whose ultimate goal is to legalize drug use in the United States," which hides behind "harm reduction." The leading funder of such campaigns, both in the United States and overseas, is speculator and self-styled philanthropist George Soros. "Through a slick misinformation campaign," said McCaffrey, "these individuals perpetuate a fraud on American people." His statement prompted the Judiciary Committee's ranking Democrat, Joseph R. Biden (Del.), to propose hearings to expose drug legalization "for the fraud that it is."

General McCaffrey called "harm reduction," such as needle-exchange programs, ostensibly to curb the spread of AIDS, "a hijacked concept that has become a euphe-

mism for drug legalization. It's become a cover story for people who would lower the barriers of drug abuse." He closed his testimony by calling for debate, and expressed his confidence that legalization would be "rejected resoundingly" by Americans. Without naming names, he made a clear reference to the open letter, signed by 500 "elites" including George Soros, which spread across two pages in the *New York Times* as the UN General Assembly opened its special three-day session on drugs.

In response, dope legalization mouthpiece Ethan Nadelman of Soros's Lindesmith Center in New York, lied that "the majority of harm reduction advocates oppose drug legalization, and that includes George Soros." Nadelman claimed that he would welcome a debate, because "his [McCaffrey] trying to equate all forms of harm reduction with a free market approach to drug legalization is both false and duplicitous."

Soros was the major financier behind the "medical marijuana" ballot initiatives that passed in California and Arizona in 1996.

Lawrence Freeman runs for Maryland governor

Lyndon LaRouche associate and Schiller Institute leader Lawrence Freeman announced his intention to run for the Democratic nomination for governor in Maryland. The primary is Sept. 15. Freeman, who has reported for *EIR* on his numerous trips to Nigeria and Sudan, declared that "the watchwords of my campaign for Governor of Maryland will be 'truth and justice.'"

"In my previous campaign, I was the only candidate who told the truth. I warned the citizens of Maryland of the impending financial collapse. I have been proven 100% on the mark. My longtime friend and colleague, Lyndon LaRouche, was the only economist to accurately forecast the breakdown of the global financial system. . . . We are now in a 'global depression,' as one World Bank official has reluctantly admitted." Freeman cited LaRouche's call for a

PENNSYLVANIA'S Legislative Black Caucus is attempting to intervene in the Philadelphia transit strike. Caucus chairman Harold James said that the strike is "devastating" the livelihoods of his inner-city constituents. He is hoping the Caucus can help bring about a settlement, and recognizes the justice of the Transport Workers Union Local 234 demands. The Southeast Pennsylvania Transit Authority is making demands similar to those UPS made of the Teamsters: part-time hires, with no benefits at below-standard wage, cuts in benefits, and privatization of routes.

REP. TONY HALL (D-Ohio), a partisan of the ill-named Christian Solidarity International, lied that the Sudanese government is preventing humanitarian aid from reaching starving populations in the war-torn south. As is well-documented by aid agencies, the blockade is being put up by Baroness Cox's own rebel, John Garang. Garang's Sudanese People's Liberation Army troops are believed to be consuming the aid.

'SHRUB' BUSH, the former President's son, pressed the flesh in Washington on June 18 to raise money for his reelection as Texas governor. However, many think the Washington fundraiser was to give young George W. Bush national exposure, so he can run as GOP candidate for President in 2000.

MARÍA ELENA MILTON, the LaRouche Democrat who shook up Arizona in 1996 with her campaign against Rep. John Shadegg (R), has announced her candidacy against him again, and challenged him to sign on as a sponsor of the McDade-Murtha Citizens Protection Act. The Democratic primary is Sept. 8.

REPUBLICAN National Committee Chairman Jim Nicholson issued a call for the party to begin agitating for missile defense systems, according to the June 21 *Washington Times*. The call was based on scare propaganda about ostensible threats from China, India, and Pakistan.

New Bretton Woods conference to replace the oligarchy's bankrupt world financial system.

In both domestic and foreign policy, Freeman pointed out, U.S. politics is being hamstrung by a corrupt justice system, citing the case of Maryland State Sen. Larry Young, whose expulsion "by the Maryland State Senate during their last session was a hideous spectacle, which never should have been allowed to occur. This is not a question of whether or not one supports Senator Young politically. Larry Young's expulsion was not based on criminal evidence. He was a victim of a nasty, racist policy emanating out of the Justice Department, called 'Operation Fruehmenschen,' . . . that has been targeting prominent African-American public and elected officials. . . . It is the same evil nest in the Justice Department that conducted the judicial railroad that sent Lyndon LaRouche to prison. We have also shown that it is the very same cast of characters who are trying to impeach President Clinton and destabilize the United States government."

Former Bush official: 'Starr stretches rules'

In a *New York Times* commentary on June 19, Ronald K. Noble, writing on Steve Brill's exposé on the media leaks from independent counsel Kenneth Starr, chides Starr for trying to carve out an "exception" for his leaking. Noble writes, "The Justice Department specifically forbids prosecutors from answering questions about an ongoing criminal investigation." Noble should know. He was a prosecutor and became the Deputy Assistant Attorney General in charge of the Criminal Division during the Bush administration. He also served in the first Clinton administration as the Assistant Secretary for Enforcement in the Treasury Department. Now a professor of law at New York University, Noble argues that the leaks "must be investigated."

Noble writes that Justice "guidelines on media relations" also forbid employees from releasing "information that is likely to prejudice any legal matter." The bottom line,

Noble says, is that "there are few situations where substantive information on an investigation can be released. And if [it] is released, it should be on the record." Then Noble draws the obvious conclusion about Starr's reported leaks: "Any off-the-record conversation between prosecutors and reporters is by definition suspect." He argues that a prosecutor must be held "accountable" for his actions both to the public and the judge presiding over any grand jury.

Noble ridicules Starr's claim, that last February he investigated "whether his office was leaking information." Clearly, based on Brill's revelations, Starr's "investigation" is highly suspect and, as Noble writes, "Starr has no choice but to ask for an independent investigation" whether leaks occurred. Otherwise, he argues, "it will appear that the Independent Counsel's Office is above the law."

Cabinet shifts occur at Energy Dept., UN post

President Clinton has decided to name U.S. Ambassador to the UN Bill Richardson to replace Federico Peña, who is retiring as Energy Secretary. (Peña replaced Hazel O'Leary, one of the several minority cabinet officials forced out by Justice Department scandalizing.)

Stepping into Richardson's shoes as UN ambassador will be Richard Holbrooke, who was Clinton's special envoy to Bosnia in 1995. According to the June 18 *Washington Post*, Holbrooke was especially attractive to the White House, because he is said to be "strong-willed," rather than a "foreign policy team" yes-man. Holbrooke was in the Carter State Department, and has served President Clinton as special envoy to the Balkans, and, as Clinton's trouble-shooter on the Cyprus crisis. He recently returned from private life to go back to the Balkans, when the Kosova crisis erupted, to support special envoy Robert Gelbard in pressuring Serbian dictator Slobodan Milosevic to abandon his "ethnic cleansing" of Kosova's ethnic Albanian majority.

Editorial

An idea whose time is long overdue

When will the leading nations, including the United States, admit that the International Monetary Fund is a complete failure, and implement Lyndon LaRouche's New Bretton Woods system? That was the question posed at the *EIR* seminar in Washington, D.C. on June 18, as our *Feature* in this issue details.

The world's heads of state and central bankers are, in general, running hysterically in the opposite direction. But there is a great deal of debate, pro and con, going on over LaRouche's policy. That debate centers around the issues of fixed vs. floating currency exchange rates, and the need to protect national currencies against speculative attack.

LaRouche proposes that leading governments of the world, including the United States, convene a conference, as they did at Bretton Woods, New Hampshire in 1944, to work out the framework for a new world monetary system. The current system is hopelessly bankrupt; it must be put through bankruptcy reorganization, like a company that can no longer pay its debts. The purpose of such a reorganization is not to bail out the banks and financial institutions—they cannot be saved! Rather, we must save the productive, physical economies of nations.

Debate over such a reorganization is particularly intense in the developing sector, among nations that are getting slammed the hardest by the crisis. For example, in Venezuela, whose government is discussing whether to declare a state of national economic emergency, the newspaper *El Globo* on June 21 published an article by José Pares Urdaneta, titled "Crisis and Reform: A New Bretton Woods?" The solution to the Asian crisis and the oil price collapse, he writes, is to call a New Bretton Woods conference. What he means by this, however, is not LaRouche's concept at all. While blaming the "bureaucrats" at the IMF and the World Bank for the crisis, he goes on to invoke the authority of the ultra-free-market Ludwig Von Mises Institute, on how it is governments which have destroyed "honest money."

The New Bretton Woods debate finally made it to the American Midwest on June 20, with a commentary by Mike Meyers in the *Minneapolis Star Tribune*, titled

"Falling Yen Raises Questions About Floating Currency." Although the article does not mention LaRouche, everybody in the know is well aware that the New Bretton Woods is his proposal.

Meyers writes that, with the second-largest economy in the world, Japan, begging the United States to help bail out its currency, "the time has come to re-examine the question" of abandoning the floating exchange rate system. "We need something on the order of a new Bretton Woods, a top-down serious reassessment of what the exchange rate system should look like," the article quotes Catherine Mann, of the Institute for International Economics in Washington.

Meyers reports that researchers at the Minneapolis Federal Reserve Bank "argue that fluctuations in international currencies are a cost that governments, businesses, and consumers should not have to bear. They think they have a better way, a path that was tried and abandoned earlier this century: fixed currency exchange rates." (See interview, p. 6.)

This idea is being debated in Italy, where banking supervisor Paolo Savona wrote a guest commentary in the daily *Corriere della Sera* on June 19, warning of the disastrous explosion of the financial derivatives market, but rejecting the idea of a New Bretton Woods and fixed exchange rates. "If you want to face the new global monetary and financial reality with the nostalgia of by-gone times," he wrote, with reference to the original Bretton Woods, "trying to go back to gold convertibility or to fixed exchanges, the answer can only be negative."

Is it "nostalgia," to demand a return to a system that worked? Ultimately, the issue of the New Bretton Woods is not a technical question, but a political and moral one. As LaRouche said in his greeting to the Washington seminar, the great issues facing us are two: "First, whether at least some of the present governments are willing to replace popular delusions with those readily available measures which can solve the crisis. Second, whether the U.S. government, in particular, is willing to adopt the readily available, alternative policies in time to rescue mankind as a whole from what would become, otherwise, the worst, and deepest economic depression in modern history."

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- MANHATTAN—MNN Ch. 34
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Sun., July 12 & 26—9 a.m.

- MANHATTAN—MNN Ch. 34
Sun., Aug. 9 & 23—9 a.m.

- MANHATTAN—MNN Ch. 34
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- MONTVALE/MAHWAH—Ch. 14
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- NASSAU—Ch. 80
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- OSSINING—Ch. 19-S
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- POUGHKEEPSIE—Ch. 28
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- QUEENS—QPTV Ch. 57
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- RIVERHEAD
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- ROCKLAND—PA Ch. 27
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- SCHENECTADY—SACC Ch. 16
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- STATEN ISL.—CTV Ch. 24
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- SUFFOLK, L.I.—Ch. 25
2nd & 4th Mondays—10 p.m.

- SYRACUSE—T/W Ch. 3
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- SYRACUSE (Suburbs)
Time/Warner Ch. 12; Sat.—9 p.m.

- UTICA—Harron Ch. 3
Thursdays—6 p.m.

- WEBSTER—WCA-TV Ch. 12
Wednesdays—8:30 p.m.

- WEST SENECA
Adelphia Cable Ch. 68
Thursdays—10:30 p.m.

- YONKERS—Ch. 37
Saturdays—3:30 p.m.

- YORKTOWN—Ch. 34
Thursdays—3 p.m.

OHIO

- OBERLIN
Cable Co-op Ch. 9; Tue.—7 p.m.

OREGON

- CORVALLIS/ALBANY
Public Access Ch. 99
Tuesdays—1 p.m.
- PORTLAND—Access
Tuesdays—6 p.m. (Ch. 27)
Thursdays—3 p.m. (Ch. 33)

TEXAS

- AUSTIN—ACT Ch. 33*
- EL PASO—Paragon Ch. 15
Wednesdays—5 p.m.
- HOUSTON—Access Houston
Tue., Jul. 7: 8:30-9:30 p.m.
Thu., Jul. 9: 5-6 p.m.
Sat., Jul. 11: 7-9 p.m.
Mon., Jul. 13: 5-7 p.m.
Thu., Jul. 16: 10-11 a.m.
Fri., Jul. 17: 3:30-5:30 p.m.

UTAH

- GLENWOOD, Etc.—SCAT-TV
Channels 26, 29, 37, 38, 98
Mon.-Fri.—various times

VIRGINIA

- ARLINGTON COUNTY
ACT Ch. 33
Sun.—1 pm; Mon.—6:30 pm
Wednesdays—12 Noon
- CHESTERFIELD COUNTY
Comcast Ch. 6; Tue.—5 p.m.
- FAIRFAX COUNTY
FCAC Ch. 10
Tuesdays—12 Noon
Thurs.—7 p.m.; Sat.—10 a.m.
- LOUDOUN COUNTY
Cablevision Ch. 59
Thursdays—10:30 a.m.;
12:30 p.m.; 2:30 p.m.;
4:30 p.m.; 7:30 p.m.; 10:30 p.m.
- ROANOKE COUNTY—Cox Ch. 9
Thursdays—2 p.m.

WASHINGTON

- KING COUNTY—Ch. 29
Fridays—8 a.m.
- SPOKANE—Cox Ch. 25
Wednesdays—6 p.m.
- TRI-CITIES—TCI Ch. 13
Mon.—12 Noon; Weds.—6 pm
Thursdays—8:30 pm

WISCONSIN

- OSHKOSH—Ch. 10
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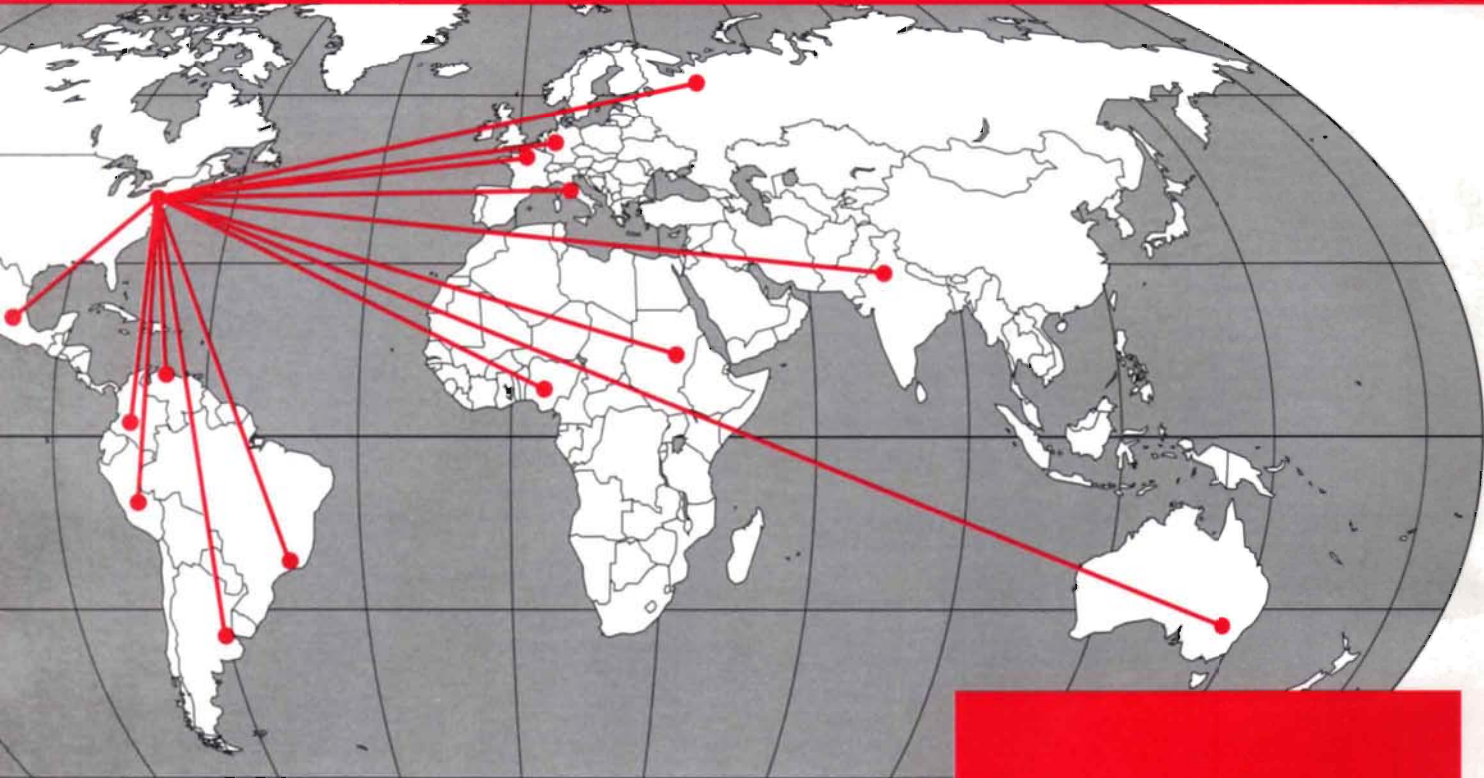
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