

# EIR

Executive Intelligence Review

September 11, 1998 Vol. 25 No. 36

\$10.00

China opts for Roosevelt's 'New Deal'  
New Democrats in insurrection against the President  
Many questions unanswered in death of Diana

**Malaysia hits the speculators:  
Re-regulate, reindustrialize!**



# The suppressed story of America's battle with Britain

## The Civil War And the American System

tells the truth—for the first time—about the “Civil War,” which was in fact the battle between the American System of economics and the British system of free trade.

Today the heirs of Adam Smith and the British Empire are pressing for worldwide “free trade,” a system which led to slavery in the 19th century, and is doing so again today.

Utilizing a rich selection of primary-source documents, Salisbury reintroduces the forgotten men of the Civil War-era battle for the American System: Mathew Carey, Henry Carey, William Kelley, William Elder, and Stephen Colwell. Together with Abraham Lincoln, they demanded industrial-technological progress, against the ideological subversion of British “free trade” economists and the British-dominated Confederacy.

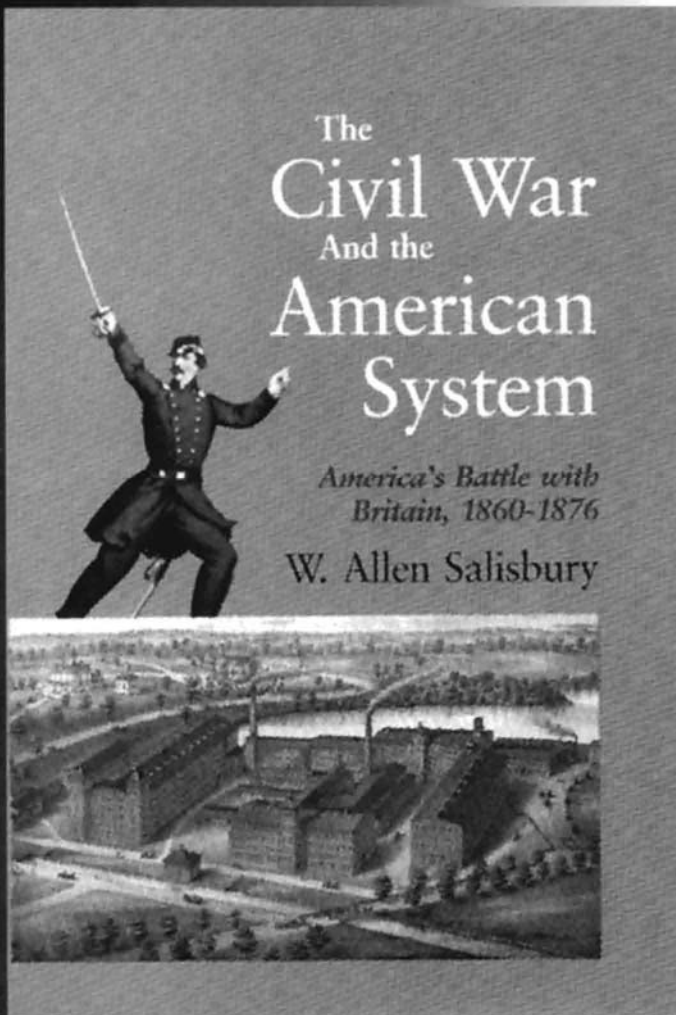
ORDER TODAY FROM

**Ben Franklin Booksellers**

P.O. Box 1707 Leesburg, VA 20177

(800) 455-4108 (703) 777-3661 fax (703) 777-8287

Visa and MasterCard accepted



**\$15**

plus \$4.00 shipping for first book;  
\$.50 shipping for each additional book.

Founder and Contributing Editor:

*Lyndon H. LaRouche, Jr.*

Editorial Board: *Lyndon H. LaRouche, Jr.,  
Antony Papert, Gerald Rose, Dennis Small,  
Edward Spannaus, Nancy Spannaus, Jeffrey  
Steinberg, William Wertz*

Associate Editor: *Susan Welsh*

Managing Editors: *John Sigerson,  
Ronald Kokinda*

Science Editor: *Marjorie Mazel Hecht*

Special Projects: *Mark Burdman*

Book Editor: *Katherine Notley*

Advertising Director: *Marsha Freeman*

Circulation Manager: *Stanley Ezrol*

INTELLIGENCE DIRECTORS:

Asia and Africa: *Linda de Hoyos*

Counterintelligence: *Jeffrey Steinberg,  
Paul Goldstein*

Economics: *Marcia Merry Baker,  
William Engdahl*

History: *Anton Chaitkin*

Ibero-America: *Robyn Quijano, Dennis Small*

Law: *Edward Spannaus*

Russia and Eastern Europe:

*Rachel Douglas, Konstantin George*

United States: *Debra Freeman, Suzanne Rose*

INTERNATIONAL BUREAUS:

Bogotá: *José Restrepo*

Bonn: *George Gregory, Rainer Apel*

Buenos Aires: *Gerardo Terán*

Caracas: *David Ramonet*

Copenhagen: *Poul Rasmussen*

Houston: *Harley Schlanger*

Lima: *Sara Maduëño*

Melbourne: *Robert Barwick*

Mexico City: *Hugo López Ochoa*

Milan: *Leonardo Servadio*

New Delhi: *Susan Maitra*

Paris: *Christine Bierre*

Rio de Janeiro: *Silvia Palacios*

Stockholm: *Michael Ericson*

United Nations, N.Y.C.: *Leni Rubinstein*

Washington, D.C.: *William Jones*

Wiesbaden: *Göran Haglund*

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

**European Headquarters:** Executive Intelligence Review  
Nachrichtenagentur GmbH, Postfach 2308,  
D-65013 Wiesbaden, Otto von Guericke Ring 3, D-65205  
Wiesbaden, Federal Republic of Germany  
Tel: (6122) 9160. Homepage: <http://www.eirma.com>  
E-mail: [eirma@eirma.com](mailto:eirma@eirma.com) Executive Directors: Anno  
Hellenbroich, Michael Liebig

**In Denmark:** EIR, Post Box 2613, 2100 Copenhagen ØE,  
Tel. 35-43 60 40

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

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

Copyright © 1998 EIR News Service. All rights reserved.  
Reproduction in whole or in part without permission strictly  
prohibited. Periodicals postage paid at Washington D.C.,  
and at an additional mailing offices.  
Domestic subscriptions: 3 months—\$125, 6 months—\$225,  
1 year—\$396, Single issue—\$10

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

## From the Associate Editor

Surveying the explosive developments on the world scene that are reported in this issue, Lyndon LaRouche emphasized to *EIR* staff the cardinal importance of mobilizing to save the U.S. Presidency, and getting President Clinton to adopt the emergency economic measures that LaRouche has outlined. While there are valuable, even indispensable, initiatives being taken by other nations, it is ultimately the role of the United States of America that will be decisive, in determining whether or not civilization survives.

As we document in this issue, there is a worldwide outpouring of support for re-regulation and reindustrialization—the LaRouche policy, the American System of political economy. Malaysia and China are taking courageous actions to defend their economies from the speculators. India, which never deregulated its financial system, is looking long and hard at what is going on, and its leaders are saying that full currency convertibility will only be achieved “over time.” In Russia, there is a policy brawl, with paralysis at the top.

In Washington, an insurrection is being mounted against President Clinton by the “New Democrats,” the adherents of Tony Blair’s “Third Way.” If this insurrection succeeds, the consequences for the nation and the world will be disastrous—as foreign commentators are pointing out (see *National*).

Our task, LaRouche stressed, is to intervene “from the top,” to organize the American citizenry and the President. Leadership has to operate “from the mountain top,” from a scientific strategic overview. There are no local issues or specialized concerns that have any meaning, at a time of crisis like the present.

LaRouche is currently preparing a document for publication on the “New Democrats.” He will address the subjective problems of how, with reality shocks hitting the world, leaders are having a “potency crisis.” (See the leading article in *National* for a preliminary news analysis on the New Democrats’ insurrection.)

As we go to press, the Schiller Institute and the International Caucus of Labor Committees are gathering for their annual Labor Day conference. It will chart out organizing initiatives to implement the perspective LaRouche outlines, “from the mountain top.” We’ll have a full report in next week’s issue.

*Susan Welsh*

# EIRContents

## Interviews

### 6 Tatyana Koryagina

Dr. Koryagina is an Academician of the Russian Academy of Natural Sciences, and an economics adviser to opposition deputies in the State Duma of the Russian Federation.

### 65 Lawrence Freeman

Freeman is a candidate for Governor in Maryland's Sept. 15 Democratic primary. He heads the Marylanders for Justice slate of LaRouche Democrats running in the state.

## Departments

### 33 Report from Bonn

Russian crisis sends wake-up call.

### 41 Australia Dossier

Police take on "anti-corruption" scam.

### 72 Editorial

Rumblings on the derivatives front.

#### Photo and graphics credits:

Cover, EIRNS/Gonzalo Huertas.  
Pages 5, 6, EIRNS/Stuart Lewis.  
Page 28 (Carey), Library of Congress Prints and Photographs Division. Page 40, EIRNS/Chris Lewis. Page 49, EIRNS/ John Sigerson. Page 66, EIRNS/Donielle Berg.

## Investigation

### 44 The death of Diana: Many questions unanswered

One year after the crash that claimed the life of Princess Diana, and despite the best efforts of the French police, the British monarchy, and the vast majority of the European and American media to pronounce the crash a case of drunk driving, evidence continues to accumulate that it was anything but an accident.

### 46 A day in the life, and death, of a Princess

### 52 Diana, Dodi murders: year of the cover-up

### 54 Prince Philip's murderous rage

On the day of the crash, the London *Sunday Mirror* revealed the Windsors' covert war against Diana.

### 56 Monarchy's toadies howl: 'Off with her head!'

## Economics

### 4 Re-regulate, reindustrialize: It's the American Way!

Lyndon LaRouche has long warned that if the policies of British monetarism were not scrapped, the world economy would head for a crash. Now, the battle between those who favor re-regulation and protection of the physical economy, and those who still back the disastrous "free market" program, is at center stage.

### 6 'Russia is on the verge of a revolution against speculators'

An interview with Dr. Tatyana Koryagina.

### 11 Hong Kong hits speculators, as China develops New Deal

The myth that the speculators are "invincible" has been smashed, by the decisive victories of the Hong Kong authorities.

### 15 Malaysia asserts its monetary independence

A statement by the Malaysian central bank.



Malaysian Prime Minister Dr. Mahathir bin Mohamad, during a visit to Argentina in October 1997.

**17 Dialogue with Dr. Mahathir: Why Malaysia needs capital controls**

On Sept. 1, following the Bank Negara's release of a statement announcing the imposition of capital controls, and setting an Oct. 1 deadline for repatriation of offshore ringgit, Prime Minister Dr. Mahathir bin Mohamad gave a televised interview to the nation on the measures.

**23 The era of free trade is over**

Statements by economists, government officials, and media commentators on the need for measures to deal with the global financial collapse.

**27 The real economics of the American System**

Excerpts from the writings of two international leaders of the anti-British school of political economy: Henry Carey of the United States and Count Sergei Witte of Russia.

**32 Venezuela denounces financiers' plot**

**34 Business Briefs**

## International

**36 Peru's Fujimori commits hara-kiri, fires Hermoza**

London's Dope, Inc. apparatus has finally succeeded in breaking up the civil-military alliance which has saved Peru from disintegration at the hands of narco-terrorist armies.

**38 Gen. Hermoza: lessons we must never forget**

Excerpts from the speech of Peruvian Armed Forces Commander Gen. Nicolás Hermoza Ríos, upon leaving his command.

**39 Israel pushes U.S. clash with Pakistan**

A report on a conference at the U.S. Institute on Peace in Washington, on "Counterterrorism Strategy: Lessons after Nairobi, Dar es Salaam, and Omagh."

**40 EIR white paper on 'Missed Chance of 1989' released in Germany**

**42 International Intelligence**

## National

**60 'New Democrats' in new treachery vs. the President**

Over three years ago, Sen. Ted Kennedy insisted the country did not need two Republican Parties. The New Democrats, all taking their hits at the President, don't agree.

**61 Court backs LaRouche v. Fowler**

**62 Kenneth Starr's unconstitutional and illegal impeachment campaign**

A guide for what the Constitution allows, and does not allow, in the impeachment and conviction of a U.S. official.

**65 LaRouche Democrats introduce reality into Maryland election**

An interview with Lawrence Freeman.

**68 Foreign press rips Starr witch-hunt as threat to international security**

**70 ADL's 'Get LaRouche' hit-man Suall dies**

An obituary for Irwin Suall.

**71 National News**

## Re-regulate, reindustrialize: It's the American Way!

by Susan Welsh

The Malaysian government on Sept. 1 announced a package of measures to defend the national economy against financial speculators and to insulate it from a crash of the worldwide monetary system. The measures include foreign exchange controls which absolutely prevent speculation in the Malaysian currency, the ringgit. These resolute moves by a sovereign nation, in its own self-defense, create a rallying point for all nations in this time of crisis.

The Malaysian actions occur in the midst of an extraordinary debate in every world capital, over how to deal with the systemic breakdown crisis. We provide documentation of this debate in the following pages.

In Russia, a battle is raging between those who favor the re-regulation and protection of the nation's physical economy, and those who still back the disastrous "free market" program. We publish here an interview with Russian economist Dr. Tatyana Koryagina, a representative of the former faction, who expresses optimism that Russia will indeed move toward Lyndon LaRouche's policies, and expects that LaRouche will become an adviser to the Russian government under such a new economic policy.

In China, efforts are intensifying to protect the nation from the global financial crisis. Hong Kong is battening down the hatches against the speculators, and Taiwan has barred all securities and investment trust companies from selling or buying hedge funds linked to billionaire speculator George Soros.

### LaRouche was right

These exciting developments do not come a moment too soon. They demonstrate the validity of what LaRouche has warned about since before the breakup of the Bretton Woods

System in 1971: that if the policies of British monetarism were not scrapped, the world economy would head for a crash of hitherto unprecedented dimensions. Every year that has gone by, with the speculative financial bubble growing more and more inflated, has made the situation that much worse. LaRouche has mobilized support for a New Bretton Woods System: an agreement among sovereign nations to regulate

international financial flows, including fixed currency exchange rates—but with the proviso that, this time around,

national banking should replace central banking. This call has circulated far and wide, and is well known to the policymakers who are taking the audacious moves we see today.

Financial re-regulation is only part of what is required; it must be accompanied by a *reindustrialization* program, to rebuild the decrepit physical economies of nations that have been savaged by 30 years of monetarist looting. LaRouche has called for nations to participate in the construction of the Eurasian Land-Bridge, creating corridors of high-technology development across Eurasia, with "spiral arms" reaching to the other continents.

As LaRouche has emphasized, the approach required today is the *American System of political economy*. America's industrial strength was never built by British free market measures; it was a triumph of the protectionist factions, beginning with Alexander Hamilton and Benjamin Franklin, and proceeding through Henry Carey, Abraham Lincoln, and Franklin Delano Roosevelt. In this section, we provide excerpts from Carey's attacks on British free trade, and similar writings by Russia's Count Sergei Witte. The "American System" tendency was always an international effort, as it remains today.

LaRouche spelled out the policy required, taking Russia

---

### Feature

---

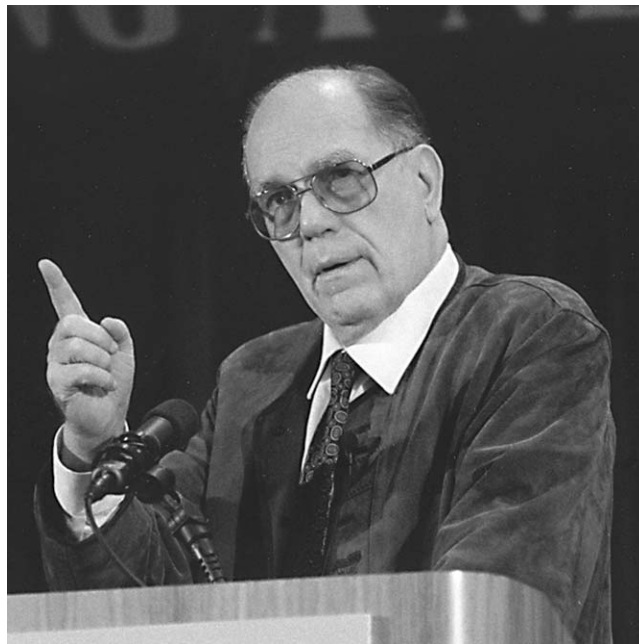
as an example, in a recent issue of *EIR* (“What Will Happen, If . . . ?,” Aug. 28, 1998). Starting from the initiatives taken by Malaysia and others, here is the direction in which the world’s leaders must now proceed:

“All of the most successful agro-industrial economies of the late Nineteenth and Twentieth Centuries,” LaRouche wrote, “modelled their successful performance upon the form of American System economics developed in the U.S. during 1861-1876. Indeed, this was also the model adopted as ‘American methods,’ with certain well-known qualifications, for the industrial development of the Soviet Union, by V.I. Lenin and other Soviet leaders. The U.S. economic-mobilization standards of 1861-1876, standards re-invoked for the U.S. economic mobilizations of the period of World Wars I and II, remain the bench-mark standards for determining the degree to which economic policy of practice is, or is not fostering the net growth of the physical economy of the nation as a whole. . . .

“In the American System, we compare Hamilton’s use of the notion of ‘productive powers of labor’ to Leibniz’s earlier definitions of the same functional notion. We include under ‘productive powers of labor,’ the level of improvement of all of the general territory, all of its basic economic infrastructure, all of the material and cultural standard of life of all family households, and the factors of power and technology. We compare those expenditures which are required to maintain the potential and actual productive powers of labor of the economy as a whole, per capita and per household, with the total useful output of the same qualities. We define ‘growth’ as the increase of the physical-economic output of the whole economy, per capita, over the expenditures which must be made to sustain the relevant productive powers of labor.

“Put to one side the usually misleading, and merely secondary issues of money, prices, and finance. Get back to basics; measure the performance of economies in those American System terms which I have just summarized. Apply these standards to the problems of today’s Russia.

“Put the relevant ‘voodoo economics’ of former President Bush, Wall Street’s bookmakers, and the Mont Pelerin Society’s freak-shows to one side. Before measuring anything in terms of prices, compare the total output of the productive forces of Russia, with the physical-economic costs of maintaining the continued existence of the present level of productive forces of Russia as a whole. By this standard, the so-called reforms imposed beginning 1989-1992, collapsed Russia’s economy, not only to levels far below break-even, but the failure to overturn those policies ensured the continually accelerated collapse of those ratios to beyond any breaking-point. The absolute breaking-point, a new quality of phase-shift in the process, has now either been reached, or nearly so. No matter how international bookkeepers juggle the financial accounts, the physical costs and physical output of Russia’s economy as a whole, and the balance of domestic and foreign accounts (as their effects are measured in physical-economic,



*Lyndon H. LaRouche, Jr. has warned, since before the breakup of the Bretton Woods System in 1971, that without a fundamental change in economic policy, a global breakdown crisis would occur. Isn't it time to listen to LaRouche?*

rather than merely financial terms), remain hopeless as long as present ‘free trade,’ ‘globalization,’ and ‘reform’ policies remain in force.

“There is only one solution; scrap the existing, ‘globalized’ international financial and monetary systems, and virtually outlaw any application of the doctrine of ‘free trade’ to international relations. Many will stubbornly, hysterically object to such an abandonment of the cult of ‘free trade.’ Ask them, ‘Are you willing to pay the price of your stubborn folly?’ Do you wish civilization to survive, as it will not, unless we now rid this planet promptly of the pestilences of ‘globalization’ and ‘free trade’? If not, the death of your children and grandchildren, caused by nothing but your own folly, often a horrible death, is on your hands. . . .

“Go to a new global system, modelled upon both the best features of the world’s experience with the so-called ‘American System’ of Hamilton, List, and the Careys, modelled upon the best features of the U.S. economic mobilizations of 1861-1876 and also World Wars I and II, and modelled upon the best features of the pre-1958 phase of the Bretton Woods, gold-reserve system. To Russia’s seemingly hopeless situation, apply the lessons of the repeated successes of the applications of U.S. Treasury Secretary Alexander Hamilton’s three celebrated reports to the U.S. Congress on the subjects of credit, a national bank, and manufactures. *Under those conditions, and only under those conditions, can the present ongoing, chain-reaction collapse of the world’s financial and systems be brought under control.*”





## ‘Russia is on the verge of a revolution against speculators’

*Tatyana Koryagina is an Academician of the Russian Academy of Natural Sciences, and an economics adviser to opposition deputies in the State Duma of the Russian Federation. In the 1980s, she was a leader in the movement for economic reform, serving on the Commission on Economic Reform under the U.S.S.R. Council of Ministers. A supporter of Boris Yeltsin in 1990, she broke with him over Yeltsin’s adoption of “shock therapy” for the Russian economy. In October 1993, she was inside the Parliament building, when it was besieged and stormed in the wake of Yeltsin’s abolishing the Constitution and Parliament. In 1996, Dr. Koryagina was a lead author of the economic program of opposition Presidential candidate Gennadi Zyuganov.*

*In April 1996, Tatyana Koryagina was a participant in a seminar at the Free Economic Society in Moscow, chaired by Academicians Leonid Abalkin and Gennadi Osipov of the Russian Academy of Sciences, where Lyndon LaRouche spoke on “Russia, the U.S.A., and the Global Financial Crisis.” Dr. Koryagina’s briefing to a February 1997 FDR-PAC policy seminar on the need to scrap International Monetary Fund policies in Russia and Ukraine, was published in EIR on March 14, 1997, under the headline, “U.S. and Russia must Ally against IMF Immorality.”*

*Dr. Jonathan Tennenbaum interviewed Dr. Koryagina on Sept. 1.*

**EIR:** How do you see the present economic situation in Russia?

**Koryagina:** I would note, first of all, that in Russia there are no reliable statistics on the economic situation. The primary reason for this is that the government is no longer in charge of the enterprises, having chosen, for political reasons, to carry out very rapid privatization. As much as 80% of the national economy is now in the private sector, and almost the entire private sector, we can say about 100% of it, fails to provide accurate information to the government.

A second factor is that, in view of the collapse of domestic production since 1992, our Goskomstat [State Statistics Committee], following the recommendations of international organizations such as the United Nations statistical commission, began to include the black, or “shadow” economy in its macroeconomic indicators. As of 1997, we find that as much

as one-fourth of GDP is from the shadow economy. And here, we have only estimates, rather than concrete statistics from enterprises. In actuality, the shadow economy is even bigger than Goskomstat estimates it to be. We estimate it to be as high as 50% of GDP.

The “black” economy is what we usually call out-and-out criminal economic activity, but there is also the “gray” economy—economic activity that is just “off the books.” Because the enterprises in the shadow economy pay no taxes, the inclusion of the shadow economy in GDP leads to a situation where the tax revenue base is chronically overstated by the government. Under current economic policy, the shadow economy is not brought under the law. It remains in the shadow. Now, with the economic crisis, it is beginning to grow even larger.

All of this has an impact on the level of manageability of the economy.

As for what enterprises really can do in the economy, the situation now is not simply disastrous; it is desperate. The central government has almost no control over the real economy. But, the government indirectly exerts a very strong influence, by means of its economic policy. Its economic policy, in turn, is based on the theory of economic liberalism. Economic liberalism is not a theory of the creation of anything, but rather a theory of the destruction of the real sector of the economy.

Thus, by carrying out a policy of economic liberalism, through the Central Bank and other government agencies, the government loses control over production, to an even greater extent. The real sector of the economy is being destroyed, while everything goes into the domain of financial speculation. Finance, that is, the entire banking and credit system, has begun to exist in total isolation from the real sector of the economy. There is no investment in the real sector. They just play the markets.

We have to take into account that economic liberalism, unfortunately, has also dominated the entire world economy for a long time. It has begun to retreat in the very recent period, as more and more serious financial crises broke out in the global financial system. A struggle began among, broadly speaking, various economic schools. Individual statesmen have engaged in this combat; in particular, the Malaysian



Prime Minister is openly fighting the economic doctrine of the International Monetary Fund (IMF), which is a component of that liberal policy.

**EIR:** It seems that we have come to the end. . . .

**Koryagina:** I think so. I think the world economy has reached the point where—if economic liberalism is a dead-end street, it has hit the concrete wall at the end of the street. Either this liberalism will explode the entire economy and then there will be global chaos, which will be economic fascism. A “New World Order” is economic fascism, when a huge number of people are thrown into desperate poverty, and only the speculators make any profit. Or, I think that already—since the theory described here is economic fascism—people, many leaders and statesman, will resist, and then the population also will resist.

We are on the verge of a particular sort of anti-financier revolution—a revolution against financial speculators. This revolution, I think, will very rapidly assume certain conscious forms, in which theory is united with actions.

**EIR:** What about the political situation in Russia?

**Koryagina:** Spending from the national budget has effectively collapsed. Winter is drawing near. We are, after all, a northern country, where it is very dangerous for electric power to be cut off. In the northern regions, where food shipments have not been brought in, this means famine. The weather has also been bad this year, with the drought. We will have very big losses in the harvest.

**EIR:** It is commonly estimated that Russia imports 60% of its food.

**Koryagina:** Well, that figure is certainly making the rounds in our statistics, but I know that some experts have distanced themselves from that figure, and cite a figure of 30 to 40%. But it is generally known that in Moscow, about 80% of the food is imported.

**EIR:** Nevertheless, if under conditions of financial crisis, that 30-40% no longer is supplied, then this is dangerous.

**Koryagina:** It is a violation of economic security. This is really true.

**EIR:** What was the reason for the change of policies by Yeltsin? Last week, under Kiriyenko, a program of measures was worked out to address the economic and financial crisis. Why wasn't it carried out, but Chernomyrdin was brought in?

**Koryagina:** Why was Chernomyrdin brought back? The point is, that to the surprise of many, Kiriyenko had adopted a number of tough measures in his anti-crisis program, which were part of our program, the opposition's program. This was the case, in some sense, for what was done with the [partial debt payment] moratorium, which was done so that the financial speculators would be the first to bear the burden of the

crisis, and not the population, whose wages and pensions were not being paid. We have a more drastic variant, but essentially Kiriyenko did take those elements from the program of the opposition.

**EIR:** Was there a realistic chance for implementing those sorts of measures?

**Koryagina:** Because of the personal weakness of Kiriyenko, he had almost no chance to carry out this program. If the opposition came to power, such as those leaders whose economic program we have authored, then it could be done. I think that in the future it can be done, in the near future.

The return of Chernomyrdin is a victory for the West, and Chernomyrdin entirely went back on the moratorium Kiriyenko had signed off on, except Chernomyrdin has no money. The Central Bank has no money. Therefore, Chernomyrdin could not meet the desires of the West, on those points that were the reason for his being brought back.

In just a few days, the State Duma will again consider Chernomyrdin's nomination, and I think they will reject him again. Yeltsin will propose him a third time, after which he will move to dissolve the Duma. Under the Constitution, however, the Duma cannot be dissolved, because the process of impeachment of the President has been launched.

**EIR:** Could this really happen? It has been under discussion for a long time.

**Koryagina:** The impeachment process is already under way. There is a special parliamentary commission on impeachment, functioning in the State Duma. The Duma cannot be dissolved, during an impeachment proceeding. Now, Yeltsin could opt for an anti-Constitutional state.

**EIR:** This political conflict could last a long time. In the meantime, what will happen with the Russian economy?

**Koryagina:** The greatest danger, in this period, is the collapse of the banks. There are already cases, where banks are unable to execute the orders of their clients.

**EIR:** Russian radio reported, that many people have been unable to receive their wages, because wages are paid out through banks.

**Koryagina:** This will be tested by Sept. 10. A large number of companies pay wages at the beginning of the month. At that point, it will be confirmed, to what degree the banking system has gone bankrupt.

**EIR:** What will people do? Is there a possibility of a social explosion in Russia now?

**Koryagina:** Probably the greatest possibility, in all these recent years. A nationwide strike has been scheduled for Oct. 7.

**EIR:** Do you think it will draw support?

**Koryagina:** It may have very great support. Take the situa-

---

---

*We think that Roosevelt was absolutely right, when he was not afraid to use the power of the state when the country was in crisis. In a certain sense, he utilized the Soviet experience, and that was right, because the important thing was not to lose America.*

---

---

tion in Moscow. In the past, it was as if Moscow were outside of Russia. Russia was in poverty, receiving no wages, while in Moscow everything seemed prosperous. This fall, for the first time, unemployment is rising in Moscow. Private companies and some banks have started going bankrupt. The Menatep banking group, for example, has laid off 70% of its personnel. And it was considered one of the most prosperous banking groups.

If a large number of people in Moscow fail to receive their wages by Sept. 10, it will mean that not only Menatep, but most of the banks, are without even significant ruble funds at their disposal.

**EIR:** Could it become a revolutionary situation?

**Koryagina:** I rate the probability of a revolutionary situation as very high.

**EIR:** Will Yeltsin fight to the end?

**Koryagina:** Yeltsin will fight to the end, but he is evidently very ill. It was visible in the footage of his meeting with Clinton.

**EIR:** If you were head of the government, what most urgent measures would you take?

**Koryagina:** As the most urgent measure, we define a change in the status of the Central Bank, to make it a wholly state bank. Other key elements include a change in credit policy. There must immediately be low-interest credits, under strict government supervision, to the real sector of the economy, in order to get economic activity going, first of all, in non-capital-intensive sectors and firms, and those producing for the consumer sector.

Then, we would introduce a system of state orders, in order to ensure that the vital functioning of the military-industrial complex is maintained. We have a system of state support for enterprises of the agroindustrial complex.

If the financial and credit system is changed, there may be a modest policy of monetary emission, because it will be necessary immediately to increase the monetary incomes of the population, ensuring payment of wages and pensions, so that there be real demand. We need both to stimulate demand on the part of the population, and to improve the solvency of enterprises.

A dual policy of this sort, plus a degree of national eco-

nomics planning, with a five-year perspective and a one-year emergency plan for exit from the crisis, will have a very big effect. There is some experience, with what Moscow Mayor Yuri Luzhkov has done. The Moscow government is a strong one. When the Moscow government works with enterprises, the state does *not* exit from the economy, but becomes a strong participant in the market. Under these circumstances, companies develop very rapidly.

**EIR:** Do you think that others, not only the Communists, will be in favor of this?

**Koryagina:** Absolutely. We will have a whole system of measures, including tax breaks and other incentives, for small businesses. Medium and large businesses can be brought in through a system of contracts. Therefore, to say that everything in Russia would be handed to the Communists, is just propaganda.

Many producers believe that a system in which the producer is protected against financial speculation, is exactly what both the state sector and the private sector need. The support for this can be very broad.

**EIR:** As you know, some in the West spread panic about Russia returning to a dirigist policy of state intervention in the economy.

**Koryagina:** This is because of that same theory of economic liberalism, which we oppose. We think that Roosevelt was absolutely right, when he was not afraid to use the power of the state when the country was in crisis. In a certain sense, he utilized the Soviet experience, and that was right, because the important thing was not to lose America.

Our country, Russia, has generally been oriented toward the role of the state. In this, we have some similarity with the Germans, in having a positive attitude towards the state.

**EIR:** I want to ask concerning the concept of “National Economy” model, in the sense of Friedrich List, Alexander Hamilton, Count Sergei Witte, and today LaRouche: Do you think that those historical cases can be a model for Russia today?

**Koryagina:** Of course! I think these are components of world civilization, a more fundamental phenomenon than what the liberals espouse. I think that the liberals, in the setting of world civilization, are a short-lived phenomenon, while

the traditional national economy, with the state active in the economy, is more historically grounded.

**EIR:** Returning to the Russian economy, you have discussed the destruction of the real economy. Does Russia still have adequate reserves of productive capability to carry out a recovery on its own?

**Koryagina:** I think there are such reserves.

**EIR:** It is difficult to determine the full extent of economic destruction.

**Koryagina:** Without question, the destruction has been enormous. The liberals' rule has had a strong impact on the national economy, but here is why I rate Russia's chances as rather high. People in Russia are used to life being hard. Therefore, people who know what "really bad" is, when growth and development begin, will react with great cheer. Even some signs of growth that ordinary people in the West would just take for granted—our people will quickly greet very positively any improvement.

**EIR:** You have mentioned the danger of inflation.

**Koryagina:** With a Chernomyrdin government, there will be very high inflation, because inflationary monies will once again be going into the speculative sector. The banks will be reaping profits again, as will speculators.

Under our program, however, there will be modest inflation. But money will flow into the real sector. Modest inflation is necessary, in order to fuel producers, as well as the population, by raising their incomes. One of the heaviest blows, inflicted by implementation of the liberal doctrine of monetarism, is that the productive sector has been deprived of circulating capital. The purchasing power of the population has been sharply reduced. These functions have to be restored, which is impossible without modest inflation.

**EIR:** Couldn't inflation lead to social problems?

**Koryagina:** It must all be done in a carefully controlled fashion. But right now, there is discontent about inflation. Here in Moscow, our incomes have fallen effectively by 30-40%. In just the past few weeks, there has been a sharp increase in prices, but nobody is considering raising or indexing wages. People were already barely making ends meet, and on top of that we have an effective 30-40% drop in wages. People have some kind of hope that Yeltsin will do something, or Chernomyrdin, so in September there will be muted discontent, but then in October. . . .

**EIR:** You know LaRouche's policies, and also that there are intense disputes about it in America and in other countries. Within the U.S. government, there are differing views of this. What signals is Russia getting from the West?

**Koryagina:** As we see it, Clinton is still strongly attached to Yeltsin. Clinton is trying to do everything he can to support

Yeltsin, but it seems to me that when Clinton returns to America, the journalists who were with him will likely report that Yeltsin is a very sick man. It makes no sense, simply to support Yeltsin. This is repulsive to people in Russia, and even causes a boom of anti-Americanism.

Clinton and other leaders state that radical reforms must continue. But our population is already destitute—how much more radical can we get? The Americans fear that the ideas of socialism will reemerge, and the idea of social justice. Well, that's inevitable. The shortsighted policy of the American leaders, the attempt to impose a model and a vision of Russia's future, will only lead to Russia's moving away, and rather entering into a bloc with China, and developing relations with countries that do not tell Russia how to live. Whereas Clinton demands, "Continue the reforms, and if you don't continue the reforms, we won't help you." This is interference.

**EIR:** We are in a rapidly developing global crisis, in which it becomes clear to Clinton and others, that the whole situation has changed.

**Koryagina:** He is a very intelligent person, and ought to understand that. But, if he is not so wise in economics, then it's his misfortune, and America's.

**EIR:** There are some reports, that the return of Chernomyrdin is connected with the activity of Vice President Gore.

**Koryagina:** Not Clinton himself, but Gore? . . . Chernomyrdin, then, will carry out whatever policy Gore says.

**EIR:** How do you see the shift away from liberalism, in Malaysia, Hong Kong, other Asian countries?

**Koryagina:** I hope to God that the growing quantity of people who understand the end of liberalism, may be transformed into a quality of statecraft.

**EIR:** I would like to ask about your mention of Roosevelt. You may know that the *People's Daily*, in China, has just published a very detailed article about the history of FDR's measures. It was presented without commentary, but in great detail, about the laws that were adopted, and so forth.

**Koryagina:** Wonderful!

**EIR:** It is said that Zhu Rongji's policy is a New Deal, Chinese-style. There are various ways of understanding "New Deal." Some people say: Oh, that's Keynes—the stimulation of consumer demand and employment, by state investment.

**Koryagina:** That's not the worst thing in the world!

**EIR:** The question is, what kind of investments? For Keynes, it is unimportant, whether investments go into the real sector. He stresses the stimulation of demand. In the U.S. in the 1950s, when Keynes' policy was used, there was a boom

in consumer goods production, but a weakening of capital-intensive, technology-intensive industrial development. For LaRouche, state investment has a central role, but scientific and technological progress is the key. For Russia, he stresses that there needs to be a mobilization, above all, of the capacities of the military-industrial complex.

**Koryagina:** This is anticipated in our program. The kernel of our plan is a set of task-oriented programs, in the framework of which there will be development of efforts for the accelerated development of advanced technologies, and their deployment into the national economy.

**EIR:** Some people insist that the most important thing about Russia is its raw materials.

**Koryagina:** We advocate greater capital investment in the manufacturing industries, while the extractive industries are maintained at an adequate level. But manufacturing must be the priority. And, scientific and technological progress. This is specified in our program.

**EIR:** LaRouche has discussed extensively the importance of Russia's relations with China, India—other countries, too, but especially these largest countries, which have a great need for technology.

**Koryagina:** Yes, we need technologies, which are resource-

saving and create efficiencies.

**EIR:** The Soviet "KB" design bureaus, the teams that developed new types of aircraft, and so forth, are a capacity that needs to be restored. These are whole groups, capable of developing new technologies.

**Koryagina:** Yes! I think we will live to see times, when LaRouche will be named economic adviser, or foreign consultant. We will see this happen.

**EIR:** That would be very important.

**Koryagina:** Of course, this is important for the whole world!

**EIR:** LaRouche's authority in the world, and in America, is growing very fast.

**Koryagina:** Yes, I have had occasion to remember how the director of one institute yelled at me, when in 1997 I signed the letter to Clinton. He cried, "Tatyana, what is this you are writing, that there is going to be some sort of financial crisis? Why are you misleading people?" This came from a professor, a doctor of sciences. So, you see what the level of understanding was in Russia, just one year ago.

It is good that LaRouche is writing a lot, so that his views are known to the public. As his prognoses visibly come true, his authority will rise very rapidly.

For previews and  
information on  
LaRouche publications:

## Visit EIR's Internet Website!

- Highlights of current issues of EIR
- Pieces by Lyndon LaRouche
- Every week: transcript and audio of the latest **EIR Talks** radio interview.

<http://www.larouchepub.com>

e-mail: [larouche@larouchepub.com](mailto:larouche@larouchepub.com)

## LAROCHE ON THE NEW BRETTON WOODS

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

It can not be reformed, it  
must be reorganized.

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

A 90-minute  
videotape with  
excerpts from  
a speech by  
Lyndon H.  
LaRouche, Jr.  
given on  
March 18, 1998.

**\$35** postpaid  
Order number  
EIE 98-002

EIRNewsService  
P.O. Box 17390,  
Washington, D.C.  
20041-0390

To order, call  
**1-888-EIR-3258**  
(toll-free).

We accept Visa or MasterCard.

# Hong Kong hits speculators, as China develops New Deal

by Mary Burdman

The myth that the speculators and their hedge funds are “invincible” has been smashed, by the decisive victory of the Hong Kong authorities on Aug. 28, the bloodiest day of the “battle of Hong Kong.” The Hong Kong government mounted a highly sophisticated attack against some of the world’s biggest hedge funds, including George Soros’s Quantum Fund, which suffered serious losses. As the markets closed that day, Hong Kong officials announced that they would be enacting measures to drastically curb the speculators’ ability to operate.

The Hong Kong authorities managed to maintain the level of the stock market on Aug. 28, a day dubbed “D-Day in Hong Kong” by the *Hong Kong Standard*, even as other markets were crashing, due to the financial disasters in Japan and Russia. After record trading of 79 billion Hong Kong dollars (almost \$1 billion), the Hang Seng index closed at 7,829, down just 1.18% for the day, and up from 6,600 when the massive government interventions began on Aug. 14. The authorities have committed possibly as much as \$10 billion of Hong Kong’s \$96 billion reserves so far to the financial battle against the speculators. Costly as this victory may have been, it certainly was a turning point in the current war between those nations willing, and able, to fight, and the monstrous financial bubble which has destroyed so many economies.

Of course, Hong Kong was not fighting alone. Although as a Special Administrative Region (S.A.R.) of China it is responsible for its own currency, markets, and foreign exchange reserves, Hong Kong had the full political backing of Beijing in its fight to defend the value of the Hong Kong dollar, which is pegged to the U.S. dollar, and to catch out the corrupt, destructive international speculators. In addition, Taiwan has also been taking steps toward protecting its economy from speculators, and on Aug. 29 barred all securities and investment trust companies from selling or buying hedge funds linked to George Soros.

More important, China, the world’s most populous nation, is launching new initiatives, even before the floods which have devastated the Yangtze River valley and northeast China have subsided, to carry out its “New Deal” policy, which was presented at the beginning of this year. Beijing has just announced two measures to ensure that the “New Deal” is financed: Up to 1 trillion yuan (there are 8.3 yuan to the U.S.

dollar) in new bank loans will be issued over the next four months, to rebuild industry and agriculture destroyed by the floods; and, 100 billion yuan in new government bonds will be issued for specific, crucial infrastructure development.

Hong Kong itself is not only a financial center; it is also the busiest port in the world, serving the vast developing economy of southern China’s Pearl River delta. In addition to having the third largest reserves in the world, Hong Kong has no foreign debt. Taiwan, with reserves of \$83.6 billion, the world’s fourth highest, is increasingly focussing its investment, including in China, on infrastructure.

## Speculators at bay

As the dust of battle cleared on Aug. 28, the Hong Kong government announced that it will take measures to keep the speculators at bay. Hong Kong Chief Executive Tung Che-Hwa said that the government had “achieved its objective.” He said, “When we entered the stock and futures market some two weeks ago, we did it because there was strong evidence of a linkage in the speculative activities between the stock and futures market, on the one hand, and the currency market on the other. Our efforts . . . have been specifically directed at this phenomenon, and we believe we have achieved our objective.”

Financial Secretary Tsang Yam-kuen located Hong Kong’s problems directly in the world crisis. “We have never seen a financial turmoil of this scale in history,” he said on Aug. 28, focussing particularly on the biggest problem in the world economy: Japan. “Japan’s economic and financial troubles seem to be intensifying. This is outside our control.” The local economy is itself facing what could be as much as 4% shrinkage this year. Tsang announced that there would be “follow-through policy measures to enhance our resilience to speculative attacks,” although the government stands ready to intervene again, as necessary. “After the episode in the past two weeks, we stand ready to operate in the stock and futures markets whenever speculators again engage in a similar double-play.”

“We went into the market to restore order,” Tsang said. “We are absolutely determined to use all the means available to us to protect the stability and integrity of our financial markets. . . . Speculators can no longer expect that they can manipulate at will our markets by attacking the currency. . . .

They can no longer be sure of any profit from such manipulative play.”

Tsang announced that the government would propose new regulations to restrict short-selling and stock borrowing, both means of “betting” against stock values. “We have a few specific ideas on the ways and means to tighten up on discipline in the areas of short-selling and stock borrowing, and to enhance the transparency in the trading of index futures. Some of these ideas, if agreed [to] by the Securities and Futures Commission and the exchanges concerned, can be put in place very quickly, while others may take a longer time. . . .

“Another measure that we are considering, is how we can address the relative small size of the Aggregate Balance of the banking system compared with the large unregulated capital flows.”

The government moved to buy up blue chip stocks—a step which one trader characterized as “the re-nationalization of Hong Kong,” the *South China Morning Post* reported—to maintain the market level. Another financial analyst called this “the biggest equities defense of the century.”

### **The measures employed**

Among the measures used by the Hong Kong Monetary Authority was to force a differential between the cash markets and the upcoming September-December contracts, making it very costly for speculators to roll over their expiring August contracts. Some managed to do so, which means the battle is far from over, but they will now have to face new regulations to restrict short-selling and stock borrowing. One well-informed City of London analyst also considers it a likely option, that Hong Kong will establish a two-tiered exchange rate: One, to be used for current accounts for trade, and so on, will be fixed, but a second rate could be used for capital markets, but will not be allowed to affect the real economy. Another measure reportedly under consideration, would be to prevent speculators from borrowing shares from banks as collateral for their speculative operations, which has been used recently with success by Malaysian Prime Minister Dr. Mahathir bin Mohamad on the Kuala Lumpur stock exchange.

On Aug. 29, Tung Che-Hwa confirmed that the fight will continue: “It is not something we particularly like to do, but we felt that we needed to have a very stable interest rate environment to go ahead with our recovery,” he said. Speculators had pushed up interest rates and rendered recovery difficult. Also, he said, “the Asian financial turmoil, which indeed has become increasingly global, has given us an additional degree of instability. Nevertheless, we are determined to go on.”

He said that Beijing had continued to show support for Hong Kong, but that the decision to enter the market was made by the local authorities alone.

The hyenas, of course, are seeking revenge. On Aug. 31, the financial “rating agency” Standard & Poor’s, one of the most underhanded tools of the speculators, downgraded both Hong Kong’s long- and short-term foreign currency sovereign credit ratings, including because of the government’s stock market interventions. Such arbitrary downgrades are used repeatedly to undermine a nation’s credit.

Local newspapers carried headlines invoking “war against the speculators,” and at least two hedge funds, in addition to George Soros’s Quantum Fund, which have been speculating against the Hong Kong markets, were named in the local press. These are Julian Robertson’s Tiger Fund and Louis Bacon’s Moore Capital.

There are unconfirmed rumors that Soros may visit Hong Kong, the *South China Morning Post* reported. Hong Kong Monetary Authority chief executive Yam Chi-kwong said of Soros: “I do not know whether he is in Hong Kong. I do not think I would have time to meet him. We do not have any plans to meet each other.” Soros was a prominent speaker at the World Bank and International Monetary Fund yearly meeting in Hong Kong last September.

### **The rules of the game must be changed**

“Whatever the preference of individual governments, it has become clear to all that the rules of the game across Asia must be changed, in order to keep rapacious speculators at bay, and to maintain stability in economies,” the *Hong Kong Standard* wrote in an Aug. 31 editorial. “Over the weekend, Hong Kong went forward some way to changing these rules. It will now be much more expensive for speculators to wreak havoc here. These are welcome changes, though how effective they will be in containing those destructive elements remains to be seen.”

The *South China Morning Post*, which had printed several relatively negative commentaries on the government’s sustained interventions in the markets, changed its tune on Aug. 29. “It may turn out that Donald Tsang has pulled off one of the great investment coups in history,” the editorial stated. “Of more immediate concern, however, is what he will do now. . . . He spoke of new measures to keep speculators at bay. The love affair with derivative markets and big funds—which call themselves investors but have fangs protruding from the sheepskins they wear—is over. . . .

“For the past two trading days, the government was virtually the only buyer on the market. . . . Around the world investment funds scoured their vaults for Hong Kong stock to sell into this buying campaign on the reasoning that it cannot last and prices will drop when it ends.”

But the government also took measures to “frustrate speculators seeking to recoup losses by rolling over into September the short positions they held in the August contract. Sending them off licking their wounds was the object of intervention,” the paper said. If the government’s buying

campaign is wound down, it will also have “hedged through the futures markets any paper losses on the stock it has bought. And let us call them paper losses at this stage. The government has the financial strength to hold these stocks, and, who knows, the timing may prove to have been extremely fortuitous.”

Political pressure is mounting for legislation to cripple the speculators. One Legislative Council member, Bernard Chan, is proposing legislation which calls on the government to adopt “strategic and effective measures” to deter speculative attacks on the currency, including naming and exposing speculators.

Edgar Cheng, former chairman of the Hong Kong Stock Exchange, countered the complaints of those decrying the authorities’ intervention in the markets, in a letter to the editor of the *South China Business Post* on Aug. 26. “If the world has not yet progressed to a stage where international rules can be made and enforced to prevent the exploitation of excessive market power by particular players, it seems perverse to criticize a government which attempts to achieve the same objective by much less authoritarian means, by merely participating in the free market to exercise a countervailing influence,” Cheng wrote.

“Certainly,” Cheng noted, “those who introduced anti-trust legislation in the United States and elsewhere considered that forceful intervention by the state was not only justified but necessary to protect markets from enslavement by a small number of powerful market players. . . .

“At the end of the day, whether the Hong Kong government’s intervention in the stock market is considered ‘right’ or ‘wrong’ will be determined by whether it succeeds in achieving its objective. To condemn it on the grounds that it offends against the philosophy of free markets is humbug.”

### **The scale of the fight**

Hong Kong’s Chief Executive Tung Che-hwa confirmed on Aug. 29 that Beijing is continuing to support Hong Kong’s measures. On Aug. 30, the official *China Daily* published a commentary by economist Li Guobin, of the State Council Information Center, stating that the “central government will answer any request of the Hong Kong government for a helping hand to defeat them [the speculators].” While “the Hong Kong government is fully capable of handling its own problem,” at the same time, “Premier Zhu Rongji has made it clear that Beijing would help Hong Kong at the request of the Hong Kong government.”

Li reiterated the commitment of Beijing to defend its own currency. “Rumors about the possible devaluation of the yuan are intentionally fostered by certain international fund companies seeking quick profits. Lies will be laid bare eventually. The fate of the yuan and the Hong Kong dollar are in the hands of the Chinese people, and will never be changed by any lie. . . . It is clear that the foundation for the stability of

the renminbi now and in the future is quite solid.”

“There should not be a problem of yuan devaluation before 2000,” Li said. He also noted that if funds held by companies and individuals were added to China’s official reserves of more than \$140 billion, the supply of foreign exchange available is around \$220 billion. Annual demand for dollars is \$60 billion, of which \$40 billion is for three months of imports and \$20 billion is for debt repayment.

China itself has ordered a nationwide crackdown on all illegal foreign exchange speculation, after black market trading had begun to reemerge in the context of the financial crisis. Speculators have been spreading rumors that China would devalue the yuan next year, and have been selling yuan at black market rates of up to 9.5 to the dollar (the official rate is 8.29 to the dollar).

In addition, the *China Daily Business Weekly* reported on Aug. 30 that price controls are being imposed on grain and vegetables, especially in the regions hit by the floods, where food prices have doubled. In Wuhan, the local government has spent 2 billion yuan to keep food prices down. The city is now empowered to set price limits, to be capped at prices prevailing as of June 10, before the floods hit. “We have preformulated a price control regulation to prevent speculative price increases during the rebuilding period,” a Wuhan official was quoted. Officials have ordered that some of China’s record grain stockpiles be sold, to bring down prices.

Xinhua news agency reported on Aug. 31 that the People’s Supreme Court has made several judicial interpretations of China’s criminal code, to help stop illegal foreign exchange activities. Such practices as using fake documents to deceive banks in foreign exchange trades should be prosecuted, the court said, and joint-venture, non-state enterprises should avoid helping state firms conduct illegal foreign exchange deals, or face prosecution themselves. Foreign exchange trades above \$200,000 should be conducted only through designated foreign exchange banks or institutions, the court directed, and customs, banks, and foreign exchange outlet officials were warned not to provide fake documents or approve any exchanges where the papers were problematic.

In another protective measure, Beijing will consolidate its 14 commodities futures exchanges into just three markets, in Shanghai, Zhengzhou, and Dalian, according to Western press accounts of a State Council document. After the merger, the number of contracts traded will be reduced from 35 to 12, which will be for copper, aluminum, steel, plywood, rubber, wheat, rice, and other agricultural products. Previously, there had been up to 50 commodities exchanges, but the number had already been reduced after the Chinese government began a crackdown against speculation in 1994.

### **Taiwan joins the fight**

Taiwan is also joining the battle. Already last autumn, there were articles in the Taiwan press calling for the govern-



ment to investigate George Soros's operations. Since this spring, there have been calls for re-imposing controls on the markets.

On Aug. 30, the Taipei *China Times* quoted the Securities and Exchange Commission that the government has barred all securities and investment trust companies from selling or buying hedge funds linked to Soros. "Authorities have not approved sales of [Soros's] Quantum Group's funds in Taiwan, and anyone found illegally doing so will be severely punished," the paper reported.

The director of the Taiwan central bank's Foreign Exchange Department, George Chou, said that the bank was keeping a close watch on the domestic foreign exchange market and would deliver a hard blow to speculators, the official Central News Agency reported on Aug. 31. Taiwan has tightened controls on foreign exchange trading since May 25.

Hong Kong chief executive Tung Che-hwa has many connections in the Taiwan business community.

## China's New Deal

On Aug. 31, the People's Bank of China stated that up to 1 trillion yuan in bank loans would be issued to rebuild flood-hit areas, Xinhua reported. Commercial banks are to increase lending by 900 billion to 1 trillion yuan over the next four months, the state television quoted People's Bank of China Vice Governor Shang Fulin. Banks could "appropriately lower" interest rates on such loans to within limits set by the central bank, Shang said. The loans are to help people rebuild or repair their houses, help farmers resume planting and raising livestock, and help industries resume production.

"Banks and rural credit cooperatives should accelerate credit investigation and simplify procedures," Xinhua reported.

Damage from the floods is estimated at \$20 billion at a minimum. The head of Jiujiang city's Economic Planning Commission was quoted in the *China Daily* saying (as the eighth flood peak was coming down the Yangtze) that that city alone needs at least 1 billion yuan to rebuild its infrastructure and to get farmers working again.

On Sept. 1, China's leading newspaper, the *People's Daily*, published an interview with a high-ranking official of the Ministry of Finance. The interview, entitled "With Great Effort, Vigorously Increase Infrastructure Investment," describes in detail the motivation behind the Chinese government issue of 100 billion yuan in new bonds, which were approved by the National People's Congress during the last week of August.

In recent days, China's leaders, including President Jiang Zemin and Prime Minister Zhu Rongji, have been reiterating that China can achieve its stated target of 8% national economic growth this year. Growth in the first half of the year had only reached 7%, due to the contraction of the world economy, especially in Asia, and there had been indications that the 8% target, set as the level necessary to ensure the

reemployment of millions being laid off in the restructuring of China's state industries, might not be reached. But now, Beijing's determination to reach this goal is being reasserted.

Five highways, six airports in the western regions, low-cost housing, 62 rural power grids, and five canals are among the projects to be built, State Development Planning Commission Minister Zeng Peiyan said on Sept. 1.

With China facing a severe challenge, due to the Southeast Asian crisis, and a complicated domestic and international situation, the government has decided to take measures to increase domestic demand and stabilize the exchange rate of the renminbi, the Finance Ministry official told *People's Daily*. China must also fight the slowdown of its overall economic growth. With the increased savings levels and fall in prices due to this economic slowdown, it is a very good time to launch this kind of bond issue, he said. This would also have a positive effect on the crisis in Hong Kong, and guarantee economic growth.

The bonds will only be issued to the four national "policy" banks. What is most important, the official said, is to realize the national economic growth target, which will not only overcome China's economic problems and improve the trust of foreign investors, but will also have a stabilizing effect on Hong Kong. The policy will improve the entire nation's infrastructure, and improve the structure of production (a reference to the policy of installing higher-level technology in already existing industry, rather than building more, lower-technology industries). The targeted infrastructure construction will greatly stimulate demand and improve the structure of the economy, he said, and, in addition, the banks' capital base will be strengthened.

China's infrastructure base is not well developed; it needs water infrastructure for agriculture, railroads, communications, rural electrification, and urban infrastructure. The environment of the middle and upper reaches of the Yangtze and Yellow rivers must also be protected, he said.

There are certain principles for the use of the new bonds, the official stated. Funds derived from these bonds will be used *only* for selected infrastructure projects, not for industry. These bonds will work by exercising the well-known principle of the "multiplier effect" of public spending on an economy.

The funds will also be used to finance feasibility studies and planning of projects; badly planned projects must absolutely be ended. There will be very strict evaluation of projects, on how they fit into the overall plan for China's economy. There will be concentration on central and western China.

There will also be a big allocation for science education in China's budget. The *People's Daily* has been reporting that one of the main reasons for the economic crisis in Southeast Asia, was the lack of in-depth science and technology capabilities in those nations. Developing this capacity would be national insurance against financial crisis.

## Background on FDR's New Deal

Another public statement, of how China is determined to carry out its national development, was a commentary in the *People's Daily* on Aug. 31, on the "Background on Franklin Roosevelt's New Deal." While the term "New Deal" has appeared regularly in statements by government leaders and in the press since the past winter, referring to the government's large-scale infrastructure investment programs, there has, until now, been very little elaboration of what this policy would entail.

This commentary demonstrates under just how close scrutiny, the workings of Roosevelt's successful New Deal are being put in China.

The article gives a very detailed description of the U.S. situation in 1929-33, when Roosevelt became President and initiated his policies: the collapse of national income and of family income, deflation, the local crises in all parts of the United States; the collapse of 1,400 banks in 1932. The most important content of Roosevelt's New Deal, the *People's Daily* wrote, was the way the government applied macro-economic measures to, especially, currency policy, credit, agriculture, industry, transport, electrification, and disaster relief.

Of course, all these economic issues are of great importance for China today.

The article describes the measures enacted. These included what the "emergency banking law" involved; agriculture policy, including raising prices to increase family income, and the setting up of a special purchasing company to buy what farmers themselves could not sell.

*People's Daily* detailed the provisions of the 1933 National Recovery Act, and the \$3.3 billion assistance program for municipal projects to put people to work. The article also discussed measures for disaster relief, labor safety laws, unemployment insurance, the first U.S. public insurance for the elderly, and measures to improve the positions of unions. The 1935 industrial plan, *People's Daily* reported, created investment in construction of public housing, roads, airports, canals, and other infrastructure—where China is now itself investing.

*People's Daily* then described New Deal financial and monetary policy. At first, the policy had been to balance the budget, but it soon became clear to Roosevelt that it was necessary to apply the Keynesian policy of increasing government spending, through an expansive financial policy, to solve the problem of unemployment.

Through this policy, *People's Daily* said, Roosevelt was able to increase tax revenues; as the economy became more stable, the deficit was gradually reduced.

The most important thing about Roosevelt's New Deal, *People's Daily* concluded, was that it *established the concept of government intervention into the market economy*, in order to generate employment and economic recovery, and was able to demonstrate this method successfully.

China is learning fast. The huge, brutal hedge funds have, certainly, met an adversary far more formidable than they had thought. There are other nations also preparing to take them on.

---

## Documentation

---

### Malaysia asserts its monetary independence

*The Malaysian central bank released the following statement to the press on Sept. 1.*

1. Since the outbreak of the Asian financial crisis more than a year ago, the risk of further waves of instability of increasing proportions still very much remain on the horizon. Despite the measures and reforms that have been put in place by all the affected countries, there does not appear to be any sign of stability returning to the financial markets. On the contrary, the crisis has deepened and spread across other continents. In particular, significant risks remain in the region. A dramatic adjustment in any of the financial centres in the region can be expected to result in significant contagion effects, not only in the region but also in other global financial markets. The effects of these developments have been increasingly severe. The adverse developments in the foreign exchange markets, the equity markets and the depressing trends beginning to emerge from the external sector all reinforce each other to cause a severe contraction in real output of the economies of the region.

2. Given the global nature of the problems confronting the international financial markets, efforts to restore world financial stability require a concerted effort of the international community. Unfortunately, action on the part of the international community to deal effectively with the risks and challenges associated with the new environment of liberalised and globalised financial markets has not been forthcoming. The current escalation in the contagion effects has not provided the sense of urgency to the world financial leaders to act decisively to contain the global financial crisis. While arguments have been put forward for emerging economies to undertake economic and financial reforms, of greater urgency is the need to reform the international financial system to better cope with the changed international financial environment that we operate in. Unless this is recognised by the international community, there will not be a permanent solution to the current crisis.

3. Efforts to deal with the current situation on the part of one country alone will not be sufficient to achieve this objective on a permanent basis. In the recent period, we have seen efforts by Hong Kong, Taiwan and Russia each coping by different means to stabilise their financial markets. On the domestic front, Malaysia has persevered to undertake adjustment policies and implement financial reforms to reduce the risks and vulnerabilities to external developments. This relates to achieving macroeconomic stability while at the same time increasing the resilience of the financial system. To a significant extent this has been achieved. Despite the magnitude of the adjustments we have experienced in our financial market, a significant segment of our economy continues to function with a relatively high rate of employment. Similarly, in our financial system, while strains are being felt, the intermediation function continues to operate. Malaysia will therefore continue with its efforts to strengthen its fundamentals and build the foundations for future growth. However, given the buildup of risks that have now emerged in the regional and global financial markets, the Government of Malaysia has decided effective today, 1 September 1998, to implement a series of measures to insulate the Malaysian economy from the risks and vulnerabilities of such external developments.

4. The overriding objective of the new measures is to regain monetary independence and insulate the Malaysian economy from the prospects of further deterioration in the world economic and financial environment. In the process, the nation would be adequately prepared to minimise the impact of a possible global economic crisis and a breakdown in the international financial system. The experience of other countries have shown that those which instituted measures to insulate themselves from external developments were in a better position to meet the challenges of adverse global developments. The new measures are based on the following considerations:

- (i) To limit the contagion effects of external developments on the Malaysian economy,
- (ii) To preserve the recent gains made in terms of the policy measures to stabilise the domestic economy and
- (iii) To ensure stability in domestic prices and the ringgit exchange rate and create an environment that is conducive for a revival in investor and consumer confidence and facilitate economic recovery.

These measures will be removed should normalisation in the global financial environment take place.

5. To effect a stable exchange rate regime and insulate the domestic economy from adverse global developments, selected new exchange controls are being introduced. These changes, however, will not affect the business operations of traders and investors nor the normal conduct of economic activity and will continue to guarantee the following:

- General convertibility of current account transactions,
- Free flows of direct foreign investment and repatria-

tion of interest, profits and dividends, and capital, and

- Result in minimal inconvenience to the general public.

6. The changes are directed at containing speculation on the ringgit and at minimising the impact of short-term capital inflows on the domestic economy. The measures on regulation of currency being carried by travellers are no different from those being applied by several other countries, including developed countries. The main changes in the exchange control rules are as follows:

- External Accounts: Approval is required for transfer of funds between External Accounts. Transfer to residents accounts are permitted only until 30 September 1998; thereafter, approval is required. Withdrawal of ringgit from External Accounts require approval, except for the purchase of ringgit assets.

- Authorised Depository Institutions: All purchases and sales of ringgit financial assets can only be transacted through authorised depository institutions.

- Trade Settlement: All settlements of exports and imports must be made in foreign currency.

- Currency held by Travellers: With effect from 1 October, 1998, travellers are allowed to import or export ringgit currency of not more than 1,000 ringgit per person. There are no limits on the import of foreign currencies by resident and non-resident travellers. The export of foreign currencies by resident travellers is permitted, up to a maximum of 10,000 ringgit equivalent. The export of foreign currencies by non-resident travellers is permitted, up to the amount of foreign exchange brought into Malaysia.

## Conclusion

7. These measures represent a means to an end. Malaysia has previously applied administrative controls to achieve specific objectives. The track record shows that once these objectives were achieved, the administrative controls were withdrawn. This was the case in early 1994, when Malaysia experienced massive and destabilising capital inflows. Malaysia is committed to the market mechanism and the trend towards liberalisation. But the benefits of the market can only be realised in an environment of stable and efficient global financial markets. Hence, once there is discernible normalisation of the currency and financial markets, Malaysia will return to the previous arrangements of free capital flows. As we are embarking into uncharted territory, the measures announced today will be implemented flexibly to deal promptly with any problem that might emerge. A task force has been set up to attend to these issues. A communication centre has also been established up to deal with public queries (the contact telephone numbers are: 293-2330, 292-8736, 294-5741, 291-4827).

8. In conclusion, it is important for the people of Malaysia in general and for the financial sector in particular, to fully understand and support these efforts aimed at insulating and reviving our national economy.

# Dialogue with Dr. Mahathir: Why Malaysia needs capital controls

*On Sept. 1, following the Bank Negara's release of a statement announcing the imposition of capital controls, and setting an Oct. 1 deadline for repatriation of offshore ringgit, Prime Minister Datuk Seri Dr. Mahathir bin Mohamad gave a televised briefing to the nation on the measures. He was interviewed by senior journalists and economists: New Straits Times Press Group Editor-in-Chief Datuk A. Kadir Jasin, Bernama Economic Service acting Executive Editor Yong Soo Heong, and Public Bank Berhad's Director of the Economics Division Nasaruddin Arshad. The following are excerpts of his briefing, released by the state wire service, Bernama. Frequently, Dr. Mahathir is addressed by the honorific, Datuk Seri.*

**Q:** Bank Negara announced at noon today a series of measures to insulate and protect the economy to minimize the impact of the global financial turmoil on our country. These include the establishment of a fixed exchange rate for the Malaysian ringgit and making the ringgit tradeable only in the country. The Bank Negara Governor will soon be fixing the value of the ringgit.

Why are the measures being taken now and what are the benefits to our country?

**Dr. Mahathir:** This measure became necessary because when the ringgit's value is in an unstable situation, business could not be continued in a way that would be profitable.

Another point is when the ringgit's value is brought down, our income will be reduced, particularly when we want to buy goods from overseas. In a situation like this we will become poor, the country will become poor, the government will be poor, and the public at large will also become poor.

They will need more ringgit to go overseas or to buy imported goods. As their income has not increased, they will directly become poor.

We have to fix the value of the ringgit permanently so that traders and individuals will be aware of their financial position, and with that, the economy will operate well.

**Q:** In other words, does it mean that the ringgit no longer has a value outside the country?

**Dr. Mahathir:** Yes, we have decided that there will be no value attached to the ringgit outside Malaysia and as such any ringgit held outside Malaysia will not be legal tender.

However as we know there is money outside Malaysia;

we will allow such ringgit to be repatriated to Malaysia within a period of one month from today. If not repatriated by then, we will regard such ringgit as invalid and we will not allow for the ringgit to be returned to Malaysia in any form whatsoever.

**Q:** Don't you think that Malaysia's move would be considered a regressive step?

**Dr. Mahathir:** No, it is not regressive. I would consider the present situation as regressive.

When people moved away from the Bretton Woods regime, they thought that the free market influence on exchange rate would be a better means of evaluating the relative values of currencies. But such a market has now become abused by the currency traders, who do not care for the exchange rate in order to do trade and business, but instead regard currencies as commodities which they trade in, when currencies in fact have got no intrinsic value of their own. But the currency traders wish to use it as a commodity and to buy and sell it according to their own system, which enables them to make huge profits from the same trading, while at the same time impoverishing a whole country, regions and peoples. The damage caused by them is something that has not been anticipated. And it is in fact very regressive. The world is not moving ahead, it is moving backwards.

**Q:** Is this a last resort and will the measures be permanent?

**Dr. Mahathir:** This measure is probably the last resort, as we see no other way. We have asked the International Monetary Fund to have some regulation on currency trading, but it looks like they are not interested, as they do not stand to lose in any way. We are the ones who stand to lose.

Hence we have to resort to whatever methods we ourselves can take. And what we can do on our own is to take care of our own currency.

It can be permanent. But on the other hand, if the international community agrees that currency trading must be regulated and that the range that currency can fluctuate is limited, and we see that this will enable economies to once again grow, then we will return to the free exchange rate system.

But at the moment we can see the damage done in Southeast Asia, Northeast Asia, in Russia, in Latin America and everywhere. All the countries' hard work has been destroyed in order to benefit a limited number of speculators, as if the interest of the speculators is so important that people, millions

---

---

*We are focussing not on export activities, but on domestic activities, and that is why the government will spur infrastructure projects and the construction industry, which . . . will generate activities in 140 other related industries such as creation of jobs.*

---

---

of people, must have their income taken away from them and become impoverished. We think that is rather retrogressive.

**Q:** How do we see our move today in relation to what has happened in Hong Kong and Taiwan, taking serious measures to stop speculation of their currencies?

**Dr. Mahathir:** What is obvious is that people can no longer stay with the so-called free market system. They need to take some action which is contrary to the philosophy of the principles of the free market. However, they have not gone far enough.

We feel that we should really control foreign exchange to the point where it cannot be traded at all. The ringgit cannot be traded at all, so that we regain control over the exchange rate involving our ringgit.

**Q:** How does this new measure reduce speculation?

**Dr. Mahathir:** Normally the ringgit is used for speculation offshore, ringgit belonging to foreigners, particularly ringgit belonging to currency traders. They hold the ringgit in foreign banks, but, since the ringgit is totally valueless outside of Malaysia, they trade and sell the ringgit, and in any case there is a corresponding account in a Malaysian bank, and whenever they trade and sell the ringgit, it is not only reflected in the foreign banks, but also in banks in Malaysia.

What we have done, of course, is to freeze completely the accounts that are in the Malaysian banks. Even if they sell ringgit outside of Malaysia, that will not have any effect in moving the ringgit from one account to another. In other words the actual ringgit, the ringgit in this country, will not be sold at all, because the account does not move. The trading outside Malaysia is totally meaningless, because they are trading in something that has not affected the real ringgit in the country.

They can buy and sell the ringgit, but it will be useless ringgit, because that ringgit—even if somebody buys it—will not be allowed to come into the country later. We will allow within one month, but not after the one month. Since the ringgit is only legal tender in Malaysia, and it cannot come into Malaysia, then it is useless ringgit.

So anybody owning such ringgit after one month will find they are holding accounts or papers which are of no value whatsoever.

**Q:** Will this move bring about a bad image to the country?

**Dr. Mahathir:** It will not cause a bad image for the country, except of course for currency traders and probably certain members of the media who will not be very happy.

But as far as investment is concerned, foreign money can still be brought into the country, exchanged into ringgit, used in Malaysia to invest in whatever, including the purchase of shares or buying properties or setting up industries. When they do business and want to take out the money, they can apply to the central bank for permission to take out the money, and we will still allow the foreign currency to be given to them in exchange for the ringgit that they have, and taken out of the country according to the needs. For example, if they're going to purchase components from some countries in a foreign currency, they can obtain the foreign currency.

So investment is not affected by this, except investment in shares, because that is considered hot money. If they want to invest in shares, they can, but such investment must stay in the country for at least one year. They cannot come and invest and then dispose of or push up or down the value of the shares.

So as far as investors are concerned—genuine long-term investors are concerned—this will facilitate their investment, because they will know exactly how much money to bring in, because the exchange rate will be fixed; and if they make any profit here, and they want to remit their profit back home, then they can change the profits made here from ringgit into whatever currency, and that currency can be remitted out of Malaysia.

There will be exchange, but there will be no trading in the currency.

**Q:** Will this remove elements of uncertainty?

**Dr. Mahathir:** Yes, certainly. People will know exactly how much ringgit they will get from the foreign currency they bring in, and they will know how much they can expect to send out of the country from the profits they made, because the exchange rate is fixed and they don't have to do the purging anymore.

We can require them to stay with their investment for at least one year before they can sell off. That is being done in some countries.

That will reduce the kind of speculative activities. What has damaged the stock market is this practice of buying a

share repeatedly, so as to push up the value of the share to a high level, so much so that the price of the share bears no relation with the performance or assets of the companies. It's way beyond . . . once it reaches a very high level, the investors will dump or sell off completely, take the money and go out of the country, leaving the locals with this company, which has lost its value, and, probably it had borrowed money based on its share value. Now, the amount of borrowings is much less than the collateral, in terms of share value, and the companies are landed with non-performing loans [NPLs] and the companies will not be able to perform.

We do not want them to come in and do that kind of thing. At the moment, what they are doing is just the opposite, they're pushing down the value of the shares until it goes well below net asset value and the cash the company may have goes down very well below.

At that stage, if we allow them to buy the shares, they would have got hold of the company at a very low price. Once they got that, they can do two things: They can control and rebuild the company, or they can get rid of the assets, take the money and let the company perish. So that is asset stripping.

**Q:** Are we suggesting that we have enough foreign exchange to meet our commitments?

**Dr. Mahathir:** Yes, because we are exporting more today than we are importing. Of course, the services account is slightly less in our favor, but it is not very much, and the surplus for the trade account would be sufficient even to pay for our service deficit.

At the same time, of course, we are reducing the service balance, for example, through using our own ports and using our own insurances and reducing the number of students studying abroad.

These are measures we have taken to reduce our imbalance in the services account.

**Q:** So it shouldn't be a problem even under abnormal circumstances for us to have the foreign exchange, if there is demand, for example, higher than normal?

**Dr. Mahathir:** This could very well happen if, for example, the foreign currency holdings in the country . . . the foreigners would want to take out their money, they would then have to change their ringgit into a foreign currency and take the foreign currency, and they have to justify why they are taking it out, otherwise obviously it will harm our economy, and we do not want their activities to harm our economy.

But if they have valid reasons, for example, if they want to use the money to purchase something, then they can convert and purchase whatever it is, and bring it back into the country, or they may want to use the money to buy palm oil and export the palm oil.

But if they export the palm oil or anything at all, the requirement is that all earnings from export must be brought

back into the country and must be deposited with the central bank.

**Q:** What if there are people who do not bring back the money within the one-month period? Would we be stepping up the regulations at the entry points?

**Dr. Mahathir:** If they don't bring back their money after one month, that money cannot be brought back.

**Q:** What about smuggling, can they smuggle the money [through] accounts?

**Dr. Mahathir:** Accounts, they cannot, because our banks would not allow for any money held outside the country to be transferred to the local bank accounts; but if they want to bring back cash, the capacity to do that is, of course, limited. We are now going to demonetize the 500 and 1,000 ringgit notes so they cannot bring it back, unless they carry in very small denominations, which would be very difficult to carry.

We will check on that, but if they don't bring it back within one month, then that money will be useless. If they are caught bringing in the money, we will have to say that it is not money anymore.

**Q:** We often hear of offshore ringgit and it is estimated that such offshore ringgit had reached a value of 100 million.

**Dr. Mahathir:** Actually, in terms of cash, there is only 100 million outside the country and that we can repatriate within one month. If they don't, of course, the money is just waste paper. It's worth nothing at all. If they try to bring it in, we will stop them and we will confiscate such money.

**Q:** How much is the offshore ringgit account?

**Dr. Mahathir:** That is much bigger. That is more than 20 billion certainly, maybe even 25 billion. But that money, of course, is outside of Malaysia, [and] even now has got no value. In order to give it value, they must hold a parallel account in a Malaysian bank. When they do that, we will negate the value of that currency by stopping any movement of the account in the Malaysian bank. They cannot move the account; in other words, they cannot sell the ringgit, because if they sell the ringgit, the ringgit in Malaysia will not move. So, effectively, the person who has sold, is still the owner. And whoever buys it, buys nothing, so it is not worthwhile for them to purchase the ringgit anymore outside the country.

The only thing for them is to transfer the ringgit completely to Malaysia, and they have one month to do that, which means that the ringgit in Malaysia will now be put back into circulation. It can be used to purchase goods, houses, or whatever. Profit from palm oil export, for instance, must be brought back, otherwise they will be in breach of the regulations and action will be taken against them and the bank involved. . . .

**Q:** On manufacturers, don't you think that these new measures will add some transaction costs to them?

**Dr. Mahathir:** Probably it will add some transaction costs to them, but it will be much less than the hedging that they have to do when the value of the ringgit fluctuates. As you know, sometimes people require as much as 15% commission in order to take care of possible fluctuation. But when the rate is fixed, you don't have to bother to hedge, so that reduces your cost of doing business, and also, of course, payments and all that; when they are made much later, it will not be subjected to devaluation or revaluation, for that matter. So business would be much more easy to conduct.

**Q:** How long have you been looking at this matter, but yet we have gone ahead with measures that did not work . . . ? How long have you been looking at this option, because this is seen as rather radical?

**Dr. Mahathir:** We have looked at other ways of trying to stabilize the exchange rates as well as the share prices. As you know, initially we had stopped the movements of cash across the border but, that was, of course, ineffective, because they can go . . . move all kinds of documents and papers and checks and all that, so that was totally useless.

We also tried to force people buying shares to bring the scrip, but because some shares are traded within nominee companies—actually there is no changing of ownership, because it is still with the nominee companies, so the trade can go on within the nominee companies; so all these things we have examined, and then finally we decided that the only way we can manage the economy is to insulate [ourselves] from the activities of the currency traders and the share-market speculators.

To do this, we have to take the exchange away from them. At the moment, they are holding the exchange, and the problem with other action is that, every time we try to help our economy, they tried to block it. For example, if we try to reduce the interest rates, they will push down the value of the shares, they will push down the value of the currency, so that creates a lot of damage to us. Each time we try to do anything, they will fiddle around with the currency and the share market. When we tried to create Dana Harta and Dana Modal, they knew that in order to operate these institutions, we will need [to borrow] more money.

The moment we announced that, the rating agencies came in and downgraded us. Our credit rating was pushed down until it is almost at junk level and, therefore, the cost of funds becomes higher and the ability to implement this is restricted; and so you can see that as long as they can fiddle around with this thing, we cannot do very much to rehabilitate our economy.

So the most important thing is, how do we erect a barrier between them and us? And what we have done, actually, is to negate their ability to interfere in the value of our currency,

in the stock market, etc. So once we are relieved of that, we can now look into the internal economy. We can now actually reduce the interest rates to a level that will help to revive the businesses in the country. For example, the NPLs will no longer be NPLs, if the interest rate is reduced. At the same time, we were forced to reduce the time to declare a loan as non-performing from six months to three months, and doing that, of course, increases the number of NPLs. So now we are less bothered about what they want to do to us.

In many countries there is no time limit for NPLs . . . it is nine months or six months . . . so we can now think about doing that. There are quite a lot of things we can do. For example, we can revalue our companies according to their net asset values, because now the share prices are ridiculous. It is below the asset value of the companies, or sometimes the companies may have a huge amount of cash, and yet the share prices have gone very far below . . . so then we can now revalue our companies; and once we revalue our companies, then the NPLs will not be as bad, because the collateral using the value of the companies would now appreciate again, and will go perhaps above the value of the collateral before. So there are a lot of things we can now do, because we do not have to fear their actions to stop us by devaluing our currency or by pushing down our share market.

Once we regain control of our exchange rate, then we can actually reduce the interest rates and not have somebody devalue our currency, because we are in control. Then our companies would be able to revive. They can now borrow more money, and if, in addition to that, of course, our ringgit is revalued upwards. Then if companies have to borrow to purchase something from outside, they would not need so much money as they do now, because, where before they were borrowing RM 2.50 to buy one dollar worth of imports, now they have to borrow 4.20, and when they borrow 4.20, then, of course, the cost goes up for them, and they become no longer viable. But if we revalue the currency, then they will not have to borrow so much, and at the same time the companies' value will appreciate.

**Q:** Do you see this move as protecting the country from the turbulence in other markets that we have seen falling? With this move how do you see the Malaysian market?

**Dr. Mahathir:** We will not be affected so much by what happens to other markets, otherwise, you know, they have this so-called contagion effect, anything [that] happens in Russia will affect our share market and our currency. There is no connection between us and Russia, that it is going to affect presently, but with this we can determine whether we want to respond or not. It is important also for us to know the exchange rates of other countries, because we are competing with them. Suppose our competitor currencies get devalued and we remain too strong, then we cannot compete with them, so it is important for us to watch what is happening in the



---

---

*We have to take the speculators out of the currency trade involving the ringgit. Because, of course, currencies need to be changed in order to trade—to finance trade. That we can do without the speculators. We can do even without the hedge funds.*

---

---

world. If they devalue, we can devalue our ringgit to a certain extent, without affecting too much of our economic performance, because even though we devalue ringgit, that ringgit is actually stronger than a lot of other foreign currencies.

Malaysia is a trading nation, . . . it is important for us to be able to compete. If we strengthen the ringgit too much, then we will not be able to compete with our neighbor, our competitor. On the other hand, if we strengthen our ringgit, we would be able to buy our imports at a lower price, and therefore we can also sell in our country at a lower price. But, on the other hand, our earnings in terms of ringgit would be less, for example. Our palm oil, which we export, is earning us much more money, almost \$1,200 more money than before. If we strengthen our currency, then our earnings would be less.

We can, for example, subsidize our imports through taxing our exports. Supposing our imports earn much more, not through their efforts, but because of our exchange rates, they earn like palm oil. We may have to have a windfall profit tax, and that money should be used to subsidize imports, such as sugar, which will go up in price and we will control the price of sugar by subsidizing the price of imports.

**Q:** How will our relations with the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), and the rest of the multilateral organizations be conducted? Will it in any way affect our relations?

**Dr. Mahathir:** Well, it might affect [them]. It all depends on whether they are interested in our economic recovery or they want to do something for other people. From what we see, their actions have benefitted the currency traders, have benefitted foreign companies which can buy local companies cheaply. All these are not to our interest. If they really profess to have concern for developing countries, then they should accept what we have done as a good thing. As you know, for what the IMF has done, it has come in for very strong criticism. Because initially they thought only the countries in Southeast [Asia] are going to suffer. But today you can see the whole world is suffering and Dow Jones has gone down by another 500 points, and, of course, their reaction to it is, strangely, quite different. Whereas, when we were in trouble, we were told to increase our interest rates; but when they get into that kind of situation, they have decided to lower the interest rates. So it seems that the

prescription for poor countries is to make them poorer, and for rich countries is to make them richer.

**Q:** Despite the evidence we see today, the IMF and other international agencies are not very keen to come in and stabilize the economy. Despite the fact that that is actually their mandate. Can Datuk Seri enlighten us: What is the rationale that they are not helping us through?

**Dr. Mahathir:** They see in our trouble a means to force us to accept certain regimes. They want us to have reforms, meaning to say we should open our market wide for foreign companies to come in and do business without any conditions whatsoever. Their help is always based on that. . . . We will give you the money provided you open up the economy. And when we open up our economy, we will, of course, lose control of our economy—all our companies, all our banks, and all our industries will belong to foreigners.

In Malaysia, in particular, we are in the process of restructuring the economy; we can't do that, because they will object to any conditions being imposed upon them. So the IMF should, in fact, be helping developing countries which are in financial trouble, but it wants to use the financial trouble in other countries to enable the giant companies from the rich countries to come in and take over the economy. That seems to me to be their objectives, rather than helping. Of course they say "reforms," but reforms to them means something beneficial to the developed countries.

In fact, among the speculators they actually say openly, "we want to see blood." In others words, we want to see killings. You know these companies must be killed, that is a measure of how serious you are about reforms. I can't understand that, because we have seen blood enough. In some countries, millions of workers are unemployed now and they have no food, no medicine, no milk for their children, and all these people can think of is that this is the price we have to pay for the reforms and reforms are good for you.

**Q:** Datuk Seri, in this regard do you see that this move taken by us can put a spanner in the works of the speculators?

**Dr. Mahathir:** We think so. That is the purpose, in fact. We have to take the speculators out of the currency trade involving the ringgit. Because, of course, currencies need to

be changed in order to trade—to finance trade. That we can do without the speculators. We can do even without the hedge funds.

**Q:** Datuk Seri, do you think other developing economies will come forward and do the same thing we have done here?

**Dr. Mahathir:** Well, there are signs that people are losing faith in the operations of the free market. That's why Hong Kong went in, in order to curb the speculators. Now Taiwan has given warning to [financial speculator George Soros] not to come to Taiwan, and China has refused to allow its currency to be freely convertible. Now Russia has second thoughts, they may even go back to communism. Of course we have seen what Chile and Slovenia have done. People can really find that, when the system is abused and they suffer, then they are prepared to change. But some countries apparently benefit from the abuses.

**Q:** There is talk that following the implementation of these measures, deposits, people's savings in banks will be frozen. Is there any truth in this?

**Dr. Mahathir:** There is no reason. There is no reason. The internal economy is not touched in this matter. The domestic economy will become stronger, traders can trade without being disturbed by the fall in the value of the ringgit and share prices. The domestic financial system will become stronger and there is no reason for us to freeze fixed deposits, for instance. The money in the bank is safe and will not be touched. . . .

**Q:** From Jan. 1 till June, our economy contracted by 6.8%. How do we explain this to the people, as many are not clear as to what this contraction means?

**Dr. Mahathir:** If we want to take into account trading and economic activities, we can create wealth through this. But if there is less trade, fewer economic activities, there will be less money. This is what is happening. The question is, why is it happening? For instance, we are producers of microchips for computers, but the demand for this had fallen, because the whole of East Asia had become poor, unable to buy computers and so on. In Europe, also, demand had fallen, and America is unable to sell computers to developing countries, as they make computers, but not all of them are sold in America, which has a lot of money, and they need to export, and their own markets [in East Asia] had been destroyed.

For instance, we are a market for Boeing aircraft, but now, we no longer buy the aircraft, as tourism has fallen, and the need for such planes had fallen; and so, we are not buying and the U.S. economy will decline; and when the economy declines, the market for our goods also becomes smaller.

The Japanese market had also declined, and so demand for our usual exports to them had fallen, and this had resulted in our trading and economic activities contracting by 6.8% and not from January to June but in the second quarter (three

months) from April to June. From January to March (first quarter, first three months) it contracted by 1.8%.

**Q:** Do you expect measures being taken will lead to a lower contraction of the economy, and probably in six months result in a slight economic growth, or at least some growth?

**Dr. Mahathir:** I'm confident there would be some growth, because now we are focussing not on export activities, but on domestic activities, and that is why the government will spur infrastructure projects and the construction industry, which means we will spend a lot of money. The construction industry will generate activities in 140 other related industries such as creation of jobs, demand for building materials, and if people have disposable income, they will spend, and all these will mean economic activities. But we have to remember that, if we have money, but do not spend, or do not save in banks, but keep it at home, the money will be meaningless to the economy.

But, if the money is used 10 times daily, it will have the multiplier effect, and every time it is used, there will be people who will have money; and the people with money will, in turn, spend it and make profit and the profit will generate the economy. So, in this way, we can develop our economy and that is why we would like to see, for example, more houses being built and bought, and we find that the market for low-cost housing is still very good, so also medium-cost houses, and if traders make profit, even luxury houses can be sold. We like to see our economy revived in this way.

**Q:** Datuk Seri, do we have any changes to our investment policy?

**Dr. Mahathir:** No changes to our investment policy: They will still have the same treatment, privileges, tax-free incentives that we normally give. They will have all those, and at the same time they can bring in money, and they can take out money that is theirs, if they make a profit. Yes, they can take out their profit, and in order to make a profit they have to produce something which they sell. And we'll benefit from their activity of selling, especially if they export—if, say, they export \$10 million of goods, they will bring back that \$10 million, their profit may be \$1 million. That \$1 million—take it and repatriate it to their country; we don't mind that, but they have to earn the profit first, before they can repatriate; they can't simply take the money here and convert into foreign exchange and then send out.

**Q:** You have said that the government will spend huge sums of money for infrastructure projects. Who will build these projects? Will the government reassume the role of implementors, or will the government continue to do so via privatization?

**Dr. Mahathir:** I always believe that the government is less efficient. That's why we go for privatization, and it doesn't matter if the money is from the government or the private

sector; what is important is money changing hands. When there are economic activities, money will change hands, whether from the government to the private sector, or between the private sector itself or to the workers, suppliers, the transport industry people, all these will happen if we spend money. Government or private sector is not the problem; what is important is that money is moved around and not just being kept idle.

I'm confident that if the value of their shares once again is commensurate with the net assets, and the value of our currency is again stable, the companies will recover; if not fully recover, at least their NPLs will be reduced, and they can borrow once more. If they can borrow, they can carry out economic activities and make profits and profitable activities will enable them to repay their loans and in this way, they can be revived.

**Q:** Datuk Seri, there must be a sense of urgency all round in reviving the economy.

**Dr. Mahathir:** Yes, I hope that everybody will understand that time really means money, everybody must work harder than usual. In the government, I expect the people to work day and night to help the economy to recover. Ministers have been instructed that they must work day and night, they must go and see what's happening on the ground, not enough by just

giving direction, go back and sleep; no way they can work that way now. And government officers have been told, everybody has been told, that you must work extra hard, because we are facing a very difficult economic situation and the only way we can overcome that is really to work very hard and not allow your kind of easy-going way to interfere with the economic recovery in this country.

---

## Commentaries

---

# The era of free trade is over

**Patricio Ricketts, "Russia Says Goodbye to Adam Smith," in the Peruvian magazine *Sí*, Aug. 31.**

Ricketts discusses how free-market reforms adopted by the Russian government brought the country to its current disaster. He reports that in the midst of the Russian crisis and global turmoil, there are the words of Lyndon LaRouche, "the greatest prophet . . . (who for years has been forecasting these developments, in great detail and even with exact dates, a fact which takes all the economists by surprise . . .), and repeated again that the Russian crisis, like the Japanese, the Thai or the Mexican, far from being local phenomena, are the expression of a single systemic crisis . . . and from which neither Wall Street nor the City of London, or any other center of financial power, will escape."

Ricketts also references the work of Russian economist Sergei Glazyev, and quotes Gennadi Seleznyov on Russia's need for an industrial program and protectionism.

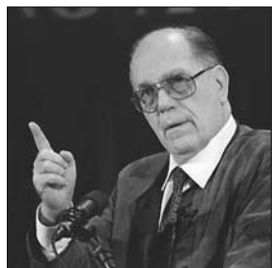
**Dr. Sergei Glazyev, in an interview with Interfax, Aug. 26, as reported by the *Foreign Broadcast Information Service*.**

Dr. Sergei Glazyev, former Foreign Economic Relations Minister of Russia, now adviser to the Federation Council (upper house of Parliament), warned that without follow-on measures to mobilize the economy, the debt freeze announced by the Russian government will set the stage for further collapse of the banks. Glazyev said that the Russian Central Bank has been "the main culprit, as regards the serious errors that led to the present scenario of a self-fuelled financial disaster." Whether the financial system can improve, with the appointment of Viktor Chernomyrdin as acting Prime Minister, depends on what the cabinet and the State Duma (lower house of Parliament) do about the Central Bank, Glazyev said.

## THE WORLD FINANCIAL COLLAPSE LAROUCHE WAS RIGHT! An EIR Video

What does Indonesia's Minister of Economy, Finance and Industry, Ginandjar Kartasasmita, know about the global financial crisis that you don't?

Here's what the Far Eastern Economic Review reported July 23: "It seems the IMF isn't the only organization



entitled, 'The World Financial Collapse: LaRouche was Right.' Lyndon LaRouche . . . has been arguing for years that the world's

supplying economic advice to the Jakarta government. . . . [Reporters] were surprised to spot, among [Ginandjar's] papers, a video

financial system was on the brink of collapse due to unfettered growth in speculative funds; he says now that the Asian crisis is just the beginning. . . ."

Order number EIE 98-005 **\$25** postpaid.

**EIR News Service** P.O. Box 17390 Washington, D.C.  
20041-0390 To order, call 1-888-EIR-3258 (toll-free)  
We accept Visa or MasterCard

The Central Bank has frozen “settlements with non-residents” (i.e., payment of foreign currency debts to foreign parties) for 90 days, but after that time period, Russian banks will be confronted with “stricter requirements” by the foreign investors; “many Russian banks will not be able to meet these requirements, which will result in a chain of bankruptcies,” Glazyev warned.

Interfax reported Glazyev’s emphasis, that “if the Central Bank were not to ensure refinancing of commercial banks, in order to support liquidity and provide credits for producers, the banking system would continue to fall apart. . . . The government and the Central Bank will have only two options in the future: to switch on the money-printing machine, or pass over to a mobilization economic policy.” (In Russia, “mobilization economic policy” refers to dirigist measures to promote real economic activity.)

Glazyev said it would be a mistake, to think that the Central Bank leadership knows what it is doing. “The situation has so far been developing spontaneously. I see no reason to believe that we currently have some target.” In the current financial situation, “the ruble’s further fall is inevitable, without resolute measures to centralize foreign-exchange reserves, ‘de-dollarize’ the banking system, and freeze prices. The dollar may shoot up to 12-15 rubles to the dollar by the end of the fall.”

Interfax continued, “Given the absence of other preventive measures, the previous government’s decisions to restructure the GKO debt and suspend settlements with non-residents ‘are pushing us toward an Indonesian-style scenario of a financial crisis,’ [Glazyev] said. ‘By their decisions, the Central Bank and the government are effectively guaranteeing a self-feeding rise in the demand for foreign exchange, which means the ruble’s inevitable further depreciation, in a setting of seriously limited foreign-exchange reserves,’ Glazyev said.”

***Neue Zürcher Zeitung*, “Monetary Policy Out of the Poison Cabinet,” lead economic editorial, Aug. 26.**

Because there are no alternatives left, we now have to open the “poison cabinet,” and impose foreign exchange controls, says the Swiss financial daily. Expressing a mood of better re-regulation than full-scale disintegration, the mouthpiece of Swiss gnomes writes: “With the ruble collapse and the de facto bankruptcy of Russia, the crisis boiling for already one year is now threatening to turn into a global GAU [technical term in the nuclear industry for “worst possible accident”] on the financial markets.” It has hit all “emerging markets,” even including Ibero-America, where the Venezuelan bolivar and the Brazilian real are likely candidates for the next drama immediately ahead. “Like dominoes, one currency after the other, one financial market after the other, is falling throughout the globe. The specter of a worldwide recession is spreading.”

The unsolvable paradox, the paper says, is that economies

and financial markets now desperately need “monetary and financial impulses” to get out of the disaster. But, any such move, in the present atmosphere of “panic” and collapse of confidence “would trigger just another confidence crisis in the financial markets.” The key question now, is how to “re-generate confidence.”

The editorial points to the Chinese yuan, which for the moment remains stable in the midst of worldwide turmoil. The reason for this is not only \$140 billion in foreign exchange reserves, but also that the yuan is not fully convertible. This creates a serious burden for the Chinese economy. “But a free floating of the currency cannot be an option.” As the Asian events in the recent past have proven, “the collapse doesn’t stop anywhere, if the habits of market participants are dictated by panic.” It seems that, besides the very big developed economies, some form of “fixed exchange rates” is the better solution, be it a “currency board,” a “currency peg,” or something similar.

But how to defend fixed exchange rates, when not only Japan, but all the troubled “emerging markets” as well, now desperately need “monetary stimulation,” which in turn would trigger attacks on the currency by panicked financial markets? The newspaper quotes U.S. economist Paul Krugman, saying the only way out is “temporary foreign exchange controls.” Of course, says the paper, this proposal comes right out of the “poison cabinet.” Measures such as “a containment of capital flows” or “foreign exchange controls” could only be “second-best solutions,” and should only be imposed temporarily.

These are “disgusting perspectives for a world, which was just about to remove the last remnants of capital controls in the age of globalization.” However, the editorial concludes, “as there are no other alternatives visible anywhere,” under present circumstances, we have to open the “poison cabinet.”

**Paul Krugman, “Saving Asia: It’s Time To Get Radical,” *Fortune* magazine, Sept. 7.**

Krugman, an economist with the Massachusetts Institute of Technology, proposes foreign exchange controls for Asia, as the only alternative. The world must take “the drastic step of imposing currency controls,” as *Fortune*’s managing editor John Huey calls it, in his praise of Krugman. Huey writes, “We expect this piece to spark heated debate from Basel to Bangkok.”

The six-page article carries a box on how exchange controls could work, and runs photographs of homeless in Japan, and other scenes of economic breakdown. Krugman argues that “Plan A”—backing the International Monetary Fund—has not worked, so it is time to turn to “Plan B,” although “nobody, not even Plan A’s harshest critics, has been willing to talk about it openly.” He writes, “In short, Plan B involves the confidence of international investors and forcibly breaking the link between domestic interest rates and the exchange

rate. The policy freedom that Asia needs to rebuild its economies would clearly come at a price, but as the slump gets ever deeper, that price is starting to look more and more worth paying.

“You don’t have to agree that the time has come to adopt Plan B—or even that it will ever come—to admit that something like this is the obvious alternative to the current wait-and-hope strategy. And yet it is very hard to find anyone, even among the IMF’s critics, talking about it. How come?”

**Dan Atkinson, “Roosevelt’s New Deal Would Be the Right Medicine for Today,” *London Guardian*, Aug. 31.**

The world needs a global version of Franklin Delano Roosevelt’s New Deal, as a response to the financial and economic crises now raging around the world, writes Atkinson. He begins:

“The money-changers are fleeing the temple of civilization, so it is not surprising that the R-word is starting to be heard once again. Where, it is asked, are the successors to Roosevelt when we need them? . . . With the 1990s ‘triumph of capitalism’ going up in flames, what would he have done today?”

Atkinson says: “Roosevelt, we can be confident, would have had little time for bond dealers or derivatives traders. . . . He would have understood that, as in the 1920s, banking and speculation are the problem, not the solution. Roosevelt would have pressed for an international version of the Glass-Steagall Act, limiting each bank to one country and forcing them to divest their investment arms and other activities. No ‘global’ banks for him.”

Krugman says, “as the deflationary gale hit with full force, Roosevelt would have mobilized the public sector to stand ready as employer of last resort. There would have been no question of ordinary workers bearing the pain of ‘adjustment.’ ”

Further, “he would have beefed up the financial regulators as he did 60 years ago, and unleashed them on the guilty men: the rogue traders and insider dealers. Lengthy prison terms could have been expected.”

Another measure, would be to “have convened an international summit to reshape the institutions (World Bank, IMF) that helped us into this mess in the first place, purging them of their obsession with sound money and balanced budgets.”

(On Aug. 28, the *Guardian* had published a commentary calling for the immediate convening of a “new Bretton Woods” conference.)

**Lionel Jospin, Prime Minister of France, speaking at the Socialist Party summer school in La Rochelle over the weekend of Sept. 1-2.**

Jospin timidly raised the issue of the financial crisis. “One can see today that the euro is a stability factor and an element of protection for our economic space, but we must go further. Yesterday, Asia, today Russia, tomorrow perhaps Latin

America: The financial crisis reminds us that capitalism is perhaps a force which goes but it can also be a force that does not know where it goes. The mission of socialists is to master the course, to regulate it and to transform it for more justice.”

**Jacques Sapir, interview with *Figaro-Economy*, Sept. 1.**

Sapir, director of studies at the School of Higher Studies in the Social Sciences, proposes a return to dirigist policies in Russia. “The only reasonable solution . . . is for the Russian economy to distance itself from the markets. . . . The Russian government should install extremely strict exchange controls, reserving the buying and sales of currency only to exporters and importers. Then, a limited convertibility must be installed via an administrated exchange rate. This was, by the way, the situation in France in the fifties.”

Sapir proposes injection of liquidity to bring to an end the development of a wild barter economy and local currencies in the different republics. “These measures will only be efficient if they are based on a reconstructed banking sector,” he says, “with the creation of discount and rediscount markets as well as the introduction of a pension system for public titles at the Central Bank of Russia.”

Once the most urgent situations are dealt with, then they can proceed to the “reconstruction of the internal market. The first lesson to be drawn is that the Russian economy cannot survive only on raw material exports.” The long-term interest, even of the exporters, who are the real winners in the Viktor Chernomyrdin coup, is in the “relaunching of the industry” starting with two sectors: “The first is the production of consumer goods which can be substituted for imports (such as automobiles). The second covers the industries producing heavy industrial equipment or goods necessary to the public sector. There are there important needs which if given priority could help companies develop and for certain among them, to transfer toward the civil sector, technologies that they have used in the military sector.”

“The moral discrediting of liberalism in Russia is today a key problem to the social stability, or, on the contrary, the instability of the country.” Russia can neither continue along the path of liberal reforms, nor go back to the Soviet system, says Sapir: “Russian officials could well inspire themselves by what was done in Europe and in particular in France, especially during the post-Second World War period of reconstruction.”

Sapir scores the illusions that Europe will not be hit by the Russian crisis. “First there will be a banking shock because of the engagement of European private banks in the risk areas; second, a commercial shock, because of the brutal drop in demand at a world level.”

**Laurent Joffrin, “The Illusion of the Market,” commentary in French daily *Libération*, Sept. 1.**

The Russian crisis underscores that the free market model has collapsed internationally, and that there is a need to reha-

bilitate the state's role in developing the economy, writes Joffrin, the director of *Libération's* editorial board.

He begins by stressing that "the zealots of the infallible market" are now seeing "their beautiful machine derail completely." Joffrin ridicules French scribbler Alain Minc, a "brilliant hero of orthodoxy, but hardly prescient," who wrote a book one year ago entitled *Fortunate Globalization*. One year later, where is this happiness to be seen?

Focussing on Russia, Joffrin writes that what is lacking there, "is not the market," but rather "a state, without which the market economy turns into a mafia farce." What is needed, is not "the minimal state" which the liberal theoreticians speak about, but rather "a true state, a big state on the European model," which can carry out infrastructure projects and bring together large-scale collective investments, while "regulating the financial markets" and "bringing assistance to the outlying regions that have been sacrificed to virtual liberalism as they never were to real socialism." For the Russians to be able to do this, though, means the West changing its views toward the importance of the state.

The global lesson, is that "the democratic states cannot, with impunity, abdicate their sovereignty to the profit of the markets." A stop must be put to the "imperialism of the economic world." Joffrin hopes that the current "financial alarm can have a virtue: to make it understood, that it is time to rehabilitate the politics of the state."

#### **Laurent Joffrin, commentary in *Libération*, Aug. 29.**

It's a battle for regulation, against the market ayatollahs, says Joffrin. Identifying speculation and laissez-faire radicalism as the catalysts of the ongoing crisis, he says that "the idea of international regulation of finance appears to be surfacing," and it is running up against "the market ayatollahs," who "paralyze any reflection" on this idea.

#### ***Estado de São Paulo* editorial, "At the Mercy of the Market Yuppies," Aug. 24.**

The paper attacks the mentality of the young yuppies who gamble with people's money on the financial markets, and who are completely disconnected from any reality beyond their computer screens or the big board of stock quotations. *Estado* points to the behavior of yuppie brokers, who advised people to invest in the Russian market, and "cheerfully bet on it, fueling the investors' thirst for financial gains," as an example of what French reporter K.S. Karol calls "bandit capitalism." As for the recent panic over Venezuela, *Estado* slams the "nefarious influence of market analysts." The time has come, it warns, to do away with the myth of "the wisdom of the market, that is, speculative capital's unrestricted freedom of movement, as Hong Kong's financial authorities are proposing."

*Estado* argues that the "generally very young" brokers, "don't have the cultural education and training to make deci-

sions, based on a precise diagnosis of the economic, political, and social realities of any country."

#### ***Business Week*, editorial entitled "Needed: A New Deal on Global Debt," Sept. 7.**

"It's time for a global [debt] write-down," the editorial says. It mixes together good with potentially wrong ideas, but it is one of the first attempts of a major U.S. publication to address in a significant way that the current mass of outstanding debt cannot and will not be paid, and that it is time to "wipe the slate clean."

#### **And, from those who have it backwards: Richard Medley, "Headed for a Free Market Fall," commentary in the *Washington Post*, Aug. 30.**

Re-regulation may seem to work, but the free market is the American way, says Medley (who gets the first part right), the managing partner of the Medley Global Advisors, "which provides political intelligence to hedge funds, corporations and investment houses." He writes: On June 30, [1997], the Thai baht crisis that then-Japanese Prime Minister Ryutaro Hashimoto had tried to warn G-7 leaders about "exploded onto trading screens around the world. It was the start of a chain reaction in politics and financial markets that has now brought us to a crisis point in the post-Cold War era. . . .

"This is the first real challenge to the post-Cold War dominance of American free trade ideals that have become the de facto ideological orthodoxy of the era."

The markets in free fall from the "cascading crises in Russia, Asia, central Europe and now Latin America . . . threaten to reverse the seemingly effortless victory of free market ideology in the wake of communism's collapse," Medley says. However, despite giving every indication that re-regulation is a cure for the disease, he considers the cure worse than the free market disease he espouses. For example, consider the following remarks:

"Hong Kong authorities are openly buying stocks to prop up their market and punish speculators. Taiwan is demanding that traders report large currency transactions so they know government officials who have favors to hand out or withhold are watching. And guess which two countries are the only ones stock prices have risen in the past two weeks?"

"On the back of this success there is open talk of setting up an Asia-wide, government-controlled hedge fund to fight back against speculators and of imposing capital controls to prevent money from flowing in and out of each country with complete freedom and without cost."

After further insights into the success of the re-regulation process, Medley concludes by saying that it is essential for the United States to work with the other G-7 nations to combat this tendency, because the alternative is "another Great Depression."

# The real economics of the American System

*Here are excerpts from the writings of two highly influential international leaders of the anti-British school of political economy—Henry Carey of the United States and Count Sergei Witte of Russia.*

## Carey ripped Britain's 'free trade' looting

*Henry C. Carey is to be credited, perhaps more than any other single individual, with pursuing the policies which kept alive the American System. From the late 1840s until his death in 1879, Carey organized in support of Alexander Hamilton's dirigist system of political economy. His leadership in that effort, especially as exercised through Abraham Lincoln's Treasury Department, enabled much of the nineteenth-century technological development of the United States to take place.*

*Henry Carey's background is rooted in republican humanist traditions. His father, Mathew Carey, was an Irish republican revolutionary, strongly influenced by circles who were, in turn, influenced by Jonathan Swift. Mathew Carey was kicked out of Ireland for "defaming the British" when he resurrected Swift's Modest Proposal for the Universal Use of Irish Manufactures. He then made his way to France, where he worked with Benjamin Franklin and General Lafayette. Upon his arrival in the United States, Carey became an ardent supporter of Hamilton.*

*The following is excerpted from Henry Carey's The Harmony of Interests: Agricultural, Manufacturing, and Commercial, first published in 1851, and reprinted by Augustus M. Kelley, New York, 1967.*

Much is said on "the mission" of the people of these United States, and most of it is said by persons who appear to limit themselves to the consideration of the *powers* of the nation, and rarely to think of its *duties*. By such men the grandeur of the national position is held to be greatly increased by having expended sixty or eighty millions upon a war with a weak neighbour. . . .

The English doctrine of "ships, colonies, and commerce" is thus reproduced on this side of the Atlantic, and its adoption by the nation will be followed by effects similar to those

which have been already described as existing in England. There, for a time, it gave the power to tax the world for the maintenance of fleets and armies, as had before been done by Athens and by Rome, and there it is now producing the same results that have elsewhere resulted from the same system: poverty, depopulation, exhaustion, and weakness.

Two systems are before the world; the one looks to increasing the proportion of persons and of capital engaged in trade and transportation, and therefore to diminishing the proportion engaged in producing commodities with which to trade, with *necessarily* diminished return to the labour of all; while the other looks to increasing the proportion engaged in the work of production, and diminishing that engaged in trade and transportation, with increased return to all, giving the labourer good wages, and to the owner of capital good profits. One looks to increasing the quantity of raw materials to be exported, and diminishing the inducements to imports of men, thus impoverishing both farmer and planter by throwing on them the burden of freight; while the other looks to increasing the import of men, and diminishing the export of raw materials, thereby enriching both planter and farmer by relieving them from payment of freight. One looks to giving the *products* of millions of acres of land and of the labour of millions of men for the *services* of hundreds of thousands of distant men; the other to bringing the distant men to consume on the land the products of the land, exchanging day's labour for day's labour. One looks to compelling the farmers and planters of the Union to continue their contributions for the support of the fleets and the armies, the paupers, the nobles, and the sovereigns of Europe; the other to enabling ourselves to apply the same means to the moral and intellectual improvement of the sovereigns of America. One looks to the continuance of that *bastard* freedom of trade which denies the principle of protection, yet doles it out as revenue duties; the other by extending the area of *legitimate* free trade by the establishment of perfect protection, followed by the annexation of individuals and communities, and ultimately by the abolition of customs-houses. One looks to exporting men to occupy desert tracts, the sovereignty of which is obtained by aid of diplomacy or war; the other to increasing the value of an immense extent of vacant land by importing men by millions for their occupation. One looks to the *centralization* of wealth and power in a great commercial city that shall rival the great cities of modern times, which have been and are being supported by aid of contributions which have exhausted every nation subjected to them; the other to *concentration*, by aid of which a market shall be made upon the land for the products of the land, and the farmer and planter be enriched. One looks to increasing the necessity of commerce; the other to increasing the power to maintain it. One looks to underworking the Hindoo, and sinking the rest of the world to his level; the other to raising the standard of man





*Leading warriors in the fight against British free trade: Henry Carey of the United States (left) and Count Sergei Witte of Russia. Those looking for a solution to today's economic and financial crisis should scrutinize the works of the "American System" economists and their international collaborators.*

throughout the world to our level. One looks to pauperism, ignorance, depopulation, and barbarism; the other to increasing wealth, comfort, intelligence, combination of action, and civilization. One looks towards universal war; the other towards universal peace. One is the English system; the other we may be proud to call the American system, for it is the only one ever devised the tendency of which was that of *elevating* while *equalizing* the condition of man throughout the world.

Such is the true *mission* of the people of these United States. To them has been granted a privilege never before granted to man, that of the exercise of the right of perfect self-government; but, as rights and duties are inseparable, with the grant of the former came the obligation to perform the latter. Happily their performance is pleasant and profitable, and involves no sacrifice. To raise the value of labour throughout the world, we need only to raise the value of our own. To raise the value of land throughout the world, it is needed only that we adopt measures that shall raise the value of our own. To diffuse intelligence and to promote the cause of morality throughout the world, we are required only to pursue the course that shall diffuse education throughout our own land, and shall enable every man more readily to acquire property, and with it respect for the rights of property. To improve the political condition of man throughout the world, it is needed that we ourselves should remain at peace, avoid taxation for

the maintenance of fleets and armies, and become rich and prosperous. To raise the condition of women throughout the world, it is required of us only that we pursue that course that enables men to remain at home and marry, that they may surround themselves with happy children and grand-children. To substitute true Christianity for the detestable system known as the Malthusian, it is needed that we prove to the world that it is population that makes the food come from the rich soils, and that food tends to increase more rapidly than population, vindicating the policy of God to man. . . .

## Sergei Witte: The fight for Russian industry

*Count Witte's appointment to the Ministry of Finance commission to draft the 1891 tariff law for Russia came as he was finishing his Russian-language edition of Friedrich List's National System of Political Economy, a work Witte called "the solution for Russia." Witte shared List's view, that railroads were vital for large-scale national development, and for drawing the rural population into an increasingly urban-oriented society.*

*One year after the tariff was inaugurated, Witte became*

*Minister of Finance. He initiated financial reforms to accelerate the influx of foreign capital, and capital accumulation domestically. In 1894, he ended speculation on the ruble on the Berlin money markets, by secretly buying up rubles and then pulling the plug on speculators when their contracts came due. He reorganized the state bank to issue loans for industry, and created a network of state savings banks, both to “awaken the restlessness of enterprise” in the peasantry and working population, and to increase capital formation. Every railroad station and school was authorized to install a bank branch.*

*In January 1897, Witte placed Russia on the gold standard, calling this “one of the greatest successes in the peaceful cultural development of mankind.” This measure, coupled with the 1894 stabilization of the ruble, created the conditions for a rapid influx of foreign capital, which increasingly took the form of investment in founding chartered companies and industrial works, rather than credit to the government.*

*Under Witte’s direction, government structure and financial policy were reorganized, in order, as he put it, to “give the country such industrial perfection as has been reached by the United States of America, which firmly bases its prosperity on two pillars—agriculture and industry.”*

*The following excerpts are taken from Witte’s two-volume Lectures on Political Economy and State Finance, published in 1912. Our translation, by William Jones, is from the 1913 German edition, published by Josef Melnik. Subheads are added.*

On what basis economic activity should be conducted will be the subject of investigation when we discuss international trade; in passing we should note that only three states—England, Belgium, and Holland—have considered it advantageous to introduce free trade; all other states are adherents of a protectionist system of tolls. We would also like to note that in the economic literature, the number of those proposing protectionism are increasing, and there is a growing understanding of the defects of the theory of the English school, which claims that free trade is advantageous for all countries, regardless of their level of development.

The English school of national economy has attributed much too great a significance to the division of labor among nations and to the economy of labor, which asserts that each country should produce only those products, which, thanks to the peculiarity of its soil, its climate, and its mineral deposits, it can produce more cheaply than other countries, and whose production, therefore, would represent a more economic utilization of the world’s productive forces. The writers of this school view the world as a mammoth workplace, in which each country produces only those goods, which it can produce in the most effective manner, and, therefore leads to the best possible utilization of the productive powers of our

planet and of humanity.

Such a conception, however, is much too one-sided, and disregards the significance of international trade; its implementation, without taking into consideration the level of industrial development that the country in question has achieved, can fully paralyze the productive forces of the country and inflict great unhappiness on its people; its introduction in all countries of the world would lead to the suppression of the industrially weaker countries by the industrially stronger.

In such a manner the United States, thanks to its size and the fertility of its agriculture, produces grain under much more advantageous conditions than do the western European countries. If the import of American grain deprived the French farmer of the possibility of producing grain, what would he then do? Should he then, might you say, occupy himself with wine production? But then, how would such an extraordinary wine production be disposed of? France finds itself in the same unfavorable position with regard to the silk production of China, the wool production of Australia, and the beef production of Argentina. Should then the French farmers, who constitute half of the population of that country, leave their farms and move to the cities? But with what perils would such a migration be associated? Perils not only from a purely economic point of view, but also from the point of view of general health, of morality, of political safety and of the entire future of the country? And, furthermore, where would the masses migrating to the cities find profitable work? Each country must strive to diversify its production and introduce all innovations as soon as they appear compatible with the climate and with the natural resources of that country. . . .

## **Population density**

The most important factor determining the transition from one level of economic production to another, is the increasing population density. . . . Let us assume that by means of hunting alone, one can feed on one square kilometer of land no more than 40 people; the surplus population will find no food and will die. Only with great effort, does man slowly learn how to tame animals and gradually shifts to a more pastoral form of life, a transition which permits him to feed a greater number of people and guarantees him a more certain livelihood. . . .

Increasing population density compelled man to exert his intellectual powers and to discover new methods for the greater cultivation of the soil. . . . In this way, agriculture progressed and cattle-raising became a mere adjunct to agriculture; in the period of farming, people became settled. . . .

In our time, in all the countries of western Europe as well as in Russia, the growth of national wealth out-distanced population growth: The wealth of nations grows more rapidly than does the population. And this is possible, thanks

to the extraordinary progress of the natural sciences, and their ever broader application in the technology of commodity production. Without going into its many other causes, we see already that the introduction of machinery into production has increased the productivity of human labor more than tenfold. . . .

Every form of labor is associated with a particular use of man's physical and intellectual powers. Even a purely physical exertion of human powers requires the presence of man's intellectual capabilities, and vice versa, creative intellectual activity is always accompanied by the expenditure of some muscular exertion. As, however, in any form of labor generally, either the physical element or the creative element predominates, leading us to characterize it as either physical or creative labor. . . .

Knowledge is one of the most essential forms of capital. The entire history of the process of production testifies irrefutably, to the prominent role played by this form of capital. You cannot imagine any form of capital, any tool, any instrument, any machine, any industrial installation, the development of which was not preceded by the study of some phenomenon of nature prompting the original idea for that discovery. It could be said without exaggeration, that every machine, every chemical process, is nothing but the material realization of some technical, scientific knowledge. The skill of the workers, the talent of the leading engineers, or of entrepreneurs, appear in their turn as the result of a labor of reason, which is the fruit of knowledge, the form capital takes as it spreads to the broad layers of the population. . . .

Not less important, in this respect, are the provisions for providing greater access to knowledge to the entire population. The results of a broad organization of popular education, for example, in Germany, became so evident that its influence on the development of the country's capitalization should be considered irrefutable.

Two objectives must be aimed for in education: first, to secure a high level of scientific organization in the education system, thereby expanding the field of scientific thought, to which we owe the most fundamental discoveries; and second, an expanded dissemination of general practical knowledge, which contributes to raising the quality of labor, both physical and intellectual, on all levels. Scientific and practical knowledge, stimulated through such an organization of education, develop ever closer and firmer bonds, as we observe in Germany, by which the process of production and the capitalization associated with it are advanced.

### **The menace of 'free trade'**

Developing their theoretically convincing, but for individual countries, practically useless, axioms of free trade, Adam Smith and a number of his more thoughtful disciples, operated mainly for the benefit of England. The superbly developed theory enticed even statesmen in countries with a

## **For further reading**

The LaRouche movement internationally has, for over 20 years, published many books and articles on the real history of economics: the fight between British free trade and the American System of Political Economy. Here are a few useful resources:

"200 Years Since Hamilton's 'Report on Manufactures,' " *EIR*, Jan. 3, 1992. A special commemorative issue, surveying the Hamiltonian tradition all over the world, with excerpts from primary sources.

Anton Chaitkin, "The Land-Bridge: Henry Carey's Global Development Program," *EIR*, May 2, 1997.

*Friedrich List: Outlines of American Political Economy* (Wiesbaden: Dr. Böttiger Verlags-GmbH, 1996). English and German texts on facing pages, with an epilogue by Lyndon H. LaRouche, Jr. and commentary by Michael Liebig.

*The Political Economy of the American Revolution*, Nancy Spannaus and Christopher White, eds. (Washington, D.C.: EIR News Service, 1996).

Allen Salisbury, *The Civil War and the American System: America's Battle with Britain, 1860-1876* (Washington: Executive Intelligence Review, 1995).

poorly developed national economy onto the road of free trade; it strengthened the economic dependence of these countries on England, and secured for a long time the trade and industrial ascendancy of that nation. In the 1850s and '60s, enthusiasm for the idea of free trade was universal. Bitter experience, however, soon convinced people of the drawbacks to the untimely application of this theory. . . .

In addition to the detrimental results of the untimely application of the principles of free trade, an unquestionable influence on the shift toward protectionism was exerted by the noted German economist Friedrich List, who with particular emphasis exposed the shortcomings of the dominant English school of economists and demonstrated the ever-present necessity for each country to strive for the independent development of all its productive forces.

Just as there can be no freedom in the unlimited struggle of all individuals against each other, where the weaker become dependent upon the stronger, so also in the struggle between peoples under the rule of the free trade principle, the weaker nations become dependent on the stronger, which surpass them, and they are given no possibility for a normal development. Every country must therefore develop itself independently and take necessary measures to secure for itself the

possibility of development.

The wealth of a nation consists not so much in the sum of exchange values it disposes of, but rather in its labor and in the diversity of its productive forces, which create those values and for whose benefit it must strive for a many-sided development. But the single individual cannot accomplish this by himself; this is the function of the state, the nation, which comprises the link between the individual and mankind. Every nation traverses a series of successive stages of development, the highest of which is the commercial-industrial phase. A policy of protectionism, the establishment of primarily moderate customs duties, serves as a means to the achievement of that highest phase.

List has penetrated deeper into the meaning of protectionism; he saw in it only a temporary school for the nation, a means to defend its national freedom, and a potentiality for unfolding the powers of the nation in order to more extensively participate in the labor of the world. He is the first one to establish the relationship between protectionism and nationalism, but not a narrow-minded nationalism striving only for a greater amount of goods for itself and at the cost of others, but rather a nationalism of a higher order. Each nation must develop all its capabilities in order to acquire, in the broader universal labor process and in free

exchange with other nations, the opportunity to contribute as much as possible to the treasure house of the world.

The basic idea of Malthus, that the physical universe places a limit on population growth and on further development to the extent this is conditioned by a greater population density, may be correct, but at a point so far in the future that it cannot be foreseen. With regard to the present, the theory of Malthus is deprived of all practical significance. The improvements achieved in technology have shown themselves to be so great, that, for individual regions, a much more rapid increase in production than in population has been possible for a long period of time. . . .

How little practical use the malthusian theory has, is best seen in the example of the United States of America, whose population growth Malthus took as the basis of the exposition of his well-known progressions. Since the end of the eighteenth century, when the "Essay on the Principle of Population" was first published, until the present time, the population of the Union has found itself in rapid growth; in spite of exporting enormous quantities of grain to the European countries, there can be seen no disparity between foodstuffs and the demand for them by the native population, but rather it has proven to be possible to even accept around 12 million immigrants and their progeny and to feed them.

## If You Thought Adam Smith Is The Founding Father of America's Economic Strength—

### Think Again.

READ  
*Friedrich List: Outlines of American Political Economy*

With a Commentary by Michael Liebig and an Epilogue by Lyndon H. LaRouche, Jr.

"I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition."

—Friedrich List to Charles J. Ingersoll, July 10, 1827

\$19.20 plus \$4 shipping and handling

ORDER FROM:

**Benjamin Franklin Booksellers**  
P.O. Box 1707, Leesburg, Va., 20177  
(800) 453-4108.

We accept MasterCard, Visa, American Express, and Discover.



## DO YOU KNOW

- that the American Revolution was fought against British "free trade" economics?
- that Washington and Franklin championed Big Government?
- that the Founding Fathers promoted partnership between private industry and central government?

READ

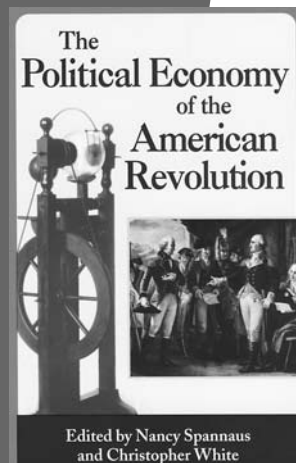
## The Political Economy of the American Revolution

edited by Nancy Spannaus and Christopher White

Order from:  
**Ben Franklin Booksellers**  
P.O. Box 1707  
Leesburg, Va 20177  
Toll-Free: 1-800-453-4108

\$15.00 plus \$4 shipping and handling

We accept MasterCard, VISA, American Express and Discover.



# Venezuela denounces financiers' plot

by David Ramonet

“What I pointed to yesterday out of intuition—that there is a conspiracy against the interests of Venezuela—today is a reality backed by evidence: a forged news dispatch,” Venezuelan Planning Minister Teodoro Petkoff told news media on Aug. 20. The Bloomberg financial news agency had disseminated a wire from AFX, a joint property of the London *Financial Times* and the French wire service Agence France Presse, announcing that President Rafael Caldera’s government would devalue the bolivar, the currency, by 17-20% in order to deal with its fiscal deficit, and would ask for special powers from Congress to do so.

On the same day, capital flight, which has been steadily bleeding the country since the beginning of August, accelerated, with the consequent pressure on the exchange rate. Throughout August, Planning Minister Petkoff and Finance Minister Maritza Izaguirre reiterated that the government has no intention of imposing a macro-devaluation, or exchange controls, such as those which were in place from July 1994 to April 1996.

But, the conspiracy really did not begin with the Bloomberg wire. Beginning at least 10 days before, investment banks and wagerers (the so-called “institutional investors”) had begun liquidating their holdings of Venezuelan bonds, both their Brady and global bonds, and even the more recent “Ven-18” bonds, to the point that they were selling at 50% of face value, and sometimes less.

On Aug. 10, a spokesman in New York for the Dutch ABN Amro bank declared that “the dumping of Venezuela’s bonds is such, that it would appear that the market fears that this country will suspend payment on its debt, and fall into default.” The next day, after the damage had already been done, the spokesman said that he had not said, what he had said. Furthermore, according to the Caracas daily *El Nacional*, J.P. Morgan, which was the agency which placed the \$500 million worth of Ven-18 bonds issued at the end of July (at a usurious 14% annual interest rate, for 20 years), now is recommending that its clients “not invest, in the short term, in public bonds of the Latin American countries,” Venezuela included. Just like in the Amro case, the statement was denied after the damage had been done.

At the same time, the same financial houses which market Venezuelan debt were offering buy-sell contracts of dollars

for bolivars in New York, at the rate of \$50-100 million a day, in which they bet on a macro-devaluation of the bolivar.

Venezuela has lost some \$7 billion in income from the drop in the price of oil this year, \$5 billion of which was planned for the federal budget. After reductions in its budget, the government still lacks \$1.65 billion needed to service the foreign debt.

The International Monetary Fund and the creditors are pressuring the government to impose greater austerity, by implementing a devaluation, which would generate inflation. The government has refused to do this, but has tried to maintain the exchange rate, by using Central Bank reserves—which it has consequently lost. Thus far this year, reserves have dropped \$3.95 billion, falling to \$13.87 billion at the end of August, and there is no end in sight to the capital outflow.

At the same time, the Central Bank has attempted to stop the flight of capital, by increasing the yields, and reducing the maturity of the bonds offered to the banks and money markets. In August, it came to the point that they offered Certificates of Deposit for seven days, at 60% interest rates.

This has forced up bank interest rates. But, none of these conventional measures have stopped the flight of capital, or the pressure on the exchange rate, which, despite government efforts, keeps depreciating. In August, the planned 1.28% gradual devaluation in the exchange rate doubled to an effective rate of 3.5%.

## National industry is prostrate

With interest rates currently between 80 and 90%, national industry is prostrate, and agriculture is paralyzed. As if these effects of the world depression upon Venezuela were not enough, the collapse of the currencies of Asia, Russia, and eastern Europe have led to an inundation of Venezuelan markets by manufactured products from these countries, ranging from shoes, clothing, and textiles in general, to hot-rolled laminated steel products, coming from Russia, Ukraine, and Kazakhstan.

Last year, business survived, thanks to low interest rates which financed consumption. Since July of this year, however, the banks have been foreclosing on mortgages, and repossessing automobiles from debtors behind in their payments. According to Softline Consultants, the principal Venezuelan firm which periodically reviews the banks’ situation, from January to July, non-performing debts of the banks increased 47%, while the total loan portfolio dropped in absolute volume for the first time in a long time.

This is the result of the fact that while the government is refusing to yield to the pressures for devaluation, neither has it taken the measures of economic and financial regulation which could cut short the attacks by the speculative funds, which by any means possible, are out to drain the rest of Venezuela’s \$13.87 billion in reserves, to cover their losses in other parts of the world.

## Russian crisis sends wake-up call

*The illusion that Germany could remain untouched by the global financial crisis, has been blown apart by events in Russia.*

Particularly because of the ongoing election campaign for national parliament, German politicians are following their usual tendency not to address hot issues. They have been assisted by a huge chorus of bankers, experts, and media people, who have held onto the myth that "Asia is far away; the crisis there won't do us any harm." It is no secret that Asian flight capital streamed into Germany, a presumed "safe haven," over the past few months, which made people forget that the crisis is still deepening in Asia, and expanding westward.

The latest alarming news from Russia, the fall of the Kiriyenko government and the difficulty of the Russian elites in forming a new one, has been a rude wake-up call for the Germans. All of a sudden, Russia has become a campaign issue for the elections on Sept. 27.

Chancellor Helmut Kohl and his cabinet first tried playing down the Russian crisis, stating their support for Prime Minister-designate Viktor Chernomyrdin, President Boris Yeltsin, and the "Russian reforms." But even in Kohl's own Christian Democratic Union (CDU), some are uneasy about the crisis in Moscow.

For example, Friedhelm Ost, Kohl's former government spokesman and now chairman of the economic policy committee of the Parliament, in an interview with Germany's national DLR radio station on Aug. 24 (the day after Kiriyenko was fired by Yeltsin), said that Chernomyrdin is a bad choice for Russia. How can the man that drove the country into ruin during his first five-year term, be ex-

pected to do better now? Ost asked. How can anyone in the West have confidence in this man, not to mention the Russians, who are suffering from his policies?

Ost's remarks were widely interpreted as an indication of dissent among leading members of the CDU. Not entirely dissociating himself from Kohl's views, however, Ost did call on Russia to hold onto the "reforms."

Politicians in Bonn have disregarded realistic assessments on the Russian situation for years, not only by Lyndon LaRouche and his friends in Russia, but also from one of their own semi-official think-tanks, the Cologne-based Federal Institute of Scientific Eastern Studies, the Ostinstitut. There, analysts have realized that Russia has "moved way beyond reforms," and has entered a chaos which will necessitate re-regulation. The Russian government and banking system have survived mostly because of fresh capital inflows into short-term funds like the GKO's, Ostinstitut analysts have emphasized. And, they had warned that this flow would soon come to an abrupt end.

This is happening now, but the policy establishment is still not listening. The idea that Yeltsin may be out of office in a few days or weeks, that there may be early elections for both the Russian Parliament and President, is seen as very realistic among Ostinstitut analysts. Not so in the cabinet circle around Kohl: They have no policy for a time when a Yeltsin may no longer be there, when Kohl calls the Kremlin. And, of course, Kohl himself may not be reelected.

Some among the opposition Social Democrats, who have been asleep at the switch as much as the Kohl government on the Asian and Russian crises, have at last begun to stir. For example, Günter Verheugen, foreign policy spokesman of the party, said in an interview with the *Frankfurter Rundschau* daily on Aug. 28, that both the International Monetary Fund bailout money for Moscow and the billions that the German state export credit insurance has guaranteed for Russia, are taxpayers' money, in reality, and that all of that money is apparently lost.

Oskar Lafontaine, SPD party chairman, addressed the Russian situation in an interview on Aug. 30 with the Sat-1 television station. Lafontaine criticized the Kohl government for having been "rather generous to Yeltsin," and to Moscow, without caring where the money actually went. "It would have been better to send in German companies to build a road, a railway, or a power station, instead of just transferring money," he said.

Also, former Foreign Minister Hans-Dietrich Genscher, in a guest commentary in the *Tagesspiegel* daily on Aug. 27, called for a new approach on Russia: "The development of an all-European infrastructure, notably in the area of telecommunications, transport, and energy supplies, should be promoted as a joint project for the future. Germany as such can give the bilateral relationship a new perspective, in many areas of technological cooperation with Russia, and not just in space technology projects."

This comes closer to what LaRouche has been calling for, since his "Productive Triangle" proposal of late 1989. The debate on Russia is finally beginning to move to where it should have been years ago. Awakened by the Russian developments, more Germans may now be ready to listen to LaRouche's advice.

# Business Briefs

## Agriculture

### Argentina to import beef from Australia

Within a few weeks, Argentina, South America's premier beef producer, will import 7-8,000 tons of beef from Australia, and by year's end, expects to increase that figure to 40,000 tons, from both New Zealand and Australia. According to the Argentine Beef Industry Association, the cost of raising cattle has become so exorbitant, that it is cheaper to import beef than to produce it at home. (The figure for tax evasion in the cattle-raising sector is \$407 million annually, because most producers can't afford to pay taxes.)

Earlier this year, according to the daily *Clarín* on Aug. 19, Argentina quietly began to import beef in small quantities from two of its neighbors, Brazil and Uruguay, and also from the United States.

The total national stock of cattle is 50 million head, 3 million less than in 1995, and the equivalent of levels during the 1970s. Argentine slaughterhouses are functioning at 40% of capacity, and exports have dropped by the same percentage. An official at the Agriculture Ministry told *Clarín* that, "if we globalize in order to export, we'll have to accept the same rules of the game when [others] come to sell to us."

## Asia

### S. Korean unemployment is at a 32-year high

The South Korean economic disaster is growing worse. Figures released by the South Korean government on Aug. 25 show that unemployment is at a 32-year high, at 1.651 million, or 7.6% of the total workforce, the Aug. 26 *International Herald Tribune* reported. This figure is up 122,000 from the end of June, the biggest jump in a single month since March. Labor Minister Lee Ki Ho said that this figure does not include nearly 1.5 million who are either underemployed or so discouraged that they

have given up looking for work. He agreed with estimates of labor leaders, that there are 3 million members of the workforce who are either jobless or working less than 18 hours a week.

This is occurring at a time when "the social safety net is not sufficient," Lee said. In South Korea, only about 50% of regular wage earners are eligible for benefits, which only last 2-6 months. Day laborers, who are a big component of the unemployed, are not covered by the social welfare system.

In addition, the end of the Hyundai Motor strike (which was disastrous for workers), marked "the very first use of layoffs," Lee said. He predicted that other companies would now use layoffs and early retirement to force their workers out, without risking prolonged strikes. The Hyundai union, after a six-week strike, accepted 277 full-time layoffs and 18-month "unpaid leave" for many hundreds more.

The level of unemployment is the highest since 1966, when the country was beginning its industrial development. Before that, Korea had been kept extremely backward by the occupying Japanese, and then was devastated by the Korean War.

Imports and exports are also collapsing. Exports fell in July to \$10.16 billion, down from \$11.8 billion a year ago. Imports were worth only \$7.09 billion, down from \$12.64 billion a year ago. The Korean Development Institute, a government think-tank, is predicting a 4.2% contraction of the economy this year.

## Trade

### India nixes competitive currency devaluations

Indian Prime Minister Atal Bihari Vajpayee has opposed competitive devaluation of currencies, saying that the East Asian crisis shows the harm it can do to financial and capital markets, the Aug. 24 *New Delhi Business Standard* reported. "This is one of the areas where India and Southeast Asian nations should be consulting continuously and looking at strategies to prevent any crisis," Vajpayee told *The Nation* newspaper of

Thailand. "We have neither triggered competitive devaluation in the past nor indulged in it despite pressures to do so. The East and Southeast Asian crisis is a reminder of the harm this can do to Asian markets as also to the 'real economies' and 'asset values' of Asian countries," he said.

Meanwhile, India and Southeast Asia nations met on Aug. 26 in Singapore to discuss barter trade. The *Journal of Commerce Online* compared the event to "a move harking back to ancient times and more basic economic strategies." Participants included India, Malaysia, Singapore, Indonesia, Vietnam, and Thailand; the meeting followed an initiative by India at the April meeting of the Association of Southeast Asian Nations. Examples of likely trade deals would be Indonesia trading oil and coal for Indian rice, and Malaysia trading palm oil for spices and tea. India and Malaysia are also discussing increasing rupee-ringingit trade, following the pattern of similar regional currency deals by Malaysia.

## Demographics

### World population growth rate continues plunge

The rate of world population growth fell again in the past year, according to the U.S. Bureau of the Census, and the decline in the growth rate again accelerated, for the 20th consecutive year.

The Census Bureau figures, covering 157 countries or island groups and many other islands, principalities, and territories, show that 30 of the 157 countries now have falling populations. A year ago, there were 17 such nations. Of the 30 with declining populations, 16 are in western, central, or eastern Europe; 7 are in Africa; and 4 in the Middle East. An additional 16 countries are at zero growth, including 5 in Europe.

The overall figures give a mid-1998 world population of approximately 5.925 billion human beings, or about 75 million more than in mid-1997, the lowest increase in more than a decade. As recently as the 1994 Cairo World Population conference, the Worldwatch Institute claimed an in-

crease of 93 million per year, but the actual increase was 82-83 million per year.

The United Nations said in May, that the human race is supposed to reach 6 billion individuals by July 1, 1999. The world growth rate was still 2% per year in the 1980s; 1.7% at the 1992 Rio "Eco 92" summit. It fell to 1.4% by 1997, and now, a year later, has fallen to 1.3%. By 2000, the "extreme goals" of the Malthusian National Security Study Memorandum 200 and *Global 2000 Report*—a 1.1% world rate at the end of the century—will be reached or exceeded.

China is an exception: Its population increase, which had fallen to a very low 0.9% annually, has risen sharply to 1.25% per year.

## China

### Epidemics feared in wake of floods

China's Health Minister Zhang Wekang warned on Aug. 24 that the widespread flooding in central China's Yangtze River basin and in the northeast threaten a mass outbreak of water-borne snail fever, and said that about 400 cases of the parasitic disease have already been reported. He said that the floods have affected one-fifth of China's population, and that the health situation would worsen in the next three months, which is usually the peak period for epidemics. He reported that the incidence of intestinal diseases, hepatitis, and respiratory infections is greater than last year, and that a major problem is the shortage of medicines.

Following a Health Ministry report that at least 1,500 cases of cholera and 400 of schistosomiasis have been discovered among the flood victims, President Jiang Zemin ordered the ministry to step up disease-prevention efforts. Teams of doctors have been sent from Beijing and other cities to oversee work in the flood areas.

Lack of potable water and facilities to remove human waste are compounded by the fact that many homeless, people are living in the open. In Inner Mongolia, where hundreds of thousands of people are homeless, nearly

a half-million are living outdoors, and officials fear that they may not be able to resettle 120,000 of the worst-hit families before the onset of winter. Snow begins falling in September in the northeast, and the Red Cross estimates that more than 100,000 people have already fallen sick.

## Poland

### Privatization plans to be accelerated

Poland is increasing its disastrous sell-off of state property in order to meet budget needs. In 1999, the Polish State Treasury Ministry wants to privatize 70 large companies, and estimates that the state will receive almost 15 billion zlotys (more than \$4 billion) in revenue, twice as much as it got this year.

According to Treasury Minister Emil Wasacz, next year's privatization revenues will be funnelled to support the social security reform, cover payments to public sector employees and pensioners as compensation for wage adjustments and raises from 1991-92, and reduce the budget deficit. It is planned that privatization will bring in 6.5 billion zlotys this year, and almost \$20 million is allocated for fees for advisers and privatization appraisals.

According to Wasacz's plans, steelworks, sugar holdings, Polmos (liquor) companies, heat and power plants, and the Plock refinery will be privatized next year. The privatization of Polishi Telecommunication, Pekao (a bank), and Lot (the Polish airline) will be continued. Bigger banks, including BGZ (an agricultural bank), PKO BP, and the State Insurance Bureau, will be prepared for privatization. The latter company, Wasacz says, will receive additional capital before it is privatized.

There is considerable concern over the privatization of the banks. At the beginning of the year, there were 82 commercial banks in Poland (excluding cooperatives), of which 29 were entirely controlled by foreign capital. In 1993, there were only 10 banks in which foreign capital predominated.

**KAZAKSTAN** President Nursultan Nazarbayev said that he favors exporting manufactured goods instead of mostly raw materials, Interfax reported on Aug. 27. Kazakstan has become a net exporter of raw materials, as part of British free trade policy. "We should develop small and medium-sized businesses, which should number tens of thousands," he said.

**ARMENIAN** Foreign Minister Vartan Oskanian visited Tehran on Aug. 24-25. Talks with Iranian officials focussed on expanding bilateral trade, transport ties, and economic cooperation, including laying a gas pipeline from Iran to Armenia and the construction of a highway from Meghri, Armenia via Georgia to the Black Sea port of Poti.

**GEORGIA** has closed its border with Armenia because of the threat of hoof-and-mouth disease, the Armenian newspaper *Noyan Tapan* reported on Aug. 24. Two days earlier, Georgia had banned the import of cattle, poultry, and dairy products.

**INDIA'S** six "infrastructure industries" (electricity, coal, steel, crude petroleum, refined petroleum products, and cement) recorded 3.2% growth in the first four months of the current fiscal year, compared to 5.2% for the same period last year, the *New Delhi Business Standard* reported.

**THE PHILIPPINES'** agricultural sector collapsed 11% in the second quarter, and 7.15% for the first half of the year, the worst performance in 20 years. A survey of industries showed -12% growth in April and May, leading Socio-Economic Planning Secretary Felipe Medalla to conclude that the economy had hit zero or negative growth.

**CUBAN** dictator Fidel Castro told the Special Meeting of Heads of States and Government of the Caribbean, in the Dominican Republic in mid-August, that the oligarchical policy of "globalization is inevitable." "It would be useless to oppose a law of history," he said.



## Peru's Fujimori commits hara-kiri, fires Hermoza

by Luis Vásquez Medina and Gretchen Small

London's Dope, Inc. apparatus finally succeeded in August in a project that they have been working on for seven years: the break-up of the civil-military alliance which has saved the nation of Peru from disintegration at the hands of narco-terrorist armies.

The alliance had been forged by President Alberto Fujimori and Armed Forces Commander Gen. Nicolás Hermoza, who worked together closely to mobilize the nation to defend itself. But on Aug. 20, Fujimori committed political hara-kiri, firing General Hermoza and purging more than a dozen of his top collaborators from Army ranks. Next, London's strategists will demand of Fujimori the full take-down of Peru's military, as has occurred in most other countries in Ibero-America. And, although he might think otherwise, Fujimori's actions have set himself up to be dumped.

The firing of General Hermoza was carried out, taking advantage of the fact that almost all the military forces loyal to the General were far from the Peruvian capital, deployed to face a new invasion by Ecuadoran troops across Peru's northern border. His firing was followed by a complete restructuring of the command of the principal divisions of the Peruvian Army. According to diverse analysts in Lima, Presidential adviser Vladimiro Montesinos has strengthened his influence in the Peruvian Executive as a result of these changes. Montesinos, a retired Army major, has been denounced on various occasions for his political connections to Henry Kissinger, a connection which Montesinos has never denied.

### **LaRouche's enemies did it**

A key role in the operation to split Fujimori from General Hermoza was played by former State Department official Luigi Einaudi, known as "Kissinger's Kissinger for Ibero-America." Einaudi is an old enemy of Peru (and of Lyndon

LaRouche), who now works at the Inter-American Dialogue (IAD), the premier British policy channel into the United States for the region.

The flank used by Einaudi and his operatives to secure Hermoza's ouster was the Ecuador-Peru border conflict. After a border incident flared into fighting between the two countries in 1995, Einaudi was named chief U.S. negotiator for the conflict, a post he retained even after he left the State Department to go to the IAD. With both sides resisting being driven into an accord each viewed as unacceptable, Einaudi threatened most recently that Peru and Ecuador must reach an accord at any cost, or investment would flee both countries.

Fujimori was told by Einaudi et al. that the "hard-liner" Hermoza had to go, or there could be no border peace, and thus no foreign investment for Peru. This would translate into economic chaos for the country, on the eve of Presidential elections in which Fujimori intends to run for a third term.

These same globalizers had stirred up the long-standing conflict between Peru and Ecuador in the first place in 1995, using the influence of people close to Einaudi—such as Gabriel Marcella, director of Third World Studies in the Department of National Security and Strategy at the U.S. Army War College—within Ecuador's military command, and particularly with the former commander of its Armed Forces, Gen. Paco Moncayo. (For his part, Einaudi cohort Marcella has been deployed for years, trying to counter LaRouche's widespread influence in the Ibero-American military. In December 1994, Marcella publicly complained about LaRouche's influence, telling a special edition of the *Miami Herald* produced for the first Presidential Summit of the Americas: "When Lyndon LaRouche has more credibility in Latin America than the Pentagon, that's troubling.")

These forces are now trying to use the "solution" to the



*Gen. Nicolás Hermoza when he was head of the Joint Chiefs of Staff of the Peruvian Armed Forces. His firing is a major blow to the fight against narco-terrorism throughout the Andean region.*

conflict, to further their globalist cause, in particular by maneuvering to have the final Peru-Ecuador accord include the creation of a binational nature park on the disputed part of the border. Under this plan, supervision of the park would be handed over to some supranational agency (that is, one controlled by the British oligarchy's Prince Philip and his ecological mafia), a scheme which would end any national sovereignty over these strategic regions.

Einaudi and Company also intend that, once peace is signed between the two countries, the dismantling of the armies of both countries can begin, and especially Peru's Army, which, through its determined defense of the nation-state against narco-terrorism, has been the hardest nut for the globalists to crack.

General Hermoza had opposed both of these intentions: the creation of the park, and the takedown of the military.

### **The Colombian mirror**

With the fall of General Hermoza, Peru could well begin to travel down a path which would bring it, within a short time, to a situation like that which today faces its neighbor, Colombia, and very similar to that which laid waste Peru until 1992. Colombia today is a country with its Army demoralized and cornered by the same globalist forces which overthrew Hermoza in Peru, which thus finds itself in the unfortunate situation of discussing the political dismemberment of the country with various narco-terrorist groups which occupy its territory.

London's victory in Peru, in fact, is a blow to the entire Andean region, indeed to all of the Americas, under assault by the drug cartels, the George Soros-funded army of drug

legalizers, and their terrorist armies. Particularly in besieged Colombia, Peru has been looked to as proof that nations can, even at the point of disintegration, turn around and defeat the narco-terrorists, if they rally and break with the false "democracy" of the globalizers. When *EIR*'s Peru bureau chief, Luis Vásquez, visited Colombia in July, he was told by Colombian military officers, who are horrified at their nation's capitulation to the narco-terrorists, that "the only thing today that could save Colombia, is a leader of the stature of Hermoza."

The Hermoza-Fujimori team earned wide respect throughout the region—and thereby, the unforgiving enmity of London's strategists—by delivering major defeats to the narco-terrorists. Where other nations have bowed and capitulated, Peru did not.

- In April 1992, with the murderous Shining Path narco-terrorists controlling more than 40% of the country and prepar-

ing to take over its cities, Fujimori and Hermoza rejected international pressure to negotiate with them, and instead put the country's institutions on a war-footing. By September 1992, the government captured Shining Path's chief, Abimael Guzmán, breaking the back of the insurgency.

- In December 1996, when Peru's other narco-terrorist group, the MRTA, seized the Japanese Ambassador's residence and hundreds of hostages, the government agreed to negotiate, but refused to capitulate to demands that would have unleashed terrorism again in the country. When the terrorists refused to yield by April 1997, an Army special forces team carried out a daring rescue of the hostages. Inviting General Hermoza in 1998 to brief other Ibero-American military officers on Peru's victories against terrorism, the head of the U.S. Army Southern Command, Gen. Charles Wilhelm, described this hostage rescue as "one of the few decisive victories against terrorism of the last 20-30 years."

- With the terrorists driven back to their jungle redoubts, the Fujimori-Hermoza team turned Peru's forces against the drug trade proper, working with the Clinton administration to shut down the narco-terrorists' air and river transport capabilities out of Peru. The program has won high praise from U.S. anti-drug chief Gen. Barry McCaffrey (ret.), who singled out General Hermoza for praise.

General Hermoza warned in his farewell speech that the task of securing peace in Peru is not finished; should Peruvians now turn against the military, who paid with their lives to defeat the terrorists who sought to "eliminate the presence of the state, through an insanity of blood and violence against Peruvians themselves," the door will be opened to the terrorists' return.

# Gen. Hermoza: lessons we must never forget

*The following are excerpts from the Aug. 21 speech of Peruvian Armed Forces Commander Gen. Nicolás Hermoza Ríos, upon leaving his command of that nation's Armed Forces.*

. . . In 1990, Peru suffered the worst disaster of its history, led to an abyss by economic sanctions . . . practically bankrupted, sunk in the worst impoverishment ever experienced, which led in turn to the serious deterioration of national infrastructure, . . . triggering a crisis of values which cost us a great deal to reverse.

This was the situation in Peru, during which I assumed command of the Armed Forces, faced with an advancing terrorist opposition creating vacuums of power in every corner of the country, trying to purge all state presence through a frenzy of blood and violence against the Peruvian people, with the absurd aim of seizing power.

We all know of the selective assassinations in the cities, and the massive crimes in the countryside. Possibly the example of Peru ended up inspiring the world with a new concept of human rights, understood until then as the rights of the individual against the abuses of the state. In 1992, more than 40% of Peruvian territory was in a state of alert, with approximately 20,000 deaths, 50,000 orphans, 280,000 displaced, 258 destroyed bridges, with important cities of the country on the verge of being isolated for lack of electricity due to the destruction of more than 2,004 high-tension towers, and more than 200 political authorities assassinated. The population was pleading for an end to the unjustified crimes—but got no response. . . .

These are lessons we must never forget, because none of what we went through is past history. To forget, according to history, is anti-historic, suicidal. The peace and order we have today are not some natural, eternal, irreversible condition; especially in the jungle, our soldiers are still dying, fighting for a pacification which they are trying to consolidate.

In the fight against terrorism and narco-terrorism, we fulfilled our duty. . . . We faced an undeclared war, because it was preferable to answer to history, although ethically and legally all Peruvians should have assumed such responsibility during a state of siege, as was appropriate to the desperate moments in which organized society lived.

We deployed across Peru. The terrorist fire transcended the physical part of our territory, to embed itself, through intense and terrible fear, in the conscience of our people. The monstrosity of the acts of violence had penetrated so deeply into people's psychology, that in the course of things, we

soldiers also ended up being the gratuitous enemies of the people. Under these circumstances, another task was given our men: to recover the confidence of our compatriots.

We are forced to remember these events again, to remind our people that we soldiers were also the silent victims. From the testimony of thousands of soldiers killed in combat and assassinated, one can understand the damage that terrorism did to Peru. Only this lesson will prevent a return in Peru to a brutality which stained the very dignity of the nation.

Reminder of these events perhaps represents for some a past that we should have already buried. . . . For us, the uniformed men of the people, the fight for pacification will be the worthy reference point for lessons of life and dignity, which we must not forget, to prevent the tragedy of Peru from ever being repeated.

In 1995, before the wounds were even healed and while the strategic deployment and distribution of various elements of our forces were consolidating different missions related to terrorism and narco-terrorism, we had to leave the battlefields of internal combat to defend the nation's territorial integrity along the northern border. Once more, the Armed Forces had to deploy with the speed that circumstances dictated. . . .

## We speak of law

For the Armed Forces, to guarantee sovereignty, independence, and the territorial integrity of the Republic is its primary objective. All of its military might is subject to the juridical order of the country, and to the constitutional power of the Republic. Our Armed Forces is an institution of men, with the maturity to combat terrorism under conditions more torturous and cruel than in a conventional war. That is why we do not have . . . the triumphalism to speak of weakness or force, but rather of law, which is the Reason whose foundations speak to the most profound feelings of solidarity and justice, which are factors without which it is impossible to stop all violent action capable of provoking instability and horror.

It is also necessary to say that on April 22, 1997, . . . all Peruvians were represented by that handful of soldiers who rescued the individuals held hostage by the terrorists, in the Chavin de Huantar military operation. And with their example, they demonstrated to the world the moral quality of our rulers, of the men, of the people, and of Peru's soldiers. With the sacrifice of Colonel Valer and of Captain Jiménez, not only was human security defended, but the concepts of human rights, of democracy, and of the state, were rescued for the world.

We move forward with a peaceful conscience, based on the knowledge of having complied, with all the effort and will we have been able to muster, with the duties imposed on us through our military obligations. To soldiers at every level of command, wherever you may find yourselves, I repeat: With men like you, Peru can do anything.

Long live Peru!

# Israel pushes U.S. clash with Pakistan

by Joseph Brewda

An Aug. 26 forum of the U.S. Institute on Peace in Washington, "Counterterrorism Strategy: Lessons after Nairobi, Dar es Salaam, and Omagh," has provided fresh evidence that Benjamin Netanyahu's Israel is intent on pushing the United States into increasing conflict with Pakistan. The principal speaker at the forum, Israeli counterterror specialist Ehud Sprinzak, claimed that Pakistan is the sole sponsor of Saudi terrorist financier Osama Bin Laden and the Islamic terrorist networks radiating out of Taliban-run Afghanistan.

According to Sprinzak, Pakistan is the world headquarters of Islamic terrorism, and is responsible for the two U.S. embassy bombings in Africa, as well as numerous other "Islamic terrorist" bombings in Buenos Aires, the Mideast, and Europe. Bin Laden is just one of many Pakistani intelligence operatives serving "Pakistan's holy war," he said, whose center of operation is not Afghanistan, but Pakistan itself. He didn't get this information from the Israeli Mossad, he added provocatively, but from his Indian colleagues and the Indian press.

Citing Israel's so-called great success in combatting terrorism, Sprinzak advised that the U.S. government must end its ban on assassinations, because they are needed to stop terrorism. But, he added, even if Bin Laden were "taken out," there are still many others ready to replace him from within this Pakistani network. Therefore, the United States must direct its efforts to stop the sponsors of the network, that is, Pakistan's government.

In response to this diatribe, forum moderator Robert Oakley, a former State Department Coordinator of Counterterrorism and former Ambassador to Pakistan, issued an unusual-for-Washington public rebuke of Sprinzak. "You know, Ehud," Oakley stated, "I seem to remember the Mossad had something to do with the creation of Hamas, to fight the PLO, while India created the Tamil Tigers, which eventually killed Rajiv Gandhi. So perhaps nuances are also called for in respect to Pakistan."

Oakley criticized Sprinzak for implying that Israel and India are allied against Pakistan. Such efforts are dangerous, Oakley cautioned, since they undercut the Pakistan government's ability to counter "Islamic" terrorism, by making it appear that it is doing so under Israeli and Indian pressure. (The Israeli's claim also sets up India for "Islamic terrorist reprisals.")

Oakley rejected Sprinzak's proposal that the United States imitate Israel and assassinate terrorists, pointing out that any review of Israel's murders of "Islamic" terrorists would show that they have hardly been to Israel's benefit. He added that reviving the Oslo peace process (sabotaged by Netanyahu) would greatly reduce the terrorist threat radiating out of the Islamic world.

## A longtime Israeli game

The Israeli effort to depict Pakistan as the center of world terrorism dates back to at least 1992, when the U.S.-based Israeli operative Yossef Bodansky abruptly shifted from his earlier obsessive attacks on Hamas and Egypt's Islamic Jihad, to exclusively focus on the Pakistani terrorist threat. Typical of his recent products is his 1994 "Pakistan Road Warriors," written for the U.S. Congress's Republican Task Force on Terrorism. It claims that Pakistan and China are in a grand conspiracy to dominate Asia, and that Pakistan's role is to use its "skills at running covert operations and irregular warfare" to "consolidate control over the traditional gateways to China," while preparing its terrorists to "launch guerrilla warfare against the Indian Army."

Bodansky, a former Israeli Air Force officer detailed to the Pentagon in the 1980s, left that post under a cloud after the Israeli Labor Party newspaper *Davar* implicated him as the handler of Israeli spy Jonathan Pollard. Despite his implication in what proved to be one of the most damaging espionage cases in U.S. history, Bodansky soon reemerged as director of the Republican Party's Task Force on Terrorism and Unconventional Warfare in the U.S. Congress. He continues to work closely with the Jewish Institute of National Security Affairs, the American-Israeli Public Affairs Committee, and other outfits intent on getting the U.S. government to subordinate itself to perceived Israeli state interests.

That Bodansky was involved in setting up the United States to bomb Sudan on Aug. 21 is a matter of public record. He was the first to publicly claim, in his Feb. 10, 1998 task force report, "The Iraqi Weapons of Mass Destruction Challenge: Myths and Realities," that the Sudanese pharmaceutical plant was actually a secret chemical warfare site built by the Iraqi Army. Bodansky's lying report was praised by Deputy Speaker of the House of Lords Baroness Caroline Cox, in a Feb. 17 diatribe against Sudan and Iraq in a House of Lords debate. Cox, who also harshly denounces Pakistan for alleged persecution of its Christian minority, has often come to the United States to lobby for U.S. military action against Sudan.

Such lies, shopped into the Clinton administration through numerous other "Pollards" who remain in high-level intelligence positions, played a major role in suckering the administration into bombing Sudan, all for Netanyahu's (and Britain's) benefit. Similarly, Sprinzak and Bodansky's depiction of Pakistan as the mastermind of world terrorism is apparently designed to lure the United States into other disastrous actions.

# EIR white paper on 'Missed Chance of 1989' released in Germany

Helga Zepp-LaRouche, the lead candidate of the Civil Rights Solidarity (BüSo) slate in the Sept. 27 German Parliament elections, released the German-language edition of a special report on "Germany's Missed Historic Chance of 1989," at a Bonn press conference on Aug. 27. The white paper, which appeared in English in the Aug. 14 issue of *EIR*, was commissioned by Lyndon LaRouche for widespread use in both German and English, after the Bonn government released documents showing that British Prime Minister Margaret Thatcher and French President François Mitterrand had blackmailed Germany into accepting limited sovereignty, as a member of the European Union, in exchange for being allowed to reunify in 1989.

Zepp-LaRouche introduced her remarks, by sketching the systemic crisis sweeping the world, striking Russia with particular virulence. However, the crisis, she stressed, is worldwide, hitting Japan, with its banking system rotted out by derivatives speculation, and Indonesia, threatened with hunger, as well as sweeping through Ibero-America. She presented the BüSo's program for monetary and financial reform through a New Bretton Woods conference, and an economic recovery program, based on the Eurasian Land-Bridge.

Given the depth of the crisis, she said, it is astounding that none of this has been mentioned by any other political contenders in the election campaign. "This is utterly irresponsible," she charged, "when we are dealing here with a question of life and death for millions of people." Equally astounding, she went on, is that no one in Germany has reacted at all to the documents released regarding the 1989-90 events surrounding German reunification. She hypothesized that Chancellor Helmut Kohl had released the documents (normally held in archives for 30 years), because he recognizes the nature of the systemic crisis, and wants to be able to say that he was forced to do what he did in 1989-90, against his will.

She then presented the German white paper, making the point, in reviewing the events of those years, that, although official Bonn claimed it had not been prepared for the dramatic events of 1989, the LaRouche movement had been prepared, and had promulgated successive programs and interventions, from the Food for Peace proposal, to the Productive Triangle, and Eurasian Land-Bridge. In fact, she had personally sent letters to leading Bonn politicians, offering them the solutions they did not have.

The importance of fully understanding the missed oppor-



*Helga Zepp-LaRouche, lead candidate for Germany's Civil Rights Solidarity slate, shown here presenting the proposal for a New Bretton Woods monetary system to a forum in Stuttgart, on March 20, 1998.*

tunity, she said, is that today, we have another opportunity to change history, and "this may be the last opportunity." She stressed that the concessions Kohl made—giving up sovereignty over financial and monetary policy, by surrendering the deutschmark to the dictates of the Maastricht Treaty and the European Monetary Union—are directly responsible for the current crisis. The destruction of the economies of the former Soviet Union, after 1991, was the deliberate policy of the British and Bush, and the "self-containment" of Germany was part of that package, she said.

Her remarks sparked heated debate. In response to several questions, she elaborated two points: First, that the alternatives were *not* between communism and the free-market liberalism, but that there was a third alternative, represented by programs of the LaRouche movement and others, such as Deutsche Bank chairman Alfred Herrhausen, who was assassinated shortly after the Berlin Wall fell. The lost opportunity lay in not having forced through the third approach. Second, she stressed the real history of the Strategic Defense Initiative, documented in the white paper, showing the crucial role that Lyndon LaRouche played. It was not the military aspect per se that was important, she said, but the way in which the program could have been implemented, as a science-driver for economic reconstruction. She contrasted LaRouche's approach, which Ronald Reagan adopted in announcing the SDI on March 23, 1983, with the approach that the Soviets ultimately had taken, which led them to ruin.

When an individual with military experience asked what a vote for the BüSo would bring to Germany and the world, Mrs. Zepp-LaRouche replied simply: "The alternative is chaos."

## Police take on 'anti-corruption' scam

*Are the anti-corruption crusaders wittingly backing the "Mr. Bigs" of the drug trade?*

Over the past several years, British-steered "anti-corruption" investigations have been used to destabilize or bring down governments all over the world, to pave the way for globalist looting, as in the "Clean Hands" probe in Italy, and the unending "Starr chamber" assault on President Bill Clinton.

A more modest example of such an "anti-corruption" scam, one which would facilitate an expansion of the multibillion-dollar illegal drug trade in Australia, has just been given a good kick in the teeth in the state of Western Australia.

On Dec. 5, 1997, following a five-month investigation into alleged police corruption in the Western Australian police force, the state's Anti-Corruption Commission (ACC), under chairman Terence O'Connor, recommended that serious disciplinary action be taken against six state police officers.

The officers had not even been charged with "crimes," nor with "corruption," but with "improper conduct," that is, violating formal police procedures. According to the law, the ACC should have quietly turned its findings over to prosecutors, who would then decide whether to proceed with charges. Instead, the ACC had acted—illegally—as the judge, jury, and executioner.

Within days, the ACC's findings of "corruption" had been leaked to the press, and Commissioner of Police Bob Falconer publicly named the individual officers involved, and suspended them without pay.

Shortly thereafter, the state police

union organized an unprecedented 1,500-person "Justice for Police" rally in Perth on Dec. 21, which demanded that the state government "immediately suspend all of the activities of the Anti-Corruption Commission," and open an independent judicial investigation of it. State Director of Public Prosecutions John McKechnie, meanwhile, refused to prosecute the case, based on the extremely thin evidence the ACC had compiled, and rebuked the commission for its public statements.

Police Commissioner Falconer, meanwhile, said he might not reinstate the police *even if they were found innocent of all charges*, a statement which pointed to deeper issues afoot than alleged corruption. Indeed, one of the officers charged, Det. Sgt. Peter Coombes, told the police union's rally, "We have been put up as the scapegoats for a far greater hidden agenda."

The six officers were at the heart of the state's highly effective anti-drug squad. On July 31, police union head Mike Dean told *EIR* that those charged "were perhaps one of the most effective drug squad teams ever, with their arrest rates, and the amount of drugs they pulled off the streets," and that they had played key roles in the National Crime Authority and the Bureau of Criminal Intelligence. "All of them have arrest records unmatched," said Dean. "In fact, Coombes and [Christopher] Cull have histories of probably the most effective investigators of organized crime in Western Australia ever."

Acting Assistant Police Commissioner Bob Ibbotson was even more

blunt, telling the press that the ACC's activities had harmed the pursuit of high-level criminals, including the "Mr. Bigs of the drug trade."

The ACC actions to destroy police officers who, at worst, were following long-established state police procedures, come in the context of a mad drive to decriminalize drugs, which has the support of the nation's (politically appointed) police commissioners, including Falconer.

The drive is being coordinated by two institutions notorious for their ties to the City of London: the Australian Drug Foundation and the Melbourne-based Macfarlane Burnet Center for Medical Research, which are financed by the major banks, including the Reserve Bank, by British mining giant Rio Tinto, and by speculator George Soros, an investment adviser to the Queen and the Daddy Warbucks of the worldwide drive for drug legalization.

As for ACC chairman O'Connor, sources in Perth have informed *EIR* that he is from a very wealthy family, and "is at the apex of the Western Australia establishment."

Western Australia's Supreme Court severely criticized the ACC in April, charging that it had "overstepped its authority" in its action against the six officers, whose reinstatement is still pending.

The attack on the Western Australia drug squad follows on the heels of the two-year, \$100 million Royal Commission inquiry into the New South Wales police force. That "anti-corruption" investigation last year destroyed the N.S.W. anti-drug squad, which even Royal Commissioner James Wood had to admit had been "highly effective"; it also called for the legalization of drugs, in order to "combat corruption." Perth and Sydney (the capital of N.S.W.) are perhaps the two most important entry points into Australia for illegal drugs.

# International Intelligence

---

## ***Kenya's President Moi condemns Congo invasion***

President Daniel arap Moi of Kenya "condemned all acts of aggression against the government and the people of the Democratic Republic of the Congo," on Aug. 11, Kenyan government radio reported. He called for the "respect for the sovereignty and territorial integrity of that country." He noted, according to the radio summary, that the new war "has raised fresh fears of political instability and security in the Great Lakes region. He said the outbreak is likely to have adverse effects on the lives of innocent people. . . . President Moi said he had expressed fears on many occasions . . . that the underlying problem in the 1996-97 crisis had not been properly addressed, and that the crisis will recur. He said these facts have turned out to be true. President Moi said he considered it prudent for the international community to take measures to contain the current cycle of violence. . . . The head of state said Kenya will cooperate with all peace-loving countries, and use every means possible to make a contribution through the OAU [Organization of African Unity] and other diplomatic channels to find a solution to the problem."

According to Agence France Presse, the OAU demanded on Aug. 11 that Rwanda respect the principle of the "inviolability and sovereignty of the borders" of the Democratic Republic of Congo.

---

## ***Cambodian opposition out to wreck elections***

On Aug. 18, Cambodia's opposition parties, the Sam Rainsy Party and the royalist Funcinpec of Prince Norodom Ranariddh, issued a joint statement calling on King Sihanouk, UN Secretary General Kofi Annan, the U.S. government, members of the U.S. Senate and House, the European Union, the Association of Southeast Asian Nations (ASEAN), Friends of Cambodia member-states, and signatories to the 1991 Paris Peace Agreement "to come up with an agreement that a genuine new Democratic Elec-

tion be held in Cambodia." More than 500 observers from the UN, EU, and ASEAN, among others, found the July 26 elections, which had 90% participation, to have been orderly and peaceful.

Notwithstanding, Sam Rainsy, who is closely tied to the U.S. International Republican Institute, said he would join his supporters camping outside the offices of the National Election Commission on Aug. 20, with the protest culminating in a joint demonstration on Aug. 23 to demand a new election. Ranariddh's Funcinpec planned a parallel rally in Seattle, Washington on Aug. 21.

On Aug. 18, Rainsy and Ranariddh slammed Philippines Foreign Secretary Domingo Siazon for his Aug. 14 statement that it would be "immoral or irresponsible" for Rainsy and Ranariddh to refuse to participate in a coalition government with Hun Sen, whose party had won 64 of the 122 seats in Parliament. The two rebutted that it would be immoral for them to "accept the undemocratic outcome that the ruling party has engineered" and to abandon "our people . . . to further exploitation by the current illegal regime." Siazon is one of the three ASEAN foreign ministers who have been assigned since July 1997 to assess Cambodia's situation, when Ranariddh (then First Prime Minister) and the Khmer Rouge attempted to overthrow Second Prime Minister Hun Sen.

Meanwhile, troops led by Ranariddh's Gen. Serey Kosal, in league with Khmer Rouge guerrillas, captured the village of Thma Da on the Thai border on Aug. 13.

---

## ***Bangladesh struck by worst floods in decade***

Bangladesh is being hit by the worst floods in a decade, and the high waters are lasting longer than at any time in the country's history. Reports are that it could be weeks before the waters recede. So far, 500 people have been killed, \$1 billion worth of crops destroyed, and infrastructure and communications have been devastated.

Many areas of the capital, Dhaka, are under water. The highway between Dhaka and the port city of Chittagong on the Bay of Bengal has been flooded, and the Army has

been deployed in several areas to protect the bridges and embankments. The road links between Dhaka and as many as 19 southern districts have been cut off.

Hungry people are now flocking to the capital, as there are severe food shortages in many areas, and a lack of clean water and medicine, as well as sanitation. Prime Minister Sheikh Hasina Wazed, who had originally not asked for international aid, has reversed her decision and requested help, not only for the immediate crisis, but also to rebuild the devastated country.

---

## ***Central Asians confer on regional security***

The foreign and defense ministers of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan met in the Uzbek capital, Tashkent, on Aug. 22-23 to confer on the problems of regional security. The ministers adopted a "confidential joint statement," but no details have been disclosed, ITAR-TASS reported. Interfax on Aug. 24 quoted Tajik Ambassador to Uzbekistan Tajiddin Mardonov as saying that the ministers discussed "possible scenarios of the events" in Afghanistan and measures that the four states could take. He said combatting the spread of Islamic extremism was also discussed, as there are "forces that are paving their way to power under the cover of Islamic slogans."

Mardonov added that there are no plans to call for talks with Afghanistan's Taliban movement or to attempt to mediate a peace in Afghanistan. "The Taliban leaders have stated on many occasions that they do not recognize anyone and that there is nothing to be discussed," he explained.

Tajikistan itself is experiencing new turmoil, in the conflict between the government and Tajik insurgents based out of Afghanistan. The UN observers' mission in Tajikistan announced that it will temporarily withdraw some of its personnel and has suspended "nonessential" visits to the country by UN employees, ITAR-TASS reported. The decision affects those who were monitoring the peace process in areas outside Dushanbe, after four UN employees were killed on July 20, in a remote area in

**INDONESIA'S** President B.J. Habibie told Middle Eastern reporters on Aug. 22 that he was "very sorry and very sad" about the U.S. bombings in Afghanistan and Sudan, "but it was not an attack against Islam," citing the good relations between the U.S. and Indonesia, the largest Muslim country in the world. Rather than wage war on religion, he offered the advice that the world should declare war on poverty, injustice, and ignorance.

**ISRAEL'S KNESSET** Finance Committee, which is controlled by Netanyahu's coalition, approved another 90 million shekels for Jewish settlements, including new ones, in the occupied territories. The move was denounced by Knesset member Avraham Shohat (Labor), who said, "The government claims that there is no money for health, education, research, and development and infrastructure, but it keeps pouring money into the settlements, fueling an unstable situation."

**ARMENIAN PRESIDENT** Robert Kocharian has accepted an invitation from Turkish President Suleyman Demirel to attend the 75th anniversary celebrations of the founding of the Republic of Turkey.

**NEW ZEALAND POLICE** are reporting that 9 out of 67 homicide offenders in the country last year were under the influence of cannabis while committing the crime. The police also reported to the N.Z. Parliament health select committee inquiry that 14 of the 67 killers were regular cannabis users.

**TWO GEORGIANS** were killed on Aug. 24 and 60 injured when part of the regional administration building in the west Georgian town of Zugdidi was destroyed by a bomb, Caucasus Press reported. Most of those injured were refugees from neighboring Abkhazia. Georgian President Eduard Shevardnadze condemned the blast as "an act masterminded and executed by enemies of Georgia."

central Tajikistan.

On Aug. 27, an attack on the mayor's office in Tursunzade left six people dead and four others seriously wounded, including Mayor Nurullo Khairullaev, and the head of his administration. Masked men in camouflage opened fire outside the building, also killing two guards and a policeman. On Aug. 28, the Tajik government accused former Army Col. Mahmud Khudaberdiyev of ordering the murders. Khudaberdiyev was commander of the Presidential guard's rapid reaction force, but, dissatisfied with the terms of the Tajik peace accord, he came into armed conflict with the government in the second half of 1997. Khudaberdiyev denied the charges.

Tajik authorities also ordered four Pakistanis to leave the country by Aug. 25, according to ITAR-TASS. Three of the men were apprehended in a Dushanbe mosque as they tried to hand out propaganda, which has been described by some sources as "pro-Taliban" and by others as "pro-Wahhabi."

---

## **Mufti of Dagestan killed by car bomb**

Sayid Muhammed Abubakarov, Mufti of Dagestan, was murdered, along with his brother and chauffeur, on Aug. 21 in the capital, Makhachkala. His car exploded in the yard of the Dzhuma Mosque. Dagestan is an autonomous republic in Russia's Caucasus, neighboring Chechnya. Six kilograms of hexagen had been buried under his car, which blew up when the driver went to start it. Specialists called it a typical "trap mine." Several days before his death, Sayid had told Ravil Gainutdin, Mufti of Moscow, that he was in the habit of changing cars many times, because of the threat of assault.

Russia's RTR television associated the terrorist action with the Mufti's negative attitude toward the adherents of Wahhabism, who in a short-lived move in mid-August had declared an independent Wahhabi republic within Dagestan. "Some members of the Jamaat are against civil peace and against real Islam," the Mufti had recently said. In his last interview, he had said: "It is well known that, for certain people, war is busi-

ness, enrichment, a way of life. Wahhabism is only a bright cover for this. There is no spiritual content beyond this bright cover."

"Sayid Muhammed Hadji Abubakarov was one of the most respected leaders who professed traditional Islam," declared Dagestan's Religious Department.

According to the newspaper *Kommer-sant*, the Mufti had some personal enemies in the Muslim clergy in the Caucasus. In 1996, he demanded that one of them, named Bauddin (who is said to be involved in drug-trafficking), be extradited from Dagestan. Bauddin went to Gudermes, Chechnya, and became the spiritual leader of the local Wahhabites.

In his statement, broadcast by ORT TV, Mufti Ravil Gainutdin said that "even if the villains are not found, Allah will still punish them." Russian President Boris Yeltsin termed the assassination an attempt to divide and factionalize the Muslim community. Russian Interior Ministry police immediately flew to Chechnya to begin their investigation.

---

## **Australian Defense Force goes part-time**

Australians are looking forward to the official adoption of a new, white flag, which is expected to follow changes about to be introduced into the Australian Defense Force (ADF) that will allow "flexible" work arrangements for defense personnel in all three services. Under the new arrangements, personnel will be able to work part-time, work from home, take a rest from "difficult" periods of service, and negotiate flexible hours with their commanding officers. The new policy is being promoted as an attempt to make the ADF more attractive to those with families.

However, senior ADF officers are admitting that this is really a scheme to cut costs: e.g., personnel will be granted leave, but without pay. The deputy director of the ADF's personnel policy, Wing Cmdr. Bob Nilson, said the new system was part-time work under a different name. "Flexible work practices are part of a change in culture," he said.



## The death of Diana: Many questions unanswered

by Jeffrey Steinberg

One year has passed since the Aug. 31, 1997 automobile crash in a Paris tunnel that claimed the lives of Princess Diana, Dodi Fayed, and Henri Paul. And, despite the best efforts of the French police, the British monarchy, and the vast majority of the European and American media, to pronounce the crash a routine case of drunk and reckless driving, evidence continues to accumulate that it was anything but an accident.

One year after he began, Judge Hervé Stephan, the man in charge of the official French government probe of the crash in the Place de l'Alma tunnel, is nowhere near completing his investigation. On June 5, 1998, he convened an extraordinary group interrogation, of a dozen eyewitnesses, and nine paparazzi photographers who may yet be indicted on manslaughter charges.

At the same time, Judge Stephan ordered a new and more thorough probe of the failure of emergency rescue units to get Princess Diana to a hospital, for nearly two hours after they arrived at the crash site. It is now widely believed that the Princess would have survived the crash, had she received competent emergency medical care. This is also a life-and-death issue for the Jospin government of France, because two senior officials, Paris Police Chief Philippe Massoni and Interior Minister Jean-Pierre Chevènement, were, at the tunnel and at the hospital, directing the rescue effort and the initial investigation, while rescue workers were taking 1 hour and 43 minutes to deliver Diana to a hospital 3.8 miles from the crash site.

### Priorities for further investigation

On Aug. 27, 1998, Judge Stephan issued a statement through the prosecutors office, only his third public comment on the probe since it began a year ago. He stressed four priority areas for further investigation: the mystery surround-

ing the near-fatal levels of carbon monoxide found in driver Henri Paul's blood tests; the evidence that the Mercedes 280S had serious mechanical problems, including water in the brake fluid; the whereabouts of the missing Fiat Uno that collided with the Mercedes 280S, causing the fatal crash; and the delay in getting Princess Diana to a hospital, following the crash.

Mohamed Al Fayed, the father of Dodi Fayed, and the owner of both Harrods department store in London and the Ritz Hotel in Paris, remains convinced that there was more to the Paris crash than the "traffic accident" version peddled by the boulevard press. He has vowed to use all the resources at his disposal to uncover the truth about what happened. As a civil party to the French investigation, Al Fayed's attorneys are privy to all of the material in Judge Stephan's file.

Al Fayed's determination has made him the target of a vicious media smear campaign, led by City of London and Buckingham Palace establishment assets. Australian media baron Rupert Murdoch's *New York Post* has described the British establishment attack against Al Fayed as "blood sport."

Up until his sudden death in July 1998, Tiny Rowland, the head of Lonrho, the British African raw materials cartel, and a lifelong operative for Britain's foreign intelligence agency, MI6, had conducted a decade-long personal vendetta against Al Fayed, which he resumed shortly after the tragedy in Paris. Rowland attempted to instigate criminal proceedings against Al Fayed and several senior Harrods employees, on theft charges. Ultimately, the Queen's Prosecutors concluded that there was no merit in Rowland's allegations, but, nevertheless, investigators from Scotland Yard spent months chasing down Rowland's lies.

With both British and French security services locked into



*EIR has played a unique role in exposing the continuing political significance and evil character of the British monarchy, and in investigating the highly suspicious death of Princess Diana. Shown here is a sampling of our coverage, dating back to the widely circulated special report of Oct. 25, 1994, "The Coming Fall of the House of Windsor."*

an attempted cover-up of the events in Paris on Aug. 30-31, 1997, Al Fayed recently asked the U.S. House of Representatives Select Committee on Intelligence to look into whether the Central Intelligence Agency or other U.S. intelligence branches may have any information that would shed light on the fatal crash.

**The role of EIR**

Long before the tragic events in Paris, the editors of *Executive Intelligence Review* had been closely tracking the political turbulence around the British royal family. Beginning on Oct. 25, 1994, *EIR* published a series of documentary reports detailing "The Coming Fall of the House of Windsor," singling out the Royal Consort, Prince Philip, as a particularly nasty figure, capable of mass murder. Copies of the stories were sent to all members of the royal family. Only Princess Diana responded, with a pair of letters, dated June 5, 1996 and March 6, 1997, from her private secretary, expressing thanks for the "most interesting enclosures." "Your letter meant a great deal to the Princess," Mrs. Colin MacMillan wrote to *EIR*'s Scott McClain Thompson.

On Sept. 4, 1997, Lyndon LaRouche wrote a brief note, accompanying the publication of the Diana correspondence, in *EIR*'s edition of Sept. 12: "We at *EIR* did serious soul-searching in the course of reaching the decision to publish the

late Princess Diana's correspondence to my representative. On balance, we were persuaded that these letters show, more simply and effectively than any other facts available to us, that Princess Diana was a far different person than that pack of hyenas known as the international daily news-media have, chiefly, painted her thus far."

Over the past year, *EIR* researchers have travelled back and forth to London, interviewing eyewitnesses and confidential sources. *EIR*'s Paris bureau has conducted an exhaustive on-the-scene investigation. As the result, we have come to the firm conclusion that the deaths of Diana, Dodi Fayed, and Henri Paul were the result of either manslaughter or premeditated murder.

In the pages that follow, we chronicle the fruits of that year-long investigation. Unlike the 1963 assassination of President John F. Kennedy, or the 1968 assassination of Rev. Martin Luther King, Jr., the deaths of Princess Diana, Dodi Fayed, and Henri Paul are not yet shrouded in mystery, decades after the fact. The vast majority of eyewitnesses are still alive. The forensic evidence, for the most part, is available. The chief investigator, Judge Stephan, is still on the job. By placing a public spotlight on the actual evidence, and the unanswered questions, it is our intent to assure that the truth does come out, and that, in death, Princess Diana and Dodi Fayed achieve a level of justice befitting them.

# A day in the life, and death, of a Princess

by Jeffrey Steinberg

Aug. 31, 1997 is one of those dates, like Nov. 22, 1963, that every adult remembers for the rest of his or her life. Like the assassination of President John F. Kennedy, the death of Princess Diana shocked every person on this planet. Most people remember exactly where they were, what they were doing, and how they reacted to the news of the tragedy.

When JFK was shot, I was a junior in high school in New Jersey. The entire student body was in the school auditorium, when the announcement of the President's death was made.

When word reached the United States that Princess Diana had been killed, it was late Saturday night in Washington. I was attending the semi-annual conference of the Schiller Institute. The next morning, I spoke on a conference panel titled "Britain's Invisible Empire." I began my presentation with a reference to the tragic events in Paris: "We are at war. In the past 24 hours, we have probably seen the most recent high-level political assassination in that war; perhaps not the last, certainly, not the first. At stake is the very survival of the nation-state system and every achievement of modern civilization that we cherish."

One year later, the memory of the first shock of the news of the Paris crash is as vivid for me as it is for hundreds of millions of people all around the world.

But, for the vast majority of those people, the year of investigation is, at best a blur. The international media, led by the British and French press, have systematically covered up the most important evidence, beginning with the details of the events in Paris between approximately 3:20 p.m. on Aug. 30, 1997, when the private jet carrying Princess Diana and Dodi Fayed from Sardinia to Paris landed at Le Bourget Airport; and 4 a.m. on Aug. 31, when doctors at La Pitié Salpêtrière Hospital pronounced Princess Diana dead.

We begin our first anniversary investigative report by providing a detailed chronology of what happened in Paris, during that 12-hour period.

## The stage is set

On Friday evening Aug. 29, 1997, Princess Diana and Dodi Fayed were enjoying the final hours of their weeklong vacation, on board the Al Fayed family yacht, the *Jonikal*, off the coast of Sardinia in the Mediterranean Sea. Taking the boat's launch to the shore, Diana and Dodi stopped at

the Cala di Volpi Hotel for a brief swim and a drink at the hotel bar. The couple was suddenly descended upon by a dozen Italian paparazzi photographers. The scene turned ugly, as the couple made a hasty retreat to the *Jonikal*, where a scuffle broke out between three of the paparazzi and the boat crew. Diana and Dodi decided at that point to abandon the ship the next day and travel, by the Harrods private jet, back to London, via Paris.

## Saturday, Aug. 30, 1997

**12:30 p.m.:** Diana and Dodi dock the *Jonikal* at the Cala di Volpi Hotel jetty and get in a white Mercedes, driven by Tomas Muzza, for the short ride to Sardinia's Olbia Airport. The Mercedes is allowed onto the airport tarmac so the couple can avoid the crowded terminal and directly board the private jet. Several Sardinian paparazzi, disguised as workmen, are busy taking photographs of the couple as they board the plane. At about 1:30 p.m., the Gulfstream IV plane is cleared to take off for Le Bourget Airport, ten miles north of Paris.

**3:20 p.m.:** The Gulfstream lands at Le Bourget, and immediately, Diana and Dodi see a crowd of at least 20 paparazzi, lying in ambush for them. Two cars, a black Mercedes 600 and a green Range Rover, are waiting for the couple, to bring them into Paris. The driver of the Mercedes is Philippe Dourneau, Fayed's regular driver. The driver of the backup vehicle, intended for the couple's luggage and several staff who were travelling with them, is Henri Paul, the acting security director of the Ritz Hotel. Although Paul's duties at the Ritz Hotel are not principally those of a chauffeur, he had taken security driving courses at the Mercedes Benz school in Germany for a number of years, and always passed the grueling certification tests with flying colors. A licensed civilian pilot, Paul had also passed his annual physical exam to renew his pilot's license, the day before the airport rendezvous.

An airport customs vehicle escorts the two-car caravan to the exit, but from that point on, Diana and Dodi are on their own. At no point will any French police appear to provide security for the couple, who will be hounded, non-stop, by paparazzi—and still unidentified surveillance teams—right up to the instant of the crash.

At least four cars and four motorcycles, carrying paparazzi, speed after the couple as they leave the airport and enter the highway leading to Paris. Paparazzi motorcycles weave between lanes of traffic, trying to get ahead of the Mercedes 600 and snap photographs of the by-now distressed couple. At one point, a Peugeot 205 sedan, driven by paparazzo Fabrice Chassery, pulls up next to the Mercedes, speeds up, and cuts in front of the car carrying Diana and Dodi. The Peugeot driver then slams on his brakes, nearly causing a crack-up, in order to give the other paparazzi a chance to pull up alongside the Mercedes and snap away. Dourneau will later tell the police that he was nearly blinded by the camera flashes.

According to one member of the security team, later in the afternoon, when the same slate-gray Peugeot 205 appeared at another location where Diana and Dodi were stopping, the driver was confronted. He brazenly told the Fayed security guard, "You haven't seen anything yet."

At the edge of Paris, Dourneau is able to lose the paparazzi by cutting off the main highway, as the Range Rover continues into the city, to drop off the couple's belongings at Dodi's apartment on the Rue Arsene-Houssaye near the Arc de Triomphe.

**3:50 p.m.:** Diana and Dodi arrive at the Villa Windsor, the former home of the Duke and Duchess of Windsor, which Mohamed Al Fayed purchased in 1986. The villa is located at 4 Rue du Champ d'Entraînement. The couple stays at the villa for 40 minutes, before leaving for the Ritz Hotel.

**4:30 p.m.:** The Mercedes 600 pulls up at the rear of the Ritz Hotel on the Rue Cambon. A hotel porter ushers them into the hotel, as a mob of paparazzi lie in wait for them at the front entrance of the hotel, on the Place Vendôme. The Ritz Hotel, it should be noted, is attached to the Palace of Justice, headquarters of the French Justice Ministry. The Place Vendôme is, at least hypothetically, one of the most secure and well-surveilled sites in Paris.

Diana and Dodi go up the main stairs to the second floor, where they enter the Imperial Suite, directly above the main lobby and the registration desk. A window of the suite directly overlooks the Place Vendôme, and Diana and Dodi can see a large gathering of paparazzi staked out at the hotel's revolving front door.

**7 p.m.:** Diana and Dodi leave the Ritz Hotel, again by the rear door. The Mercedes 600 and the Range Rover are waiting for them on the Rue Cambon, with Dourneau in the Mercedes and Trevor Rees-Jones and Kes Wingfield, Dodi's two regular bodyguards, in the Range Rover. Henri Paul escorts the couple to the car, and, at that point, he leaves the Ritz Hotel. Paul understands that Diana and Dodi will not be returning again to the Ritz, so he leaves work for the day, after a brief stop in his office. Since June 1997, Paul, the longtime deputy security director of the hotel, has been also the acting security director.

**7:15 p.m.:** Diana and Dodi arrive at Dodi's apartment and immediately have a run-in with half a dozen paparazzi who have been staked out at the apartment building since 3 p.m. A Ritz Hotel security staffer has been sent to secure the apartment, and remains there all afternoon, so Rees-Jones and Wingfield have been alerted in advance that there will be a paparazzi ambush upon their arrival. The security guards bring along two other Ritz Hotel security personnel, to help clear a path for the couple to enter the apartment building. A scuffle again ensues, between one of the Ritz security guards and Romuald Rat, one of the nine paparazzi who will later be arrested on possible manslaughter charges, as well as violation of France's strict "Good Samaritan" statutes, which re-

quire that passersby at an accident scene stop and help the victims.

**9:30 p.m.:** Diana and Dodi leave the apartment to dine at the Chez Benoit, on the Rue Saint-Martin. Claude Roulet, the deputy manager of the Ritz Hotel, has made a reservation for a party of five in his own name, hoping to throw off any paparazzi who might be trying to intercept the couple. As the couple leave Dodi's apartment, they are, once again, followed by a swarm of paparazzi on motorcycles and in cars. When they get within several blocks of the restaurant, they are alerted that the place is swarming with paparazzi. Dodi orders the driver to go, instead, to the Ritz Hotel. When they arrive at the Ritz, there are at least 20 paparazzi there at the front door, surrounded by at least 50 onlookers.

A review of Ritz Hotel and other Place Vendôme security camera footage will later reveal that, in the crowd of 50 onlookers were two men who did not fit the profile of paparazzi, chauffeurs, hotel guests, or tourists. The two men stood at the edge of the crowd, from the moment the couple arrived at the hotel, until moments after their departure. French police and Ritz Hotel security have failed to identify the two men. There is reason to believe that they were part of a larger surveillance team, of approximately seven men, who all showed up at the Ritz as the couple were arriving, and left only after Diana and Dodi departed.

In addition to the two men in the Place Vendôme, two other English-speaking men enter the lobby bar and sit there for more than an hour, staring at the lobby. Two other men, apparently trying to pass themselves off as paparazzi, with camera bags over their shoulders, walk through the hotel lobby several times, use the men's room, and move around the hotel perimeter. A seventh "spotter" stands across the street from the Rue Cambon rear exit.

**9:50 p.m.:** Diana and Dodi walk through the front door of the Ritz Hotel, having pushed their way through the crowd of paparazzi (the hotel staff failed to clear a path for them, only learning moments earlier that the couple is returning to the hotel). The couple walk through the lobby of the Ritz and enter the hotel's restaurant, L'Espadon.

**9:55 p.m.:** Even the first-class restaurant proves to be far too public. Several English tourists at a nearby table are behaving suspiciously enough to attract the attention of hotel security. So, Diana and Dodi ask that their dinner be served to them in the Imperial Suite. The hotel's night security manager, François Tundil, has already informed Henri Paul that the couple is returning to the hotel, and he calls Paul, once again, at his apartment, just a few blocks away from the hotel, to confirm that they are safely in the suite. Paul has already showered and dressed, in preparation for making an unscheduled return to work.

**10:07 p.m.:** Paul parks his car in front of the hotel and walks through the revolving door into the lobby. Paul spots bodyguards Rees-Jones and Wingfield, seated at the lobby

bar, eating dinner, and sits down with them. Over the next two-hour period, Paul orders two drinks, pastis with water. Rees-Jones will later recount: "There was absolutely nothing untoward about his behavior. If there had been, Kes or I would have picked up on it straightaway. That's what we are trained to do. But he seemed perfectly normal to both of us. He sat at the bar drinking some yellow liquid that I assumed was non-alcoholic." Rees-Jones keeps a lookout for any sign of Diana or Dodi coming down the stairs from the floor above the lobby.

**Approximately 11:35 p.m.:** Dodi pokes his head out the door of the Imperial Suite and asks Rees-Jones and Wingfield how many paparazzi are out in front of the hotel. They reply that there are about 30. Dodi closes the door and returns to Diana inside the suite.

**Approximately 11:50 p.m.:** Dodi again opens the door of the suite to confer with Rees-Jones and Wingfield, who have now been joined by Paul. Dodi tells them that he wants a limousine called up from the hotel's service, Etoile Limousines. He is going to leave again by the rear of the hotel, but plans a decoy operation. Wingfield and Dodi's regular chauffeur, Dourneau, will pull the Mercedes 600 and the Range Rover up to the front door of the Ritz, giving the paparazzi the impression that he and Diana are about to come down from the Imperial Suite. They will, however, have already slipped out the back of the hotel, into the backup car, and will drive off, with Paul behind the wheel and with Rees-Jones as the only security guard. Both Rees-Jones and Wingfield object to the idea of the couple leaving without the second security car trailing behind. But this was not the first time, Rees-Jones later explained, that the couple had travelled with only one car and one bodyguard. Rees-Jones said he was confident in Paul's ability to maneuver through the Paris street that he had driven countless times.

## Sunday, Aug. 31, 1997

**12:01 a.m.:** Dodi places a call to his father in London and explains to him what he planned to do. Mohamed Al Fayed later told reporters that he, too, had urged Dodi not to leave the hotel with just one car. First, Al Fayed suggests that the couple spend the night at the hotel, but Dodi explains that they were preparing to leave for London early the next morning, and all of their belongings are at his apartment. Next, the senior Al Fayed cautions his son, "Don't try any tricks when you leave the hotel." When he hung up the phone several minutes later, Al Fayed had the impression that his son had accepted his advice.

**12:17 a.m.:** Diana and Dodi, accompanied by Rees-Jones and Paul, leave the Imperial Suite and walk to the left. They take another left turn and walk down a long corridor that goes to the rear of the hotel. There, they enter a service elevator, which takes them down to the rear of the hotel, where there is an open-air alcove, the employees' time clock, and a security post.

**12:19 a.m.:** At curbside is a black Mercedes 280S, a smaller and slower car than the powerful Mercedes 600 which is Dodi's regular transportation when he is in Paris.

**12:20 a.m.:** With Diana and Dodi in the back seat, Paul behind the wheel and Rees-Jones in the front passenger seat, the Mercedes 280S pulls out from the rear of the Ritz Hotel, down the narrow one-way Rue Cambon. A few seconds after the Mercedes leaves, at least two other cars and one motorcycle pull out in pursuit. The spotter standing across the street from the rear of the Ritz Hotel places a cellular phone call immediately. Sources familiar with the French government probe say that it is by no means certain that the cellular phone call was placed to the paparazzi gathered at the front of the Ritz in the Place Vendôme. Ultimately, the paparazzi in front of the hotel are alerted, and a number of cars and motorcycles take off in pursuit of the Mercedes 280S, despite the fact that, by this point, the Mercedes 600 and Range Rover have pulled up to the front door of the hotel.

**12:21 a.m.:** The Mercedes 280S carrying Diana and Dodi takes a right turn onto the Rue de Rivoli, and a left turn at the Place de la Concorde. By now, the Mercedes is being pursued by both the cars and motorcycles at the rear of the Ritz Hotel, and several other paparazzi who had joined the chase from the Place Vendôme. Instead of turning right onto the Avenue des Champs-Élysées, driver Henri Paul continues straight until he reaches the riverfront highway, which is, at that point, called Cours la Reine. From the point Paul enters the highway along the right bank of the River Seine, the distance to the Place de l'Alma tunnel is exactly 1.2 kilometers, or three-quarters of a mile.

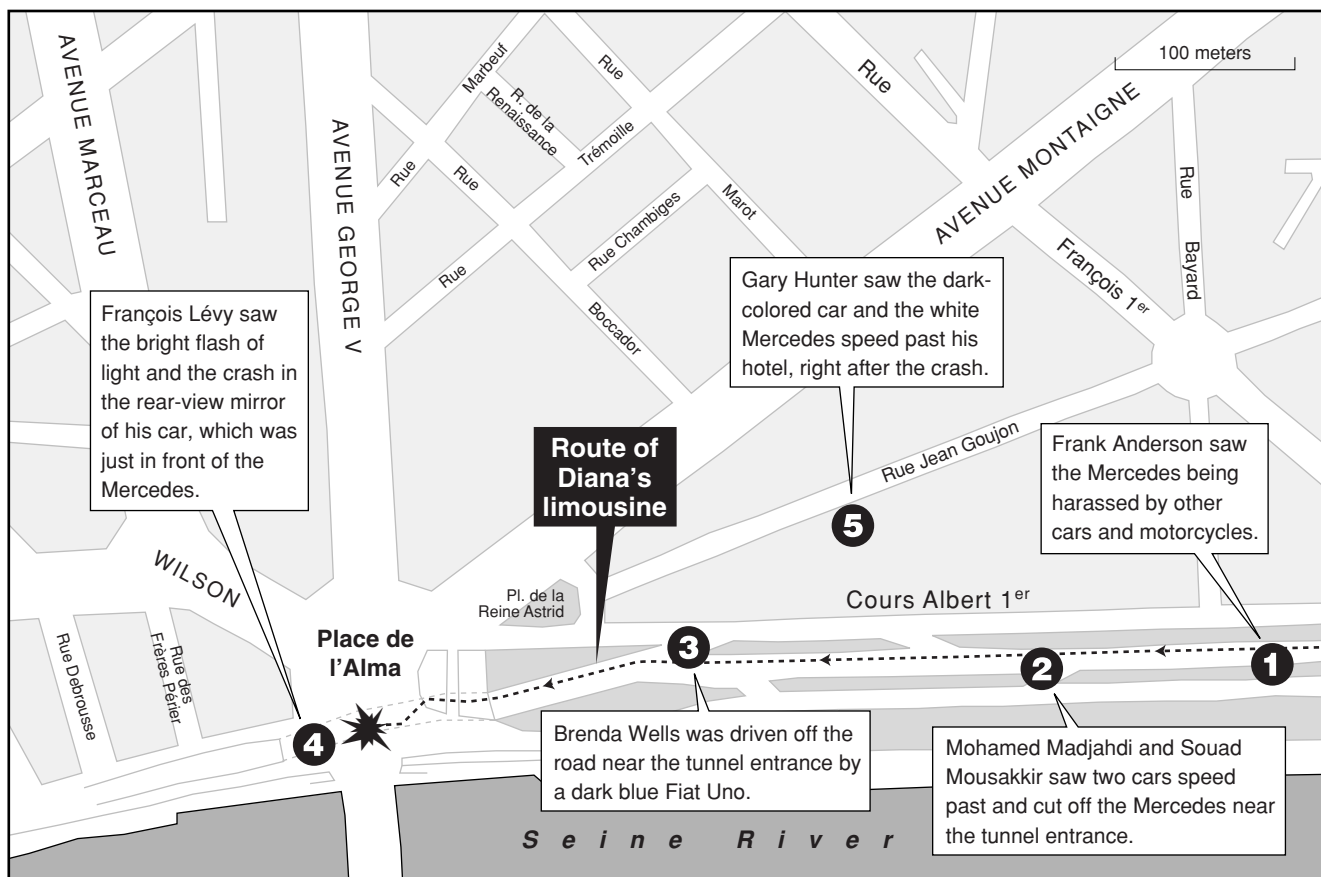
Although Paul accelerates as he enters the riverfront road, several eyewitnesses, including American businessman Brian Anderson, who was driving along the same route in a taxicab, said that the Mercedes at no point was going faster than 55-60 mph. And, while the paparazzi would later claim that Paul accelerated the Mercedes, leaving them more than 500 yards behind, as the fatal crash occurred, the testimony of almost all of the eyewitnesses indicates that several of the paparazzi cars and motorcycles were surrounding the Mercedes as they drove toward the Place de l'Alma tunnel. Anderson told CBS TV News that one of the paparazzi motorcycles headed "in a direction to get in front of the [Mercedes]. I felt that the one motorcycle, certainly without hesitation and any doubt whatsoever, was driving aggressively and dangerously."

Thierry H., a 49-year-old Parisian engineer, told police that he was passed by the Mercedes. "The car was clearly being pursued by several motorcycles, I would say four to six of them. Some were mounted by two riders. These motorcycles were tailing the vehicle and some tried to pull up alongside it."

Mohammed Medjahdi and Souad Mousakkir were driving on the Voie Georges Pompidou, the name of the stretch of riverfront road leading into the Place de l'Alma underpass, in front of the Mercedes, and they told Fox TV that they saw

FIGURE 1

**Six eyewitnesses provided remarkably consistent accounts of the assassination**



two cars speed past the Mercedes, as others were speeding up to the rear of the Mercedes.

Brenda Wells, an English woman working as a secretary in Paris, told police that her car was run off the road near the entrance to the Place de l'Alma tunnel by a Fiat Uno that drove past her, just as the Mercedes was reaching the tunnel entrance.

**Approximately 12:24 a.m.:** David Laurent, an off-duty senior French police official, is driving the same route as the Mercedes, less than a minute ahead of Diana and Dodi. According to a French source who spoke to the London *Daily Mirror*, Laurent “was driving towards the Alma tunnel when a white car overtook him and raced past. As the officer approached the tunnel he again saw the car, which he recognized as a Fiat Uno. But this time the Uno appeared to be creeping along very, very slowly a few metres from the mouth of the tunnel. It had no reason to slow down or stop, but it had come to a virtual standstill just before the tunnel entrance. At that stage there was no Mercedes in sight and no evidence that there had been an accident ahead. The officer drove past, leaving the Uno at the tunnel entrance. As he neared the tunnel

exit, he heard a loud bang coming from somewhere behind him. He was unable to turn back and instead drove away. Later that night he heard about what had happened on the news. He now believes the Uno was waiting for another car, quite possibly the Mercedes carrying Princess Diana.”

**12:25 a.m.:** As the Mercedes enters the tunnel, a white Fiat Uno is ahead of it in the right lane of the tunnel. Several eyewitnesses later told police that the Fiat Uno slammed on its brakes, forcing Paul to swerve into the left lane, clipping the rear of the Fiat in the process.

Two eyewitnesses told the *Journal du Dimanche* what they saw, in the split second that the Fiat and the Mercedes intersected at the tunnel entrance. “The Mercedes was driving on the right hand, shortly before the entry of the tunnel, preceded by a dark-colored automobile, of which make I cannot say. This car clearly was attempting to force the Mercedes to brake. The driver of the Mercedes veered into the left-hand lane, and then entered the tunnel.” The witness was attracted to the scene by the loud noise of the Mercedes downshifting gears. The second witness was walking along the Seine and heard “the sound of a motor humming very loud.” He said he

saw the Mercedes travelling behind another automobile. “I believe the reason the Mercedes accelerated so suddenly, was to try to veer into the left lane, and pass that car.”

The Fiat sped off as Paul lost control of the Mercedes, steering hard to the right, and then to the left, slamming, head-on, into the 13th steel-reinforced pillar in the center median of the tunnel, which separates eastbound from westbound traffic.

There are also accounts of a blinding flash of light inside the tunnel a split second before the crash. Bernard Darteville, the attorney for the Ritz Hotel, told Associated Press’s Jocelyn Noveck that police had shown him copies of two photographs, apparently confiscated from one of the paparazzi. “One sees very distinctly the driver dazzled by a flash. One sees very distinctly the bodyguard at his side, who with a brisk gesture lowers the visor to protect himself from the flash, and one sees very distinctly Princess Diana turning to look behind the vehicle, and one sees very distinctly the yellow headlight of a motorcycle. The photo taken before the first photo of the accident shows the Mercedes taken from very close. . . . A driver who is maybe a photographer, and a motorcyclist, also perhaps a photographer, are very directly implicated in this accident.”

There are two possible explanations for the blinding flash of light. It could have been a high-powered flash, attached to one of the paparazzi cameras. Given that the paparazzi often attempt to take pictures through tinted glass, they are known to use extremely high-powered flashes. However, one eyewitness told Britain’s Independent Television (ITV) that the light was far brighter than even the most powerful paparazzi camera flash.

The intensity of light he described could have been from an anti-personnel laser device, which is readily available at spy shops in London and Paris for several hundred dollars. These are commercial versions of blinding weapons that have been used in the field by many armies around the world. The British and the French military widely use laser guns, which can permanently blind a target, and also cause excruciating pain, by hitting the optic nerves.

Three other eyewitnesses, who were driving in the opposite direction in the tunnel at the point of the collision with the Fiat and then the final crash, told police and *Time* magazine Paris bureau chief Thomas Sancton and Middle East correspondent Scott McLeod that they saw a motorcycle speed past the Mercedes a split second before the first collision, and then speed out of the tunnel, without stopping. The most detailed account was provided to Judge Hervé Stephan on Sept. 23, 1997 by Grogpro R. “Just as I was descending into the tunnel,” he told the judge, “I heard an enormous shock. The cars [in front] hit their brakes and I also slowed down and turned on my warning lights at that moment. I saw, in the opposite lane, a big car that had just been immobilized. I only saw the last split second of its movement. I saw a motorcycle moving in the same [west-bound] direction as the Mercedes. It was a rather large

motorcycle with a round, yellow headlight. I had an impression of something white, but I can’t say whether it was a helmet or the gas tank. . . . I am practically sure there was only one person on this motorcycle, but cannot be totally affirmed. This motorcycle took off very rapidly after passing [around the Mercedes] as I described.”

**Approximately 12:26 a.m.:** “François” and “Valérie” are driving onto the roadway that leads out of the Place de l’Alma tunnel, from a feeder road on the right, just seconds after the crash, when their car nearly collides with a white Fiat Uno that comes barreling out the tunnel, zig-zagging along the road. They speed past the Fiat; afterwards, they could not say whether the car continued along the same road behind them, or took a sharp right turn off of the highway.

**Approximately 12:28 a.m.:** British barrister Gary Hunter is drawn to the window of his third floor room in the Royal Alma Hotel at exactly 12:25 a.m., when he hears the sound of the terrible crash. His room looks down onto the Rue Jean Goujon, and he does not have a view of the tunnel, which is to the rear and to the left of the hotel. However, Hunter, who is in Paris with his wife, celebrating their anniversary, does see two cars speed past the hotel at more than 70 mph. “There was an almighty crash followed by the sound of skidding, then another crash. My initial thought was that there had been a head-on collision. I went to the window and saw people running towards the tunnel. I heard a screeching of tires. I saw a small dark car turning the corner at the top of the road. I would say it was racing at 60 to 70 mph. My own feeling is that these were people in a hurry not to be there. I am confident that car was getting off the scene. It was obvious they were getting away from something and that they were in a hurry. It looked quite sinister. I can’t recall the type of car, but it was a small dark vehicle. It could have been a Fiat Uno or a Renault.” The “dark” smaller car was followed, on its tail, by a white Mercedes.

(Forensic experts later told *Time* magazine’s Sancton and McLeod that the lighting in the tunnel and along the Paris streets makes it difficult to differentiate colors. The light can make a white, or light colored car, appear to be dark colored. So the fact that Hunter and several other witnesses who saw a Fiat Uno around the time of the crash thought it was “dark colored,” is not reliable.)

### **The botched ‘rescue’ effort**

**12:26 a.m.:** The first phone call is logged at the emergency center of the fire department special unit called upon to respond to traffic accidents. The unit is under the control of the French military. Seconds later, a similar call is logged in at the SAMU (Service d’Aide Médicale Urgente), the civilian emergency medical service, attached to the state-run hospital system.

Within seconds of the crash, the first half-dozen paparazzi, including Romauld Rat and Fabrice Chassery, are at the scene, snapping photographs of the still-smoking Mercedes.



*A display honoring Princess Diana and Dodi Fayed, at Harrods in London.*

Henri Paul and Dodi have both been killed instantly in the head-on crash with the tunnel pillar. Rees-Jones, in the front seat, and Princess Diana, behind him in the rear seat, are both still alive.

As other eyewitnesses arrive at the site, within a moment of the crash, they observe the paparazzi. Clifford G., a professional chauffeur, later told *Time*, “As soon as I arrived I noticed four or five men around the wrecked Mercedes taking photos with professional equipment. . . . None of these men did anything to help the wounded people in the Mercedes. It was obvious the four occupants were wounded. There was blood. Their bodies were sprawled every which way inside the Mercedes. Yet these men photographed the car and the wounded from every angle.”

Jack Firestone, an advertising executive from Hewlett Harbor, New York, was returning with his wife to their hotel, when he saw the wrecked car in the tunnel and stopped. Firestone told Associated Press that the paparazzi were “sharks after raw meat.” They were “clicking away like mad, running around the car, snapping from every position they could. . . . It was obvious these paparazzi knew they had struck gold.”

At that point, a fist fight breaks out between Rat and an unidentified man with a North American accent. A second brawl breaks out moments later between Rat and another one of the paparazzi.

**12:28 a.m.:** Emergency doctor Frédéric Mailliez and his companion Mark Butt arrive at the crash site, on their way home from a party. Mailliez works for the emergency rescue

service, S.O.S. Médecins. He formerly was with SAMU. Mailliez approaches the Mercedes, and, seeing that two of the passengers are still alive, runs back to his car and takes out his medicine bag. Already, a volunteer fireman, who is also a passerby, is administering aid to Rees-Jones, so Mailliez tends to Princess Diana in the back seat, ventilating her, after raising her head from her chest, to allow her to breathe. He later told the medical journal *Impact Quotidien*, “I helped her to breathe with a mask and I attempted to clear the upper respiratory passage by bending her head back slightly. I sought to unblock the trachea and prevent the tongue from blocking the oro-pharynx. She seemed to be a bit more agitated, thus more reactive, once she was able to breathe better.”

The first police officers arrive on the scene shortly after Mailliez and Butt. Officer Lino Gagliardone files an initial accident report, in which he describes the right rear door of the Mercedes being wide open, with paparazzi photographers shooting pictures inside the rear compartment.

**12:32 a.m.:** An ambulance and a technical support vehicle show up at the tunnel, dispatched from the fire station.

**12:40 a.m.:** Paris Police Chief Philippe Massoni receives a call at his home, informing him of the crash. Within moments, he is speeding to the Place de l’Alma tunnel. En route, he calls Interior Minister Jean-Pierre Chevènement. Chevènement initially says that he will join Massoni at the crash site, but Massoni convinces him, instead, to go directly to La Pitié Salpêtrière Hospital, where Diana and Rees-Jones were to be taken. By shortly after 1 a.m., already at the tunnel,



and in charge of the rescue effort and the first phase of the investigation, Massoni calls the Elysée Palace, to inform President Chirac, and the British embassy. Moments later, Massoni is joined in the tunnel by Patrick Riou, director of the Paris judiciary police; Martine Monteil, head of the criminal brigade (the unit that would conduct the first phase of the police probe); and Paris's assistant district attorney, Maud Coujard.

By now SAMU workers are treating Princess Diana on a stretcher next to the car.

**1:20 a.m.:** The SAMU ambulance finally leaves the tunnel, to bring Princess Diana to La Pitié Salpêtrière Hospital, 3.8 miles from the tunnel. The ambulance drives at less than 5 mph. At one point, less than 500 yards from the emergency entrance to the hospital, the ambulance pulls over to the side of the road and sits for ten minutes.

**2 a.m.:** Commissioner Monteil files her first report on the crash, noting: "According to the first witnesses, the Mercedes, proceeding down this portion of the road at high speed, appears to have swerved [because] the chauffeur was being pursued and interfered with by the vehicles of the journalists who had given chase. The driver must have lost control of his vehicle and failed to recover. Again, according to the first witnesses, the 'paparazzi' who were pursuing the Mercedes hastened to take photos after the accident, neglecting the elementary acts of assistance to people in danger. Based on these observations, the first policemen on the scene proceeded to take the photographers in for questioning."

**2:05 a.m.:** The ambulance finally arrives at La Pitié Salpêtrière. The chief duty physician, Dr. Bruno Riou, was first alerted to the crash, and the fact that the operating room should be prepared, at 1 a.m. Several sources have told *EIR* that medical workers at the tunnel crash site had quickly diagnosed Princess Diana as suffering from internal bleeding. The only appropriate emergency medical response to internal bleeding is to rush the victim into surgery, where the damaged blood vessels can be closed and blood transfusions administered. Yet, a total of 1 hour and 43 minutes passes from the point that the first emergency rescue workers arrive at the tunnel, to the point that Diana is wheeled into the operating room. As she is being brought into surgery, Paris Police Chief Philippe Massoni, who arrived at the hospital before Diana's ambulance, is told by Dr. Riou that she has suffered from thoracic hemorrhaging, further confirmation that doctors at the tunnel crash site had correctly diagnosed her injuries.

Efforts to revive the Princess continue for nearly two hours.

**3:30 a.m.:** Mohamed Al Fayed arrives, by Sikorsky helicopter, at Le Bourget Airport. He is met by chauffeur Philippe Dourneau and Kes Wingfield, and brought immediately to La Pitié Salpêtrière. Upon arrival at the hospital, he is informed by Chevènement, Massoni, and British Ambassador Sir Michael Jay, that Princess Diana has just died.

**4 a.m.:** Princess Diana is officially pronounced dead.

# Diana, Dodi murders: year of the cover-up

by Jeffrey Steinberg

One year after the Aug. 31, 1997 crash in Paris, the chief French investigator, Judge Hervé Stephan, remains on the job, probing for answers to a number of vital questions. The answers to those questions, if they are to ever be found, will determine whether the judge presses criminal charges against nine paparazzi who were arrested within hours of the crash, or against other, yet unnamed persons. In August, Stephan issued an official statement on the status of his investigation, confirming that he will not be finished with his report until sometime in early 1999. The final forensic tests on the Mercedes 280S that carried Princess Diana, her lover Dodi Fayed, and driver Henri Paul to their deaths, are not expected to be handed over to Stephan until sometime in September.

Despite the fact that Judge Stephan is still deep into his investigation one year after the crash, the vast majority of people around the world believe that the case is closed, and that the death of the "people's princess" was the result of drunk and reckless driving by Paul, the Ritz Hotel's acting security director.

The reason that the facts of the investigation are at such odds with the popular impression is that the international media, led by segments of the French and British press, in particular, have conducted a vicious cover-up, including a smear job against anyone who dares to raise the unanswered questions, or suggest that a murder conspiracy caused the death of Diana.

In June, the smear campaign escalated, when the monarchy-allied Hollinger Corp.'s *Daily Telegraph* launched an all-out effort to trash *EIR*, its Founder Lyndon LaRouche, and this author, as a pack of conspiracy-peddlers, for daring to say that it cannot be ruled out that the Royal Consort, Prince Philip, ordered the assassination of Diana and Dodi. The *Daily Telegraph* and Britain's Channel 4 TV similarly lashed out at Mohamed Al Fayed, the father of Dodi Fayed and the owner of Harrods department store and the Paris Ritz Hotel, for also refusing to accept the media "verdict" that the crash was the fault of Paul alone.

This, despite the fact that everything published in *EIR*, and all of the published statements by Al Fayed, have been based on detailed evidence, generally available in the public domain. The media defenders of the British monarchy and the French government have resorted to wartime propaganda techniques to keep the general public misinformed.

The fact that the Hollinger Corp., owner of the Telegraph plc, is playing a leading role in the black propaganda drive, is

lawful. Hollinger, the British Crown's most trusted media cartel, is a direct outgrowth of World War II British intelligence operations housed in Canada and directed against the United States.

Despite the media's "Big Lie" effort, the vast majority of Americans, Europeans, and citizens of the Islamic world reject the idea that the deaths of Diana and Dodi were the result of a traffic accident. The following chronology should reinforce those beliefs and, hopefully, provoke further public outcry at the brazen effort to bury the truth.

### **Phases of the cover-up**

The French police collusion with the international media to cover up the actual circumstance surrounding the deaths of Diana, Dodi, and Paul, has gone through several phases. In each phase, however, the same cast of characters have been caught red-handed, peddling outright lies, to further the misinformation that the cause of death was a drunk-driving accident.

In the immediate hours after the crash, most of the attention was focussed on the paparazzi, nine of whom were arrested at the crash site on charges of manslaughter (involuntary murder) and violation of France's Good Samaritan law, which requires passersby at an accident scene render aid. In the first 48 hours after the crash, the paparazzi were the targets of public outrage.

But, even in the early hours after the crash, the French police were caught peddling two crucial, but easily discredited lies.

First, the police leaked word that Paul had been speeding at the point of the crash. The police claimed that the speedometer on the Mercedes 280S had frozen at more than 120 miles per hour, thus proving that Paul was driving at out-of-control speed.

*EIR* knew that some of the earliest eyewitness accounts contradicted the "official" French police leaked version. *EIR* researchers in Germany contacted the safety engineers at Daimler Benz, the manufacturer of the 280S, and were told that the speedometer had to have read "zero" at the point of the crash. When a Mercedes crashes, the speedometer, the safety engineers explained, automatically goes back to zero. The French police rejected Daimler Benz's offer to send a team of safety engineers to Paris to assist in the analysis of the Mercedes, and imposed a gag order, forbidding Daimler Benz from making any statements about the investigation.

Two weeks after they put out the bogus 120 mph story, the French police admitted that the original story about the speedometer had been false. But, the French and British media scarcely picked up on the "correction." In the eyes of most of the world, to this day, Paul was driving at 120 mph, and there was "hard proof" of this.

The second outright lie told by the French police in the hours after the crash had to do with the effort to save Diana's life. Early on, it had been clear that the French emergency rescue units had taken an excruciatingly long time to get Di-

ana to a hospital. The French police claimed that the car had been crushed to such an extent that the Princess was trapped in the rear seat, and it took a long time to cut her loose from the wreckage.

Once photographs of the car and scenes of people milling around the crash site hit the newspapers, this "big lie" was also exposed. The photographs, as well as the eyewitness accounts, clearly showed that the rear door on the right side of the car was open, and that that part of the passenger compartment had not been crushed. In fact, there was no obstruction to getting the Princess out of the car. Both paparazzo Romauld Rat and Dr. Frédéric Mailliez had been able to get to the Princess, and move her in the back seat before the first French emergency rescue workers arrived at the crash site.

### **The Henri Paul blood tests**

Forty-eight hours after the crash, the cover-up took a new turn, one that has remained a constant of the evidence suppression ever since. Medical examiners who performed the autopsy on Paul just a few hours after the crash found significant levels of alcohol in his blood.

According to the initial leaked autopsy information, Paul's blood showed three times the legal limit of alcohol. A second test revealed that there were also traces of two prescription drugs. As the days wore on, reports of other purported tests showed that Paul had been on a "drinking binge" for a week, prior to the crash. In fact, Paul had passed a grueling physical exam to renew his civilian pilot's license, 24 hours before Diana and Dodi landed in Paris. He was certainly not on a "drinking binge" when he passed that physical.

Again, the leaks raced ahead of the evidence. Paul's family strongly objected to the idea that he had been drunk behind the wheel of the Mercedes. They insisted on an independent autopsy. Their demand was rejected by the French police, and they were threatened that they would not get access to Paul's body until they agreed, in writing, not to conduct any further forensic tests. The fight lasted for several days. Ultimately, the family relented, and agreed to bury their son without further tests.

As a concession, the police released the written autopsy report by the medical examiners. The family was not allowed to even talk to the men who performed the blood tests. They were merely permitted to review the written report.

Even that proved to be explosive. A team of forensic experts, led by Dr. Peter Vanezis, who holds the Regis Chair of Forensic Medicine at Glasgow University and is one of the top consultants to the United Nations on investigations of genocide, assembled several independent teams of experts to review the autopsy report, at the request of the Paul family. They submitted a report to Judge Stephan that was highly critical of the autopsy. In effect, they concluded, the medical examiners had conducted an unprofessional, unreliable series of tests.

For starters, they had taken the blood sample from Paul's chest cavity. Given that Paul's chest had been crushed in the

crash, and all his vital organs ruptured, the so-called blood sample was heavily contaminated by other bodily fluids (in such circumstances, blood samples are taken from remote parts of the body, e.g., feet or wrists, to obtain the least contaminated samples).

A separate team of toxicologists at the Paris morgue did separate tests on the same blood samples, looking for evidence of poison. Those tests further discredited the simple assessment that Paul was intoxicated and on prescription drugs. The tests revealed a 20.7% level of carbon monoxide in Paul's blood. Given that the blood tests were done a few hours after the crash, it is estimated that the carbon monoxide level at the moment of the crash was nearer to 30%.

This is a near-lethal dose. An individual with a 20-30% level of carbon monoxide is incapable of driving a car. He is suffering from throbbing head pains. His sense of balance is off. He cannot judge distances. Yet, numerous eyewitnesses, as well as the surveillance cameras inside the Ritz Hotel, showed that Paul was very much in control of himself.

Furthermore, similar blood tests performed on Dodi revealed no presence of carbon monoxide. This disturbing paradox was cited by Judge Stephan in his August 1998 official status report on his investigation.

It is hard to conceive how Paul could have been heavily dosed with carbon monoxide inside the Mercedes while Dodi, seated directly behind him, remained unaffected. Had Paul been somehow poisoned at the Ritz Hotel prior to the drive, the signs of the carbon monoxide would have been evident to bodyguards Trevor Rees-Jones and Kes Wingfield, and others, and would have been obvious in the surveillance footage.

Avoiding the temptation to speculate about the mysterious blood sample tests, it can be safely said that the results of the forensic exam of Paul—the only so-called “proof” that he was drunk when he got behind the wheel of the Mercedes—are not reliable.

It has been confirmed that Paul did consume two pastis drinks at the Ritz Hotel bar during the two hours prior to the drive. But these drinks would not have rendered him drunk; and, there is no evidence that Paul did any drinking during the approximately two hours that he was off the job during the night of Aug. 30, despite many media efforts to produce evidence that he was soused.

Despite the pattern of evidence discrediting the “drunk driver” story, the vast majority of the world media continue to spin the same yarn. In the months following the crash, the initial emphasis on the paparazzi was dropped, in favor of foisting all of the blame on Paul, and, by implication, on his boss, Mohamed Al Fayed.

## The chronology

*EIR* researchers in the United States, Britain, France, Germany, and elsewhere have gridded the major news accounts of the crash. And, despite media efforts to paint the tragedy as a “garden variety traffic accident,” caused exclusively by

Paul's drunken driving, new details continue to appear proving that there was more to Dodi and Diana's deaths. Here is the chronology of some of the major pieces of evidence, as well as some of the most flagrant efforts at cover-up.

## 1997

**Sept. 2:** *Daily Telegraph* banner headlines, “Diana's Driver Was Drunk,” by Susannah Herbert and David Milward, spells out the cover-up line that will persist for the next year. They write from Paris, “The driver of the car in which Diana, Princess of Wales, and Dodi Fayed died had drunk the equivalent of more than a litre of wine and was driving at 121 mph when the vehicle crashed, investigators said yesterday. . . . Post mortem results on the body of Henri Paul, a 41-year-old former member of the French Navy who also died in the

## Prince Philip's murderous rage

As *EIR* has reported since 1994, Prince Philip functions not only as the chief of a worldwide ecological-terrorist apparatus, run through his World Wide Fund for Nature (WWF) and its secret funding arm, the 1001 Club. He has also presided, for the past 40 years, over the Club of the Isles, the London-centered secret structure of the global financial oligarchy, which draws upon several thousand of the most powerful families of the Anglo-Dutch elite.

Even more ominous, is the fact that assets of Prince Philip's WWF-1001 Club combine, including the late Maj. Louis Mortimer Bloomfield, the Canadian Special Operations Executive World War II-era spy, were strongly implicated in the early 1960s assassinations of President John F. Kennedy and Italian patriot Enrico Mattei. More recently, the WWF-centered apparatus threatened the life of French President Jacques Chirac, when Chirac briefly flirted with the idea of building a strong relationship between France and the United States—at the expense of Great Britain.

On the day of the crash that killed Princess Diana, Dodi Fayed, and Henri Paul, the London *Sunday Mirror* published a news item by Andrew Golden under the headline “Queen to Strip Harrods of Its Royal Quest.” The article established that, at the time of Princess Diana's death, the Windsors had been conducting a covert war against Diana, her friend Dodi Fayed, and Dodi's father, Mohamed Al Fayed, already a longtime target of Windsor venom, and a campaign of dirty tricks by royal asset Tiny Rowland.

accident, revealed a reading of 175 milligrams of alcohol per 100 millilitres of blood. . . . The speedometer of the powerful Mercedes 280 SEL, which is capable of 131 mph, was frozen at 196 kph (121 mph) at the point of impact with a concrete support post in an underpass in central Paris on Saturday night. . . . Police sources indicated that the photographers pursuing the Mercedes on motorcycle may have been 100 yards behind it when it crashed.”

**Sept. 3:** American businessman Brian Anderson is interviewed on NBC TV’s “Dateline” news magazine show. He describes driving in a taxi along the Seine River just before the crash. The Mercedes carrying Princess Diana drives past his taxi, at approximately 55-60 mph, surrounded by cars and motorcycles manned by paparazzi. Anderson tells NBC that Paul seemed to be fully in control of the Mercedes, despite

the aggressive behavior of the paparazzi. Anderson offered to be interviewed by French police the day after the crash, but they expressed no interest in hearing his account. However, the French police do confiscate his passport, forcing him to remain in Paris for several days under de facto house arrest.

**Sept. 8:** Ritz Hotel attorney Bernard Darteville tells AP’s Jocelyn Noveck that has seen copies of two photographs, confiscated by the police from the paparazzi. He describes the photos: “One sees very distinctly the driver dazzled by a flash. One sees very distinctly the bodyguard at his side, who with a brisk gesture lowers the visor to protect himself from the flash, and one sees very distinctly Princess Diana turning to look behind the vehicle, and one sees very distinctly the yellow headlight of a motorcycle.” He adds, “The photo taken before the first photo of the accident shows the Mercedes

A year after the fatal crash in Paris, the appearance of the *Sunday Mirror* story, just hours after the death of Princess Diana and Dodi Fayed, represents one of the most eerie clues that the British monarchy may have played a role in the deaths. If, as the *Mirror* story suggests, the royals had assigned MI6 to stalk the couple during their vacation and brief stopover in Paris, Prince Philip, in particular, has a lot of explaining to do.

It should be recalled that 10 million Britons turned out for the funeral of Princess Diana, and that her younger brother, the Earl of Spencer, won wide public support for his blunt attack against the Windsors from the pulpit of Westminster Abbey during his eulogy.

The fate of the royal family still very much hangs on whether the ongoing Paris investigation of the crash succeeds or fails.

### The Sunday Mirror story

The Aug. 31, 1997 *Sunday Mirror* story began on the following note:

“The royal family may withdraw their seal of approval from Harrods as a result of Diana’s affair with the owner’s son Dodi Fayed.

“Senior Palace courtiers are ready to advise the Queen that she should refuse to renew the prestigious royal warrants for the Knightsbridge store when they come up for review in February [indeed, early this year, the Queen did strip Harrods of its royal imprimatur].

“It would be a huge blow to the ego of store owner Mohamed Al Fayed—and would infuriate Diana, who was yesterday understood to be still with Dodi aboard his yacht, near the Italian island of Sardinia. But the royal family are furious about the frolics of Di, 36, and Dodi, 41, which they believe have further undermined the monarchy.”

“Prince Philip, in particular,” Golden wrote, “has made no secret as to how he feels about his daughter-in-law”

slatest man, referring to Dodi as an ‘oily bed-hopper.’ ”

But, it was not Philip alone who had it in for Princess Diana and the Al Fayed family. The formal structure of the monarchy had taken up the war against the Spencer and Al Fayed families as a royal priority, according to the *Mirror*.

“At Balmoral next week, the Queen will preside over a meeting of The Way Ahead Group where the Windsors sit down with their senior advisers and discuss policy matters.

“MI6 has prepared a special report on the Egyptian-born Fayed family which will be presented to the meeting.”

The *Mirror* report turned back to the role of Prince Philip:

“The delicate subject of Harrods and its royal warrants is also expected to be discussed. And the Fayed family can expect little sympathy from Philip.

“A friend of the royals said yesterday: ‘Prince Philip has let rip several times recently about the Fayed family—at a dinner party, during a country shoot and while on a visit to close friends in Germany.

“‘He’s been banging on about his contempt for Dodi and how he is undesirable as a future stepfather to William and Harry.

“‘Diana has been told in no uncertain terms about the consequences should she continue the relationship with the Fayed boy.’ ”

Given the murderous track record of Prince Philip’s apparatus, as amply documented by *EIR*, the closing sentence of the *Sunday Mirror* article was particularly chilling:

“*But now the royal family may have decided it is time to settle up*” (emphasis in original).

The *Mirror* story hit the British newsstands just as Britons were learning about the deaths of Princess Diana, Dodi Fayed, and Henri Paul.—*Jeffrey Steinberg*

taken from very close. . . . A driver, who is maybe a photographer, and a motorcyclist, also perhaps a photographer, are very directly implicated in this accident.”

**Sept. 8:** English attorney Gary Hunter is interviewed by NBC TV in Paris. He tells NBC that, when the crash occurred in the Place de l’Alma tunnel, he was with his wife in their room at the Hotel Royal Alma nearby. He rushed to the window when he heard the crash, and saw two cars speed past his hotel in tandem, their bumpers nearly touching, at 60-70 mph. One car was small and the second car was a white Mercedes. Hunter tells NBC that the cars turned onto a traffic circle at the end of the Rue Jean Goujon and disappeared from sight. Hunter tells NBC, and later repeats to the London *Sunday Times* (Sept. 21, 1997) and *EIR* (Nov. 12, 1997), that he, too, was rebuffed several times by the French police, when he volunteered to come in and report what he saw. Ultimately, Hunter gives a statement to attorneys for Al Fayed, and they pass it along to French officials.

**Sept. 11:** The *Daily Telegraph* fuels the “blame Henri Paul” offensive, reporting, “Diana’s Driver Took Drug Causing Dizziness.” Colin Randall reported that “Henri Paul . . . had taken two drugs—one of them commonly used to treat chronic alcoholism—as well as being more than three times over the drunk-driving limit, French officials disclosed yesterday. The Paris prosecutor’s office indicated that both medications were capable of impairing the ability to drive. Confirmation of Paul’s unfitness to drive when he tried to shake off paparazzi in the early hours of Aug. 31 appears to end days of speculation about primary culpability in the crash.”

**Sept. 21:** The *Sunday Times* publishes an interview with Gary Hunter.

**Sept. 23:** The London *Evening Standard* publishes a slanderous attack on Hunter, citing unnamed sources in the French investigative squad who dismiss his account of the two fleeing cars as “ludicrous.” One official is quoted that he is “tired of the meddling” in the investigation.

**Sept. 29:** *The Scotsman* publishes an account of the bungled French rescue effort following the crash, citing an interview with Dr. Frédéric Mailliez with a medical journal, in which he is quoted saying, “I thought her life could be saved.” Mailliez had concluded that Diana was bleeding internally. The first ambulance doctor to arrive on the scene tells *The Scotsman* the same thing. “She was sweating and her blood pressure had dropped. She had the external signs of internal hemorrhage.” *The Scotsman* details the long delay in getting Diana into the ambulance, and torturously slow ride to the hospital. “What is puzzling about the treatment,” they write, “is that she was not hospitalized until her condition had deteriorated to a critical extent.”

**Oct. 27:** The *New York Post* publishes a Neal Travis column, headlined “It’s Open Season on Dodi’s Dad,” which begins with the announcement, “The grieving is over and gloves are off in the case of the British establishment vs. Mohamed Al Fayed, father of the playboy in command of the car in which Princess Diana died two months ago. . . . At first,

after the tragedy in Paris, he was left alone, because he lost his son, Dodi, in the crash. But now the claws are out and many letters are being sent to him along the lines of, ‘You and your son killed our princess.’ . . . The establishment is now seizing on this terrible incident to drive Mohamed Al Fayed out of Britain. It’s not about Diana at all. It’s just blood sport—the kind the Brits play very well.”

**Nov. 9:** The Sunday weekly *The People* publishes a story that “six MI6 agents were stationed at the British embassy in Paris during the weekend of the crash. . . . At least one officer had been detailed to shadow Diana and lover Dodi Fayed after

## Monarchy’s toadies howl: ‘Off with her head!’

Long before the London *Sunday Mirror* advertised Prince Philip’s bouts of murderous rage at Princess Diana, and years before her relationship with Dodi Fayed became the subject of MI6 snooping, the House of Windsor had targeted Princess Diana as a potentially dangerous adversary. While no “smoking gun” proof yet exists that the royals sought to eliminate Diana from the world stage, any effort to get at the truth behind the events in Paris on Aug. 30-31, 1997 cannot ignore the fact that Princess Diana was already on a British establishment “endangered” list for several years.

Things turned particularly ugly in November 1995, when Diana went on national television in Britain and the United States to declare the Windsors unfit to rule.

The first barrage of threats against Diana came immediately after her interview with the BBC “Panorama” program on Nov. 19, 1995, in which she declared war on the British royal family. Among her more startling pronouncements, was that, in her view, Prince Charles had neither the inclination nor the ability to be King. She intimated that Charles should be skipped over in line of succession, in favor of their son, Prince William.

Princess Diana said about her then-separated husband: “Because I know the character, I would think that . . . [being King] would bring enormous limitations to him, and I don’t know whether he could adapt to that.”

“I shall not go quietly,” Princess Diana said in another part of the broadcast. “That’s the problem. I shall fight, and I believe I have a role to fulfill with two children to bring up.”

A series of threats followed:

**Nov. 20, 1995:** Lord William Rees-Mogg, the former editor of the London *Times*, wrote in that newspaper, referring to Princess Diana’s Stuart heritage: “Like other historic co-inheritors of the Stuart PR gene, the Princess is

they arrived from Sardinia by private jet." A senior British police source tells *EIR*, "'Was MI6 carrying out surveillance?' the French judge should ask them. If they say no, it has to be a lie, because they always did when Diana was on the continent. You have to understand MI6. They recruit entirely from within, never advertise from without. Entirely a closed group. Who controls them? The order for such a thing as this could come from only one source in Britain: a royal."

**Nov. 21:** *EIR* publishes an exclusive account of the deaths of Princess Diana, Dodi Fayed, and Henri Paul, headlined "French Cover-Up of Diana Assassination Exposed!"

The article reveals: that the autopsy on Paul has been sabotaged, making it impossible to reach any clear conclusions about whether he was drunk; the extent of the non-stop harassment by the paparazzi; and, the failure of all surveillance cameras in central Paris to capture a single frame revealing the high-speed chase and the events leading up to the tunnel crash.

**Nov. 28:** *EIR* publishes an interview with a distinguished French emergency medical expert who designed the Paris medical response system. The doctor states, "I would have taken her within a quarter of an hour to Val de Grâce, which

brilliant at the kingcraft of public image building. . . . The unfortunate Prince of Wales seems only to have the Windsor gene to guide him. . . . If one takes the long view, and tries to see the Princess of Wales as her role may appear in a hundred years' time, she will then be seen as the great royal star of the late 20th century, the most famous member of the royal family since Queen Victoria." However, Stuart brilliance "almost always ends in personal tragedy," like that of Mary Queen of Scots, who was executed. The Windsors, he concluded, have a long future ahead of them.

**Nov. 24, 1995:** Germaine Greer wrote a commentary entitled "God Help the Princess of Wales," written amid a number of warnings to Princess Diana "not to go too far." Greer outlined the misfortunes of various Princesses of Wales, especially those who suffered at the hands of the Hanoverian dynasty. She noted the career of Princess Caroline, wife of George IV, who was thrown out of England by her hateful husband. Caroline, however, refused to give up her right to be crowned Queen when George III died, and returned to London to the overwhelming welcome of the general population. The House of Lords passed an act depriving her of her rights and divorcing her from the King; when she tried, with public support, to enter Westminster Abbey for the coronation, she was physically prevented. "Ten days later, Caroline was dead," Greer wrote. Soldiers fired on London crowds who gathered for her funeral. "If Lady Diana Spencer had known the record of this family, if she had had a history [diploma], she might have learnt that the Princess of Wales is a title written in tears."

**Nov. 24, 1995:** John Keegan, former defense correspondent for the *Daily Telegraph* and military historian, went one step further. In a commentary on the editorial page of the *Telegraph*, under a cartoon of Charles looking up, suddenly inspired, at a portrait of Henry VIII (who executed two of his six wives), Keegan wrote: "The important thing is that [Princess Diana] should set limits to her ambitions. She has said she will not 'go quietly.' She must, however, not go too far. . . . The people know how much change in the system they desire. If the Princess

exceeds their wishes, it is she who will become the casualty, not the monarchy."

**Nov. 25, 1995:** British author A.N. Wilson, in a commentary in the *New York Times* entitled "What the Princess Is Up To," emphasized that the fight between the royal couple was much bigger than a royal soap opera:

"No one can doubt that this was a skillfully organized attack on the institution of the monarchy itself. Not just on Prince Charles. Not just on the Queen, whom Diana obviously hates. But on the monarchy. . . . But then, nor had anyone supposed that she would be so self-confident and so well-groomed in her answers."

Wilson concluded with a pointed warning to the Princess: "The war is not about individuals. It is about the oldest and most durable constitutional monarchy in the world. The example of Wallis Simpson and Edward VIII should be enough to tell Diana that when it comes to fighting a war, the Establishment can get very nasty indeed, and that for all her undoubted popularity, if she continues to rock the boat in this way, the Establishment will simply get rid of her, as they got rid of Edward and Mrs. Simpson."

### The second round

**August 1997:** The French press issued a curious "pre-warning" that the British royal family was prepared to move ruthlessly against Princess Diana and Dodi Fayed. *Le Monde* published a full-page feature entitled, "When the Court of St. James 'Flirts' with the Al-Fayed Family." After reviewing the "Dodi-Diana friendship," London-based journalist Marc Roche concluded:

"Mohammed Al Fayed is not at the end of his troubles. If Diana were to marry 'Dodi,' and become Lady Diana Al Fayed, this union risks undermining the worldly capital amassed by the owner of Harrods. Prince Charles would be aghast at this, and, in a ricochet effect, so would the entire royal family. As a 'Buckinghamologist' in the know indicates, 'The problem for the Windsors is not to forgive this type of thing; the problem is, that they never forget.' Clearly, the British royal family has a long and merciless memory."

is much closer than La Pitié [Salpêtrière Hospital]. That is a military hospital. Every political figure who is in a car crash or is injured is taken there. The firemen who were on the scene of the crash, are part of the Army. They undoubtedly notified the Val de Grâce, which has a top team of trauma specialists on duty round the clock. I might have helicoptered her in. She would have been in the operating block a few minutes after being stabilized.”

**Dec. 3:** Deborah Seward reports for Associated Press from Paris that French police drew a sketch of the Place de l’Alma tunnel crash site, just hours after the collision, clearly showing that a second vehicle had collided with the Mercedes, causing the fatal crash. The sketch denotes a “collision zone” inside the tunnel, and points to where police found fragments of the tail light and a side mirror from a second car at the crash site.

**Dec. 4:** All the British press report that Tiny Rowland has filed a writ, accusing Mohamed Al Fayed of stealing the contents of a safe deposit box that Rowland maintained at Harrods. Al Fayed, his security director John Macnamara, and several other Harrods officials are questioned by police. A 15-month investigation by Scotland Yard will eventually determine that there was no merit to Rowland’s charges.

**Dec. 19:** *EIR* publishes photographs taken from surveillance cameras at the Place Vendôme, in front of the Ritz Hotel, of two men — not paparazzi — standing at the edge of a crowd for nearly two hours, while Diana and Dodi are inside the hotel. Other surveillance photos suggest that a total of seven men were staking out the Ritz that night. One man, posted at the rear of the hotel, is seen making a cellular phone call seconds after the Mercedes carrying Diana and Dodi leaves the rear of the Ritz.

**Dec. 31:** Jocelyn Noveck files an AP wire, reporting that, on Sept. 18, French police had interviewed a couple, identified as “François” and “Valérie,” who nearly had an accident with a white Fiat Uno which came zig-zagging out of the tunnel seconds after the crash.

## 1998

**Jan. 13:** Prof. Murray Mackay, head of Britain’s Birmingham Accident Research Center and a professor of transportation safety at the University of Birmingham, tells British television Channel 4 that his detailed computer simulations of the crash reveal that the Mercedes 280S was travelling at approximately 60 mph at the point of the crash — not 120 mph as the media and French police had claimed. “This was a severe but survivable accident. . . . If the Mercedes had hit the post at 120 mph, the whole of the passenger compartment would have been destroyed.” Mackay’s interview appears as part of a documentary entitled “Crash,” which provides a fairly accurate chronology of the events in the hours leading up to the collision. The next day, the *Mirror* runs several pages of simulations from Mackay’s study.

**Jan. 14:** The German daily *Bild Zeitung* runs a banner

headline story, “Diana Died Because She Was So Famous,” citing a pending lawsuit by Dr. Wolf Ullrich, a leading German criminologist and attorney who also lectures at Eastbourne University in England and heads the European Commission on Crime. Ullrich charges that “Diana could still be alive, had it not been for the incompetence of the doctors. They simply let her bleed to death.” Ullrich tells *Bild* that he is in the process of filing a lawsuit in Paris against the doctors who tended to Diana at the crash site.

**Feb. 4:** *Le Parisien* reports that Judge Stephan has ordered further forensic tests on the Mercedes 280S to determine whether the car was tampered with, prior to the crash. New autopsy data on Paul suggest that the front airbags of the Mercedes may have inflated prematurely, thus blinding the driver and contributing to his losing control of the car.

**Feb. 5:** Ben McIntyre writes in the London *Times* about the *Le Parisien* story, “Henri Paul, driver of the Mercedes, would have reacted with shock when the driver’s airbag exploded in his face. The safety balloons housed in the steering wheel and passenger-side dashboard go off with the speed and sound of a gunshot at an impact of about 20 mph. . . . Car airbags are designed with an explosive charge of about 8 grams of nitrocellulose that detonate inert gases into a 301 bag. There are many recorded cases of drivers being scared by the crack of the explosion. The charge inflates the bag within 40 milliseconds, but the gas is discharged through vents and the bag deflates within a second of impact. However, the distraction for a driver could be critical.”

**Feb. 12:** Al Fayed, in an interview with the *Daily Mirror*, declares, “I believe 99.9% it was no accident. There was a conspiracy, and I will not rest until I have established exactly what happened. I will find the person who caused this accident. . . . I believe there were people who did not want Dodi and Diana to be together.”

**March 2:** Rees-Jones gives his first extensive public interview to the *Daily Mirror*. His recuperation has proceeded well, and his short-term memory of the events immediately prior to the crash is slowly returning. Rees-Jones says that he recalls that the Mercedes was followed from the rear of the Ritz Hotel by two cars and at least one motorcycle. One of the cars was a white hatch-back, possibly a Fiat Uno. Rees-Jones also recalls that he heard Princess Diana speaking from the back seat of the car seconds after the crash.

**March:** St. Martin’s Press publishes the first, comprehensive booklength account of the death of Princess Diana, by *Time* magazine’s Paris bureau chief Thomas Sancton and Middle East correspondent Scott McLeod. The book presents compelling evidence that Diana’s death was the result of negligence by French emergency rescue workers, that the missing Fiat Uno holds the key to the crash, and that the Mercedes, surrounded by paparazzi cars and motorcycles, was travelling at 55-60 mph at the point of the collision with the Fiat and the crash. The authors credit *EIR* with offering among the most thorough documentation of the “conspiracy case.”

**March 2:** British police arrest Al Fayed and Harrods security director Macnamara, on bogus charges filed by Rowland alleging that Al Fayed and his top employees robbed the latter's safe deposit box.

**March 4:** The *New York Post* spills the beans on the British monarchy's assault on Al Fayed. Neal Travis reports, "It's no coincidence that British authorities waited until the six-month anniversary of Princess Diana's death to arrest Mohamed Al Fayed, father of her boyfriend, Dodi Fayed. . . . They wanted a suitable period of time to pass before beginning what will be an intense campaign to harass the Egyptian-born owner of the storied Harrods department store out of Britain. The Establishment loathes Al Fayed. . . . The Establishment has decided to shut Al Fayed up and drive him out of the country."

**April 22:** Police in Vienna, Austria arrest Oswald LeWinter and charge him with attempting to extort \$15 million from Al Fayed. Through a Hollywood attorney, LeWinter had contacted Al Fayed, claiming he was in possession of classified CIA documents, proving that British intelligence had enlisted the aid of the Israeli Mossad to assassinate Diana and Dodi. A search of LeWinter's hotel room by the Vienna police and the U.S. FBI, turns up forged CIA documents.

**June 3:** ITV in Britain airs an hour-long documentary, viewed by 12.5 million Britons, making a compelling case that the deaths of Diana, Dodi, and Paul were the result of a vehicular attack, possibly involving an anti-personnel laser. The show debunks the idea that Paul could have been drunk, high on prescription drugs, and poisoned with carbon monoxide the night of the crash. ITV then airs a live, in-studio debate about the status of the Diana murder probe. *EIR*'s Jeffrey Steinberg appears on the broadcast.

**June 4:** The *Daily Telegraph* publishes a crass slander against *EIR*, Steinberg, and LaRouche, accusing them of peddling preposterous conspiracy theories, "accusing the Queen of ordering the assassination of Diana." The same night, Channel 4 TV in Britain airs a documentary, hosted by Martyn Gregory, asserting that the death of Diana was the result of drunk driving. The show includes a brief interview with Steinberg, in which he refuses to rule out that Prince Philip had Diana murdered, even though, he clearly acknowledges, there is no "smoking gun" proof that he did.

The *Mirror* reveals that an off-duty high-ranking French police officer, David Laurent, provided French investigators with crucial evidence about the white Fiat Uno in September 1997, and the evidence was withheld from Judge Stephan for months. A French source tells the *Mirror* that David Laurent "was driving toward the Alma tunnel when a white car overtook him and raced past. As the officer approached the tunnel he again saw the car, which he recognized as a Fiat Uno. But this time the Uno appeared to be creeping along very, very slowly a few meters from the mouth of the tunnel. It had no reason to slow down or stop, but it had come to a virtual standstill just before the tunnel entrance. At that stage there

was no Mercedes in sight and no evidence that there had been an accident ahead. The officer drove past, leaving the Uno at the tunnel entrance. As he neared the tunnel exit, he heard a loud bang coming from somewhere behind him. He was unable to turn back and instead drove away. . . . He now believes the Uno was waiting for another car, quite possibly the Mercedes carrying Princess Diana."

**June 5:** Judge Stephan convenes an extraordinary group interrogation of nine paparazzi, a dozen eyewitnesses to the crash, and the civil parties to the case, including Al Fayed. The all-day interrogation is aimed at resolving some of the questions about precisely what happened in the seconds preceding the crash. Stephan also orders a *de novo* investigation of the failure of emergency rescue workers to get Diana to a hospital in time to save her life.

**June 7:** The *Sunday Telegraph* publishes an article by Channel 4's Martyn Gregory, again slandering Steinberg and *EIR* for accusing Prince Philip of the murders in Paris.

The *Sunday Mirror* publishes a poll showing that an overwhelming majority of Britons believe that the death of Diana was not the result of a traffic accident.

**June 10:** Francis Wheen, a writer for the MI5-linked British satire magazine *Private Eye*, pens yet another slander against *EIR*, LaRouche, and Steinberg in the *Guardian* newspaper, accusing them of working with Al Fayed to spread wild conspiracy theories about the Paris crash. Wheen, too, waxes hysterical over the *EIR* remarks about Prince Philip, describing the controversy as the fight between "Mr. Big" (Prince Philip) and LaRouche.

**June 14:** Al Fayed, in an article in the *Sunday Times*, reasserts his conviction that the crash was not merely a case of drunk driving by Paul. He reviews the nine major unanswered questions in the case, praises Judge Stephan's persistence in attempting to get at the truth, and assails the British Establishment and members of the British royal family for their vendetta against Diana.

**July 16:** *EIR* investigative reporter Roger Moore interviews a Paris paparazzo with links to organized crime, whom sources have identified as one of the people who helped dispose of the white Fiat Uno after the crash. Jacques Pottier, a convicted criminal, chases Moore from his garage in a Paris suburb, but never denies that he has information about the missing Fiat.

**Aug. 27:** Judge Stephan issues a status report on his year-long investigation, via the prosecutors office. He states that the earliest he will complete the investigation will be October 1998, and that the final report will not be ready until early 1999. He acknowledges that he is still seeking the white Fiat Uno, that he has ordered a further investigation of the emergency medical response to the crash, that he is looking at forensic evidence that the Mercedes 280S had mechanical problems, and that he is attempting to come up with an explanation for the high levels of carbon monoxide in Paul's blood at the time of the crash.



## 'New Democrats' in new treachery vs. the President

by Jeffrey Steinberg

The London-steered insurrection against the Clinton Presidency has been publicly embraced by a treasonous collection of "New Democrats," at the very moment that President Clinton faces the greatest global economic policy crisis to confront any American head of state since FDR. The lineup of prominent Democrats who have publicly stabbed the President in the back includes the ranking House Democrat, Richard Gephardt (Mo.); Colorado Gov. Roy Romer, the chairman of the Democratic National Committee; and former Sen. Sam Nunn (Ga.), all of whom have come out in recent weeks with self-serving attacks on Clinton around the Monica Lewinsky affair.

On Sept. 3, Sen. Joseph Lieberman (Conn.) brought the "New Democrats" betrayal of the President to a new low, in a vicious personal attack against President Clinton on the floor of the U.S. Senate. Lieberman, according to that day's *New York Times*, had planned to introduce a formal censure motion against the President, but was convinced not to take that step by Senate Minority Leader Tom Daschle (S.D.) and White House Chief of Staff Erskine Bowles. Nevertheless, what Lieberman did—to the great joy of the President's most virulent enemies in the Republican Party, the Christian Right, the Israeli Likud, and London—will go down as one of the most brazen public political betrayals in recent memory.

What made the Lieberman action all the more disgusting was the fact that it occurred while the President was on an important overseas diplomatic mission to Russia and Northern Ireland. It is an unspoken rule in Washington that even members of the opposing party never attack the President while he is abroad, representing the interests of the United States as a whole with foreign governments.

Beneath the hypocritical mask of "moral indignation" regarding the President's actions, lies far more sinister motives,

underlying the "New Democrat" rebellion against the President. Despite the fact that President Clinton, while Governor of Arkansas, was the chairman of the Democratic Leadership Council, the most prominent of the "New Democrat" fraternities, from the moment he was sworn in as President of the United States, Bill Clinton has often instinctively pursued policies in stark contrast to the "Third Wave" post-industrial, anti-labor policies of the New Democrats. His greatest single capitulation to the New Democrats' austerity and budget-balancing dogmas, his spring 1996 signing of the Welfare to Workfare bill, occurred because he was under immense pressure from some of his ostensibly closest political allies, led by Vice President Al Gore and the soon-banished pollster Dick Morris.

Other key Clinton advisers, including Treasury Secretary Robert Rubin, who had joined then-Labor Secretary Robert Reich in opposing the phony 1996 welfare reform, have recently urged the President not to succumb to pressure from the international financial oligarchy to bail out the bankrupt global banking system. In August, as the Japanese financial meltdown accelerated, Secretary Rubin prevailed on the President—over the protests of other White House advisers—*not* to intervene to prop up the Japanese yen, on the grounds that it would be "throwing good money after bad." The President adopted the same policy, just days later, when the issue of a new mega-bailout for Russia was put on his plate. Instead, Secretary Rubin insisted, with the President's backing, that the International Monetary Fund (IMF) would have to make accommodations to Russia, and not vice versa.

These actions, by President Clinton and his chief economic advisers, while falling far short of the bold initiatives required to overhaul an international financial system gone down the tubes, were enough to set a dominant faction of

the financial oligarchy beside themselves. A Clinton-Rubin combination, these modern-day pirates fear, under the kinds of financial and monetary crises now rapidly unfolding, could embrace Lyndon LaRouche's call for the creation of a New Bretton Woods monetary system—a development that would put the banker oligarchy out of business. The bankers howled in protest at the President's failure to cave in to their bailout demands, and the New Democrats, like a pack of hyenas, quickly followed suit.

### Gore's true colors

*EIR* has learned that one of the New Democrats who stabbed the President in the back, albeit not over the Lewinsky affair, was none other than the Vice President. During the weekend of Aug. 22-23, while vacationing in Hawaii, Al Gore, without first consulting with the President, intervened to sabotage the administration's handling of the fast-moving Russia crisis. According to the acknowledged chronology of events, Vice President Gore initiated phone discussions with Russian Prime Minister Sergei Kiriyenko, with former Prime Minister Viktor Chernomyrdin, and with Russian President Boris Yeltsin, in that sequence. He then had a second phone discussion with Chernomyrdin. Only then, did the Vice President call President Clinton to inform him of his actions.

According to the accounts provided to *EIR*, the Gore conversations with the Russian officials centered on his seeking assurances that the Russian government would continue to abide by the suicidal IMF conditionalities—despite the fact that the country's economy had collapsed, the ruble had gone into a free-fall, the country's banks were sitting on \$100 billion in unpayable derivatives obligations to Western banks, and the Russian government had just declared a 90-day moratorium on all debt payments, to avoid sovereign default!

Worse, sources familiar with the sequence of Gore's telephone calls suspect that his intervention may have been solicited, in a still-unacknowledged first phone conversation, by his "good friend" Chernomyrdin, who was rumored to be the target of an arrest warrant on corruption charges, as part of a planned Kiriyenko government crackdown on the Russian "tycoon oligarchs."

Some details of this account are yet to be corroborated. But, what is clear, is that the Vice President intervened in a ham-handed fashion, at the moment that the President and senior Treasury officials were considering a further policy break with "globalize and deregulate" mantras of the post-Bretton Woods system. Before the sun set over Moscow on Sunday, Aug. 23, President Yeltsin had fired Prime Minister Kiriyenko and nominated Chernomyrdin as his replacement. Tycoon-in-charge Boris Berezovsky personally ushered Chernomyrdin back into his old Prime Minister's Office.

### Two Republican parties

In January 1995, shortly after the Gingrich Republicans took control of the Congress, Sen. Edward Kennedy (D-

Mass.) held a press conference at the National Press Club, in which he attacked the New Democrats for abandoning the principles of the FDR-JFK Democratic Party. "This country does not need two Republican parties," he admonished. Most of the so-called New Democrats, who have now joined the ranks of the Gingrichites in targetting President Clinton, attacked Kennedy for those prophetic warnings, including Vice President Gore.

Today, with their "Third Wave" policies universally discredited by the global financial catastrophe, and with many of their constituents demanding that the LaRouche New Bretton Woods policies be adopted, those New Democrats are staging an imitation of Newt Gingrich's infamous 1995 temper tantrum. It's time to send them off to daycare, and revive the real Democratic Party, to give spine to the President, so he can take the bold policy actions urgently demanded of him.

## Appeals court backs LaRouche v. Fowler

The U.S. Court of Appeals for the District of Columbia issued a ruling on Aug. 28, that a three-judge court should determine if Donald Fowler, the Democratic National Committee, and the state Democratic parties of Louisiana, Virginia, Arizona, and Texas violated the 1965 Voting Rights Act. Lyndon LaRouche and several voters from these states, sued Fowler, then chairman of the DNC, and the others in 1996, after Fowler issued a defamatory letter to state party chairs, declaring that Presidential pre-candidate LaRouche was not a *bona fide* Democrat, and instructing state Democratic parties not to count primary votes cast for him. As a result, Democratic Party officials in these states disregarded the primary election results that resulted in victory for LaRouche delegates to the party's national convention.

LaRouche charged that these actions violated the Voting Rights Act and the U.S. Constitution. The 48-page opinion holds that LaRouche's Voting Rights Act claims are substantial enough to be heard by a special three-judge court. They dismissed the constitutional claims in the suit, and the Democratic Party of the District of Columbia as a party to the action.

The legal implications of this ruling are under review by the Constitutional Defense Fund, and the lawyers representing LaRouche and the voters. All eagerly look forward to vigorously prosecuting Fowler and his co-defendants.

# Kenneth Starr's unconstitutional and illegal impeachment campaign

by Edward Spannaus

In a procedure offensive to the United States Constitution, independent counsel Kenneth Starr is expected to present a report to the U.S. House of Representatives in the near future, which contains the results of Starr's eight-month grand jury investigation of the Monica Lewinsky matter. It is still an open question as to whether Starr will include in his report other matters dealing with his four-year investigation of the President, the First Lady, and their associates around other matters such as the Whitewater real estate transactions, the White House Travel Office affair, the matter of the FBI files, and so on.

Why is this such an affront to the United States Constitution? Because under the Constitution, there is only one way to remove a President from office—that is, to undo an election—and that is through the process of impeachment, trial, and conviction by the Congress.

Impeachment is, by its nature, a completely *political* process—not a criminal process. It is so recognized in the Constitution and in contemporaneous and 19th-century commentaries on the Constitution.

A President cannot be indicted—as we shall see below. Then why is an independent counsel, Kenneth Starr, acting as part of the Justice Department, permitted to use a criminal procedure, including a grand jury, subpoenas to witnesses, immunity agreements, and so on, to gather evidence against the President as if it were a criminal proceeding?

## 'Legal' authority

The legal basis under which Starr will present his report is Section 595(c) of the independent counsel statute, which states that an independent counsel “shall advise the House of Representatives of any substantial and credible information which such independent counsel receives . . . that may constitute grounds for impeachment.”

This provision has never been challenged constitutionally—but it certainly deserves to be. Not only is it an abuse of the grand jury process, but it is a violation of the constitutional plan of government.

The initiative for impeachment is itself supposed to come from the House. This point, ironically, is made in a 1992

book *Grand Inquest* by Chief Justice William Rehnquist, who noted the reticence of President Thomas Jefferson to directly ask the House to bring an impeachment proceeding against Justice Samuel Chase of the U.S. Supreme Court. While describing Chase's conduct as a “seditious and official attack on the principles of our Constitution,” Jefferson suggested to one of the House leaders that “it is better I myself should not interfere.”

Rehnquist writes: “Jefferson, ever the master of indirection, was mindful of the constitutional provision that placed the initiative in such matters with the House of Representatives.” (The irony is, that should this Starr-initiated impeachment proceeding reach the U.S. Senate, it is Chief Justice Rehnquist himself who would preside over the trial.)

## Abuse of grand jury material

This unconstitutional arrangement, of Starr presenting his “impeachment report” to the House of Representatives, immediately presents a host of further constitutional problems.

1) The report is likely to be replete with secret grand jury material; even if Starr presents only an “executive summary,” as some have mooted, grand jury testimony and evidence would be available to the House for the asking. Grand jury material is supposed to be secret, because the targets and subjects of that testimony have no rights in the grand jury: hearsay is permitted, a target has no right to cross-examine witnesses or to summon witnesses in his own favor. Inside the grand jury room, the Bill of Rights, by and large, does not apply. It is a completely one-sided proceeding.

2) Because of the nature of a grand jury proceeding, grand jury material is only allowed to be used in an actual trial in very limited ways. Witnesses have to be presented afresh in front of the trial jury, where they can be cross-examined; documents must be presented afresh and authenticated, and so on.

3) The purpose of the grand jury is to establish “probable cause” to issue an indictment. The indictment contains accusations based on grand jury material, and may contain references to evidence from the grand jury, but every trial jury is

told that “the indictment is not evidence,” and that the burden of proof is on the prosecutors.

But in the case of President Clinton, everyone—Congressmen, commentators, the news media—are treating Starr’s report as if it is actual *evidence* of a crime. The assumption is, that the President will be convicted in the court of public opinion by the mere exposure of Starr’s report—despite the fact that Starr’s report is the result of a secret, one-sided proceeding in which the target—in this case the President—had no rights to confront and cross-examine the witnesses against him, and to present evidence and witnesses in his favor.

This is further reason as to why the entire Starr operation is unconstitutional from top to bottom.

## **An elementary guide to impeachment**

In response to many questions that have been asked by our readers and associates—both in the United States and abroad—about the impeachment process, we present the following, elementary guide.

### **Can a sitting President be indicted?**

No. Article II of the United States Constitution declares: “The executive Power shall be vested in a President of the United States of America.” The President is the chief executive; he is the Commander in Chief of the Armed Forces; he is responsible for foreign policy, and for the execution and enforcement of all the laws of the nation (“he shall take Care that the Laws be faithfully executed”).

To indict a President, is a constitutional absurdity. In effect, the President would be indicting himself. This is why the Constitution vests the power—and the initiative—for removing a President from office with the Congress.

The Constitution of the United States provides one and only one method for removing a President from office: impeachment by Congress. This is specified in Article II, Section 4.

### **Has this question come up previously?**

Most recently, the issue of whether a sitting President could be indicted came up around Richard Nixon and the Watergate affair. Robert Bork, then the U.S. Solicitor General, was asked for his official opinion at the time. He concluded that a Vice President could be indicted, because of the unimportance of the office, but Bork contended that a sitting President is immune from criminal liability. Bork still holds to that position, which he elaborated in a March 18, 1998 column in the *Wall Street Journal* entitled, “Indict Clinton? How I Wish It Were Possible.”

### **Is the President subject to a criminal investigation?**

No, he should not be, as long as he is in office. For the same reasons that a President cannot be indicted, to conduct a criminal investigation of a President, using the powers of the Justice Department and a criminal grand jury, is also a constitutional absurdity. The Presidency is a full-time, 24-

hour-a-day job. It makes no sense that an inferior officer, such as an Attorney General or an independent counsel acting in his or her stead, could impair the President’s conduct of his constitutional duties by dragging him in front of a grand jury, much less indicting him.

### **Can a President ever be indicted?**

Yes, but only *after* he leaves office, or is removed from office by impeachment and conviction. Article I, Section 3 of the Constitution says: “Judgment in Cases of Impeachment shall not extend further than to removal from Office, and disqualification to hold and enjoy any Office of honor, Trust or Profit under the United States; but the Party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment and Punishment, according to Law.”

In *The Federalist* Nos. 65 and 69, Alexander Hamilton makes it clear that this is only *after* impeachment; he says that the President would be subject to be impeached, tried, and convicted and removed from office, “and would afterwards be liable to prosecution and punishment in the ordinary course of law.”

### **What is impeachment?**

Under the procedures for impeachment specified in Article I of the Constitution, the House brings an impeachment (which is the equivalent of an indictment) and the Senate tries the impeachment (i.e., it acts as the court). After the trial in the Senate, if the party is convicted, the Constitution states: “the party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment and Punishment, according to Law.” There is no other way to read this, than that it means indictment can only *follow* impeachment by the Congress.

The House acts as the grand jury—sometimes called “the grand inquest of the Nation.” Generally charges are referred to a committee (now, the House Judiciary Committee), and the committee can issue a report and resolution upon which the entire House votes. A resolution of impeachment requires a simple majority of the House. Under modern procedure, articles of impeachment are drawn up and voted on as part of an impeachment resolution. The articles of impeachment are presented to the Senate, where the trial takes place.

### **What are the grounds for impeachment?**

The Constitution states in Article II, Section 4: “The President, Vice President and all civil officers of the United States shall be removed from Office on Impeachment for, and on Conviction of, Treason, Bribery, or other high Crimes and Misdemeanors.”

The term “high Crimes and Misdemeanors” in this context does not refer to offenses as defined by law or statute, but offenses against the United States. They are acts subversive of fundamental law.

Alexander Hamilton, in No. 65 of *The Federalist*, in writing about the Senate as the court for the trial of impeachments, stated: “The subjects of its jurisdiction are those offenses which proceed from the misconduct of public men, or, in

other words, from the abuse or violation of some public trust. They are of a nature which may with peculiar propriety be denominated *political*, as they relate chiefly to injuries done immediately to the society itself.”

(This is why Kenneth Starr is reportedly trying to construct an “abuse of power” case against the President, apparently realizing that the Lewinsky matter by itself, or even simple perjury on a non-material issue in a now-dismissed civil lawsuit, is not sufficient to constitute “high Crimes and Misdemeanors.”)

#### Is impeachment the same as a vote of confidence?

No, impeachment is very different; it is not simply a parliamentary referendum on a President’s policies. In a parliamentary system, the prime minister is chosen by the parliament, and the prime minister holds office, conditional upon the confidence of a majority of the parliament.

In the American constitutional system, with its strong executive and separation of powers, the President is chosen by election, and the results of such an election cannot be lightly overturned.

#### How does impeachment compare to a trial?

In format, it is similar, although it is *not* a criminal trial. The House acts as the equivalent of a grand jury. It then presents the impeachment (similar to an indictment) at the bar of the Senate; it may present articles of impeachment at the

same time, or later. The House appoints a committee of “managers of impeachment” who function similar to prosecutors during the trial of the impeachment.

The Senate then summons the party being accused, to answer the articles. The Senate then resolves itself into a court, and acts similar to a jury in a criminal proceeding. In the case of the impeachment of the President, the Chief Justice of the Supreme Court presides; this is because the Vice President, who normally presides over the Senate, has an interest in the outcome, since he would succeed to the office of the Presidency.

At the trial, the House managers present the case for removal from office; the party under impeachment presents his defense, and is allowed to have counsel represent him. Both sides may call witnesses, etc. At the conclusion of the trial, the Senate deliberates and votes, with a two-thirds vote required for conviction.

#### Has any President ever been impeached and convicted?

No. President Andrew Johnson was impeached in 1868, but was acquitted by the Senate on a vote of 34 for conviction, and 19 against—two votes short of that necessary. Richard Nixon resigned in 1974 after articles of impeachment were drawn up against him, but before they were presented to the Senate.

## Debate on McDade-Murtha Bill:



## A Revolution in American Politics



### An EIR-LaRouche Connection Video

We call this the Citizens Protection Act because . . . what we are trying to do for the ordinary citizen is absolutely important to their individual protection.

—Rep. John Murtha

**\$25** *postpaid*  
Order number EIE 98-007

**Highlights of the historic Aug. 5 debate in the House of Representatives over the bill that would crack down on abuses by the Justice Department.**

**EIR News Service** P.O. Box 17390 Washington, D.C. 20041-0390  
To order, call **1-888-EIR-3258** (toll-free) We accept Visa or MasterCard

## LaRouche Democrats introduce reality into Maryland election

*Mr. Freeman is a candidate for Governor in Maryland's Sept. 15 Democratic primary. He has called upon Democrats to unite to defeat Gingrich Republican candidate Ellen Sauerbrey, who, in 1994, narrowly lost the race to Democrat Parris Glendening, when he was undercut by a faction of the Maryland party. Freeman heads the Marylanders for Justice slate of LaRouche Democrats running for public office around the state. He is also a correspondent on African affairs for EIR. Susan Welsh interviewed him on Aug. 31.*

**EIR:** I understand that your campaign has created quite a stir in Maryland. The Maryland Democratic Party leadership has issued a statement dissociating itself from you and from the slate of candidates that are running with you. What is all the fuss about?

**Freeman:** I don't know that it is the entire Democratic Party leadership. There is a faction within the state leadership that is in touch with a faction in the national leadership, around the previous head of the Democratic National Committee, Don Fowler, whom we have an ongoing suit against. It is a minority, and the Governor of Maryland, Parris Glendening, has disassociated himself from it. That has been confirmed.

So, there is a small group of people who don't like the fact that we are running a group of more than 72 candidates, including for positions on the party Central Committee and the state legislature, and myself for governor, Mark Nafziger for lieutenant governor, and Gerald Berg for comptroller. Basically, we are rebuilding the Democratic Party around the principles of Franklin Delano Roosevelt, for a commitment to progress and development, and supporting the President nationally, against the attempts by sex pervert Ken Starr and others, to overthrow the President and throw him out of office. In fact, I'm the only Democrat in the state who has issued a statement calling for the firing of Ken Starr.

Many of the local Democratic clubs have explicitly ignored this memorandum from the Democratic headquarters in Maryland that says that we are not *bona fide* candidates; they have ignored it, and welcomed us to speak at their clubs and to discuss our ideas, and have indicated that they are very appreciative of the fact that we are active in the Democratic Party.

**EIR:** Tell us something about your background. Have you run for office before?

**Freeman:** I ran for mayor of Baltimore in 1983, I ran for governor in 1986 and again in 1994. I am a close associate and friend of Lyndon LaRouche, who in 1994 forecast the financial collapse that we are now in. No other candidate would discuss this, so I thought that I had to tell the truth to the citizens of Maryland, and prepare them for the kind of economic consequences that are going to follow. I also have a background of work on Africa—I've made several trips there, and I am president of the Food for Peace organization of the Schiller Institute.

**EIR:** On the economic situation: The media say that Maryland is in an economic boom, that there is very low unemployment. How do you see it?

**Freeman:** What Governor Glendening is doing, is very similar to what President Clinton is doing nationally. They keep claiming that the economy is in great shape, and that we've created all these jobs. Now, there are a couple of things missing in that picture. First of all, we are in a major monetary collapse. Second, putting that aside for a moment, the economy is *not* in good shape. Around the state of Maryland, we are losing 30 farmers a month this year, because they are going bankrupt. That's devastating. We've shut down all our industry in the state. There's massive poverty throughout the state; there's a shortage of school construction; there's a shortage of housing for people in Baltimore. There are food lines in Baltimore—they became an embarrassment, so they moved them out to different locations, so that people wouldn't see them. There are 9,000 more people that are going to be thrown off welfare, which the agencies already admit they have no jobs for, and they don't know who is going to pay the rent on the buildings that these welfare recipients are living in.

So, there is no great economy in Maryland. There is this so-called budget surplus, the "Sunny Day Fund," which is about \$400 million, which everyone uses to say, "Look how well Maryland is doing." But that \$400 million comes from people making money off the bubble on Wall Street. There was a study done recently, that said that if the stock market remained flat, Maryland would lose \$350 million—the sum of the Sunny Day surplus; it would lose \$800 million if the



Lawrence Freeman (left) is interviewed on a radio talk show during his campaign for the Maryland Democratic Party's gubernatorial nomination.

stock market collapsed. So, the entire surplus, if there is one, is fictitious value, it's made from capital gains on the stock market. That could be wiped out in the blink of an eye.

There is no success story in Maryland's economy; it's like every other economy in the country: It's in very bad shape, and has to be rebuilt, reindustrialized.

**EIR:** It is also claimed that crime in Maryland has gone down. You were interviewed by the *Washington Post*, in a roundup of candidates' positions, and when they asked you about this decrease of crime in the state, I understand that they censored your answer. What is the real story?

**Freeman:** That's another thing that the Governor and others are trying to push, that there's been a decrease in crime in Maryland. No one believes that. In Maryland, as in most states, the majority of people arrested are African-Americans; they are the majority of the people filling up our jails. The majority of arrests are either directly related to drugs, or are crimes in which people are trying to raise money to pay for drugs. The drug problem continues in Baltimore City, especially, and throughout the state of Maryland. There is a group of people saying, "Let's arrest everyone, let's build more prisons." But that doesn't deal with the crime problem.

One of the problems we have in the state, and in Baltimore, is that Mayor Kurt Schmoke has for years been a darling of the drug lobby, and has called for the legalization—in his words, "decriminalization," which is really legalization—of drugs. He says we don't have to wage a war on drugs, this is

a health problem. The other major person in the world who has said this, and has funded every legalization measure, is George Soros, a speculator-billionaire who is under investigation in six countries. Soros is a strong supporter of the coca growers in Peru and Colombia, where the drugs come from. The government of Taiwan, at this point, won't even allow him in! But he has come into Baltimore and set up a beach-head there, his biggest operation in the United States.

His Open Society set up offices in Baltimore last year, at the invitation of Kurt Schmoke, to spread around \$25 million, including for the needle-exchange program and programs for legalizing drugs. It is well known that this is what Soros believes, and it is well known that this is what Kurt Schmoke believes. When I responded to the *Post* and said that this is what they say, and that this sends the wrong message to our youth and to the criminals involved in drugs, that specific sentence was deleted from my answer in the *Washington Post*, because people don't want to admit that

Soros and Schmoke are working together for the legalization of drugs.

**EIR:** What specific legislation are they backing?

**Freeman:** They have called for the penalty for being arrested for drugs to be eliminated, and therefore drugs should be legalized. There has been a discussion of creating state dispensaries of drugs for addicts. We have already had in Baltimore, since the campaign I ran in 1994, a needle-exchange program. They give drug addicts clean hypodermic needles, so that they can shoot drugs into their arms, because dirty needles would spread AIDS. The idea is, we'll let people kill themselves with drugs, instead of killing themselves with AIDS. The state board of health in Maryland is requesting a program to simply provide more health facilities for drug users, and eliminating all criminal penalties for all those involved.

It is exactly the wrong direction. Our youth in this city are turning to drugs, which are rampant, especially in the African-American community. Drugs are not the only cause of the problems—the cause is also the collapse in the economy, and the terrible direction of our culture. But if you say that people should not be penalized for taking drugs, then you've sent a message out that is going to spread the epidemic, instead of reducing it.

**EIR:** How does this intersect the fight over gambling, and the gambling interests moving into the state?

**Freeman:** There's a very interesting connection. Earlier this year, there was a candidate in the Democratic primary, Eileen Rehrmann, a county executive from Harford County, who came out and said that she would raise all the additional revenue—\$100 million—for schools, based on bringing slot machines into the race tracks. The argument is that Maryland is losing money to Delaware, which has slot machines at the race tracks. This is opposed, correctly, by Governor Glendening, and I support him on that. A coterie of people inside the Democratic Party split with Glendening, and that includes Wayne Curry, the county executive for Prince George's County, who is an African-American; and Kurt Schmoke, who heads the African-American community in Baltimore City; and Larry Gibson, who is the brainchild of all three campaigns. They viciously attacked the Governor, because they want to bring in organized crime, legalized gambling, to the Maryland race tracks, which would be a foot in the door to open up the entire state.

It's not uninteresting that they want to bring in criminal elements around Las Vegas-style gambling casino houses, and at the same time, Schmoke is bringing in Soros, who is also involved in organized crime. So, there is a *heavy criminal element* that Schmoke and others are trying to bring into the state of Maryland, under the ruse that this will provide increased revenue. And it won't provide *any* increased revenue: Gambling just takes money out of people's pockets. Nothing new is created! We already have a lottery, which is officially part of our budget. We depend on \$400 million from the lottery. What I said is, it's immoral for us to use gambling slot machines to pay for children's education.

This story has not yet been fully told: what the organized crime element is, that Schmoke and others are working with. We hope to dig it out over the next few months.

**EIR:** Looking back to your last campaign for governor, how does the situation look different today? The state of Maryland has been the scene of bitter fights in the legislature, for example, around the ouster of State Sen. Larry Young, and there are fights raging in the African-American community. How have these intersected your campaign?

**Freeman:** Our campaign has now emerged as probably the most active and largest campaign in the African-American community, especially in Baltimore City. I recently held a town hall meeting with State Rep. Harold James from Pennsylvania, and we had 80 people come. After the meeting, we had people tell us, "You guys are holding the largest meetings in Baltimore."

One of the reasons is, I said at the very beginning of my campaign that we were going to tell the truth. We were going to tell the truth about the economy, and we were going to tell the truth about what was done to Senator Young.

Senator Young, by the way, has not been a friend of mine. We have been on opposite sides for many years. But, he rose to prominence as a State Senator, an African-American, espe-

cially in the area of providing health care to the African-American community. He was a recognized expert, among black state legislators around the country. Now, there were allegations made about his involvement with various contracts in the state of Maryland, and his representing those industries. But there was no *proof*. There were stories written in the *Baltimore Sun*. And what happened was, that the Maryland Ethics Committee (so-called), threw him out. He became the first State Senator removed from the Maryland Senate in 200 years. There was *never* a criminal charge presented; there was no crime presented; there was no grand jury handing down indictments, even to this day. In eight months, there has been no crime charged, and yet he was thrown out of office.

It is no coincidence that he is an African-American: We have identified people who have a policy called Operation Fruehmenschen, which targetted African-American officials. Why? Because they represent their constituency. The same reason that a non-African-American, Lyndon LaRouche, was targetted: because he represents the interests of people, against the interests of banks, opposed to the cost-cutting policies of Gingrich and some of the extremist Republicans. And it's the same reason that President Clinton is being targetted: The Justice Department *takes out people*, elected officials or leaders, like LaRouche, who would oppose a bankers' policy. That's the reason that Senator Young was kicked out of office: because he stood up for the people.

Interestingly, no one else but me has brought his expulsion into the campaign. Even the African-American officials and candidates running for office. Nobody will touch this issue, except for me. And even though Senator Young and I have not been allies in the past, I have stuck to my principles from the very beginning: This is a crime, this is an atrocity, and it shouldn't be tolerated. So, people have watched us, over these many months, and there is a very great respect for us, and as a result, our organization in Baltimore has grown significantly during the course of this campaign.

**EIR:** Is there anything else you'd like to say?

**Freeman:** Given the nature of the financial meltdown that's going on now, and the fact that this has been the lead item which I have been educating the citizens on, who knows, maybe in the last days of the campaign, all kinds of interesting things could happen in terms of our campaign. It is the fear of our ideas that led the *Washington Post* to censor some of my remarks, and the *Baltimore Sun* to not even cover my campaign at all, which I think is going to make them look very silly, as what we're saying turns out to come true in the next days and weeks ahead.

So, I'm very happy that we have put out these ideas, we've educated citizens in the state of Maryland, and even if we don't achieve the total victory that we hope to, we have already enriched and developed and built our movement in the state around those ideas. And I think that is something that is very positive.



# Foreign press rips Starr witch-hunt as threat to international security

Former Brazilian Justice Minister **Saulo Ramos** asked “Is This Justice?” in a commentary for the Aug. 14 issue of *Folha de São Paulo*.

“Some Brazilians are fascinated by U.S. law, which permits a public prosecutor . . . to interrogate the President of the U.S. and threaten that he will be charged with perjury, lying, or obstruction of justice, if he does not confess to having sexual relations with some girl. All in a simple investigation, of a clearly political character, coming out of another investigation, which was shelved.” The United States has the best technology of the modern world, he says, but it suffers from a disease without cure: the worst legal system in the civilized world—not the U.S. Constitution, but its legal system.

In judicially civilized countries, no one can be forced to incriminate themselves, and it is a crime to give false witness. But in the United States, the accused commits perjury if he denies the act which is attributed to him. In another country, Clinton would simply be absolved, if he admitted that he lied to save the reputation of the girl, and that of his family.

If the “park maniac,” referring to a São Paulo serial killer who has murdered nine women, were to face trial in the United States, and to declare that he killed the women to relieve them of their suffering, because, say, they were unemployed, he would stand a good chance of being acquitted, Ramos noted.

“And, the girl in the White House is not suspected of anything?” She saved the dress; she taped conversations. “All carefully premediated. . . . In that judicial order, is this not classed as blackmail?” Not when we are talking about the President. “Is this justice? And, if Clinton were innocent, what would happen to Starr? Nothing. . . . In the U.S., the President has the right to suffer everything, including being assassinated, with total impunity guaranteed for the assassins.”

Following President Clinton’s televised address on Aug. 17, the Danish daily *Politiken* carried an editorial on Aug. 19, headlined “A Serious Case: Not for Clinton—But for All of Us.”

“No filmmaker, no fantasizer would have been able to make up the absurd case, which is at the top of the U.S.—and therefore the world’s—agenda. The entertainment value is high, but the perspectives are serious—for us all. The question is not, if the President is ‘guilty’ of having had an ‘inappropriate relationship’ to Monica Lewinsky. . . . The serious question—and problem—is, how can the U.S. have gone so far, that such a case can be put on the agenda, and can have grown



*Independent Inquisitor Kenneth Starr. International commentators are denouncing his vendetta against President Clinton, and the institution of the U.S. Presidency.*

to the current gigantic dimensions? How has it swollen to such a size, that it engulfs the world’s most important position, paralyzes the world’s most powerful democracy, and pushes everything else in the world media aside?”

*Politiken* describes how the Watergate scandal created a machinery to ensure that the President would not be above the law. “It is this control system, which was created with the background of that exemplary scandal, which has now run amok at the hands of Kenneth Starr. The Congress appointed him as public investigator to expose Whitewater. . . . Despite the investigation’s methods, which are worthy of the Inquisition, Starr did not find anything on Bill and Hillary Clinton, and was on his fourth or fifth fishing expedition in totally different areas, when Linda Tripp surfaced and offered herself as a camouflaged tape recorder for Monica Lewinsky’s sexual confessions.”

The editorial details how the Supreme Court allowed a civil suit to proceed against President Clinton, and that it didn’t stop when the Paula Jones case was dropped. “This judicial madhouse—including calling as a witness anyone who had ever talked with the President about the case, or simply had spoken critically of Kenneth Starr—is one of the main causes of the catastrophe. The other main reason is the media’s catastrophic lack of proportion and self-control in this case. Statements from anonymous sources, quoting statements from other anonymous sources, are made into ‘facts’ and repeated again and again, turned inside-out, and outside-

in again, with the right to free speculation about the most facile subjects of all—sex and power. The necessary control function of the media has here become a sort of self-running circus, where the only thing not being put to use is common sense and a critical distance from that web of uninteresting quarter-truths, which they themselves have created. The result has become a scandal of enormous proportions. A scandal that has consequences for all of us, because it paralyzes the U.S.A.—the U.S.A. that still is crucial for peace and security in the world, from Kosova to Iraq. The main characters in the scandal are not Bill Clinton and Monica Lewinsky. The main characters in the scandal are the jurists and journalists, politicians and editors, who have let a proud American tradition—the self-control of democracy—run amok, to become a devastating caricature of itself.”

*The Danish daily Berlingske Tidende devoted its Aug. 19 editorial to “the disruptive forces” hampering the United States.*

“While circles in the U.S. seem to want the case to continue, the rest of us can only regret once again, that such disruptive forces have been let loose on the nation’s most important position, with harm to all. The United States, as well as the rest of the world, is in need of a strong Presidency, and it is immediately noticed in other countries when the superpower is not able to focus with the necessary sharpness. The list of pressing international problems is growing fast, with the economic crisis in Asia and Russia, the war in Kosova, and the gridlock in the Middle East at the top of the list. With that background, Americans should, not least for their own sake, and also for ours, get the soap opera behind them as fast as possible, and come back to the world of reality.”

*In the Aug. 25 issue of the Paris daily Le Monde, Alexandre Adler wrote a front-page commentary, “Defend Bill Clinton from Kenneth Starr.” Adler is the editor in chief of the weekly Courier International, an adviser to RPR party chairman Philippe Séguin, and a senior foreign policy specialist.*

“Let’s not equivocate, there is a plot, of the gravest sort, not only against Bill Clinton . . . but against the American Presidential system . . . and that plot is taking place before our very eyes, terrified by this mixture of cruel execution and unserious show.” Can one imagine Harry Truman, Dwight Eisenhower, or John Kennedy being undermined at crucial moments of their Presidency with prosecutors revealing their various love affairs, wonders Adler?

Aristocratic pseudo-Anglophiles are Clinton’s enemies, among whom Adler names pharmaceutical and insurance companies, which are furious at the Clintons’ attempt to “create social safety for all Americans”; those who don’t like him because of his past and his culture: “’68, the people, the blacks, the Jews, and China”; those who hate him for not following the rules of politics-as-usual (“he was the governor of a small state, he always avoided Washington”), and the fact that he and his friends are “regular guys” and “self-

made men.”

“None of these attitudes in themselves is sufficient, but altogether they have undoubtedly consolidated a lot of hatred from a WASP establishment, hypocritical and cruel, in which an aristocratic pseudo-Anglophilia, indignant at the fact that the new White House had snubbed John Major, turned into burning fire what would have been a bearable irritation.”

Were it not for public opinion, continues Adler, “we are heading toward the gravest attack against American constitutional principles since the McCarthyite wave in the beginning of the ’50s.”

Adler blasts the hypocrisy of Clinton’s detractors, including House Speaker Newt Gingrich, who divorced his wife when she was dying of cancer, in order to marry another woman, and “the neo-fascist plutocrat banker [Richard] Mellon Scaife, providing the funding for slanders.” Adler concludes by warning the “East Coast so-called liberal press, which is already consenting to the legal murder of the President of the greatest democracy on earth, that this attack is ultimately not against one man, but against an institution, that of the Presidency.”

Clinton’s attackers have “the will to deprive, little by little, the largest developed society in the world, of all its leverages of transformation, so that the social Darwinism of the new feudalists triumphs over the ruins of what used to be the democratic state, through which Lincoln gave freedom to slaves, and Roosevelt delivered Europe.”

## Videos Provide Evidence of DOJ Corruption

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

Two videos are currently available:

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

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

# ADL's 'Get LaRouche' hit-man Suall dies

by Scott Thompson

Irwin Suall, the chief of the Anti-Defamation League of B'nai B'rith Fact Finding Department, and an enemy of Lyndon LaRouche, died on Aug. 17, at the age of 73. For the past few years, particularly following the 1994 San Francisco police and FBI probe of ADL espionage operations, Suall had been in semi-retirement.

The *New York Times* obituary, on Aug. 20, lauded Suall's work for the ADL. It highlighted his training at Ruskin Labor College at Oxford, and his work from the late 1940s for the International Ladies Garment Workers Union (ILGWU), the Socialist Party of Norman Thomas, the Jewish Labor Committee, and other Fabian/Zionist outfits, before he came to the ADL in the mid-1960s to create its Fact Finding Department, its in-house spy shop in what was euphemistically known as the Civil Rights Division.

Suall was the overseer of the ADL's involvement with the "Get LaRouche" task force. Sources in New York City in the 1980s said that Suall met frequently with both Henry Kissinger and William Buckley during the height of the "Get LaRouche" push. As part of that operation, one of Suall's Fact Finding agents, Mira Lansky Boland, had been a leading figure in the salon of Wall Street investment counselor John Train, which set up the combined media/political frameup propaganda operation which "railroaded" LaRouche to prison on fraudulent charges.

Suall had been part of that black propaganda campaign. He appeared on the March 4, 1984 NBC "First Camera" slander against LaRouche; he was the ADL contact point for propagandist Dennis King, terrorist Mordechai Levy, and the Yippies, who were all deployed against LaRouche; and, was the controller of the ADL's San Francisco spymaster Roy Bullock. According to the San Francisco District Attorney's office, Suall was believed to maintain illegal files on more than 1 million Americans in the ADL's national headquarters in New York City.

## An Oxford-trained Fabian Socialist

Suall attended Brooklyn College during 1941-43, majoring in economics. In 1943, he became an organizer for the Young People's Socialist League, the youth arm of the Socialist Party-Social Democratic Federation (SP-SDF) of Norman Thomas. In the same year, he joined the merchant marine, and became an unpaid organizer for the Seafarers International Union. In 1948, as a member of the Seafarers,

Suall won a scholarship to the Ruskin Labor College, Oxford University.

In 1950, Suall graduated with a degree in economics and politics, and he returned to the United States, where he was taken under the wing of David Dubinsky, then the principal factotum of the ILGWU. Dubinsky had been the chief mentor for Jay Lovestone, the former Bukharinite head of the Communist Party USA; he claimed that Lovestone was "kosher," and had dropped his affair with Communism. In fact, according to *EIR* studies on the Anglo-Soviet intelligence operation known as "The Trust," Lovestone remained a spy for a faction of the Soviet NKVD until Nikolai Bukharin was purged in 1938. Lovestone was a contemporary of Suall at the ILGWU.

Suall's training at Oxford, with its track record for producing British intelligence officers, raises an obvious question: Was Suall recruited there to work for British intelligence? This is not as far-fetched a question as it might appear. Recently released British intelligence wartime archives reveal that Suall's predecessor as ADL chief spook, Sandford Griffith, was recruited to work for British MI6 in 1938, and remained a British intelligence official for the remainder of his life. All the while, Griffith deployed the ADL's army of private investigators, "pollsters," and infiltrators against a wide array of American groups on the ADL's "enemies list." Sources familiar with Griffith's wartime activities also reported that he had been suspected of having ties to the Soviet Union, as well as Britain.

In 1957, Suall became National Secretary of the SP-SDF, the top administrative and policy position. While a Socialist, in 1962 Suall joined the Jewish Labor Committee, an outfit for Jewish trade unionists, and was hired as a public relations director by Emanuel Muravchik. In 1962, Suall authored a pamphlet entitled "The American Ultras," a study of "right-wing organizations" published by the League for Industrial Democracy.

In 1967, Suall was hired to run the ADL Fact Finding Department, its "dirty tricks" operation, where, in his own words, during a deposition in the case of *Lyndon LaRouche v. NBC*, Suall said that he took responsibility for "counteraction" and "remedial action." Suall's measures included deploying a small army of *agents provocateurs*, e.g., James "Jimmy" Rosenberg and Mordechai Levy, who carried on the FBI's White Hate Groups and related "dirty tricks" operations after the FBI's Cointelpro was exposed and officially shut down. In one instance, Rosenberg tried to get a branch of the Ku Klux Klan in Trenton, New Jersey to blow up the National Association for the Advancement of Colored People's local office.

Recently released FBI files on the San Francisco Police Department's investigation of ADL spying show that the ADL was spying upon anti-apartheid groups for South African intelligence (BOSS), and on Arab-American leaders for Israeli intelligence (Mossad).

---

# National News

---

---

## Senate bill includes New Bretton Woods call

The fiscal year 1999 Senate Foreign Operations Appropriations bill (S. 2334) which goes to the floor for a vote in early September, contains the same language calling for a New Bretton Woods conference as the FY 1988 supplemental appropriations bill S. 1768, previously approved by the Senate, but not included in the final version after the House-Senate conference. S. 2334 also includes authorization to increase the International Monetary Fund quota.

S. 2334 was reported out of Committee on July 21. The entirety of the IMF section of the bill reflects growing hysteria around the economic and financial crisis. According to the bill's language, the President must establish an International Financial Institution Advisory Commission, which will make various reports on the IMF, and:

"Sec. 604. BRETTON WOODS CONFERENCE. Not later than 180 days after the Commission reports to the appropriate committees, the President shall call for a conference of representatives of the governments of the member countries of the IMF, the International Bank for Reconstruction and Development [World Bank], and the WTO [World Trade Organization] to consider the structure, management and activities of the institutions, their possible merger, and their capacity to contribute to exchange rate stability and economic growth and to respond effectively to financial crises."

---

## Virginia yearns to be 'America's prison capital'

Vying to become the prison capital of America, the Virginia Department of Corrections signed an agreement with the District of Columbia on Aug. 26 for Virginia to take almost 1,300 inmates from D.C.'s notorious prison complex, located in Lorton, Virginia. The Lorton inmates will be housed in a brand-new maximum-security facility in Sussex County. Under the contract, Virginia will be paid \$71 million over two and a half years. "The contract also helps bail out Vir-

ginia prison officials, who have a surplus of prison beds," the *Washington Post* noted on Aug. 27. "Virginia has spent about \$150 million more than necessary for new prisons in the past three years, according to an analysis by state officials." The new prison, which cost \$68 million, would have sat empty, if the deal had not been worked out with D.C. to fill it up with Lorton inmates.

Virginia is leasing out as many as 3,290 "surplus" prison beds over the next two years. The state has entered into contracts with Michigan, Delaware, and Vermont to take about 1,750 more inmates. In fact, Virginia's prison system is now operating at 137% of design capacity, and its five medium-security facilities are operating at 177% of capacity. But, corrections director Ron Angelone opines that there is no overcrowding unless prisoners are sleeping on the floor.

In July, officials from Youngstown, Ohio warned Virginia about taking inmates from Lorton. Youngstown is the site of the private prison run by Corrections Corp. of America, a privately owned prison which housed roughly 1,700 inmates transferred from Lorton. CCA's prison had at least 20 stabbings (two fatal), and the breakout of six D.C. inmates—four of whom were murderers who had been classified as "medium security."

---

## Don Eret holds hearings on New Bretton Woods

On Aug. 18, LaRouche ally Don Eret, who is running for the Democratic nomination in the First Congressional District of Nebraska, held hearings to demonstrate why President Clinton must convene a New Bretton Woods conference. The hearings, in the state capital of Lincoln, took place just days before the free-fall of the Russian ruble. Now, farm state Congressmen had even begun to debate whether the free-trade prescriptions had any validity at all.

Eret, a former State Senator who is both a farmer and a retired NASA engineer, said, "I will prove in my keynote presentation . . . that cattle feeders are being asset-stripped through seemingly legal but actually immoral commodity price manipulation." Using methods that Eret had employed while

at NASA, he showed that during 1994-98, cattle prices repeatedly dipped to \$60/cwt, although parity for live cattle pricing is \$150/cwt.

"Congress must change its confidentiality clause on trader identity," Eret said, "to publicly disclose the identity of the four largest trader categories," so that hedge funds will be shown to be illegal. "The Commodity Exchange Act states that two or more persons trading in unison on a regulated exchange are committing a collusion in the market that is chargeable as a felony."

---

## Defense lawyers praise McDade-Murtha bill

The National Association of Criminal Defense Lawyers praised the McDade-Murtha "Citizens Protection Act" and urged everyone to lobby for its final passage, in a press release. Included was a fact sheet refuting all the phony criticism of the act by Justice Department prosecutors, Congressional opponents, and the FBI.

The act, whose language was incorporated into a House appropriations bill on Aug. 5, would establish independent oversight of Justice Department prosecutors. The bill is currently before a House-Senate conference committee.

To the complaint that McDade-Murtha would hamper multi-jurisdictional investigations by forcing them to adhere to all the different provisions in state laws governing prosecutorial conduct, the NACDL asserted that state bar and local Federal court rules of attorney ethics are all essentially the same. Therefore, it is untrue that the bill would disrupt multi-state investigations. Attorneys would be subject only to the rules of the states that licensed them, and Federal court rules of practice applicable to all lawyers. Historically DOJ lawyers were subject to independent investigation and discipline by ethics authorities of states where they are licensed to practice. In 1989, the DOJ started to exempt its lawyers from these standards of conduct.

"The House is right to recognize that law enforcement concerns cannot justify the DOJ's self-creation of less demanding ethics rules for Federal prosecutors and regulatory lawyers," the statement says.

### *Rumblings on the derivatives front*

From 1993 on, when economist Lyndon LaRouche first put forward his warnings about the derivatives bubble and urged the imposition of a nominal tax on derivatives transactions, discussion of the derivatives problem has been closely associated with LaRouche. When the exotic financial instruments hit the front pages in 1994, following the bankruptcy of Orange County, California, and then the mighty Barings Bank went belly-up after the failure of an estimated \$1.5 billion in derivatives in 1995, many people were astounded and forthright about how LaRouche had been right.

Despite periodic public debate about the threat of a derivatives blowout, including from the Bank for International Settlements, over the last four years, nothing substantial has been done. Derivatives exposure of the banking system internationally has grown like the cancer that it is.

Now, the rumblings of a major crisis are beginning to be heard, particularly in the context of the dramatic movements of currencies, but also due to the increasing bankruptcy of the major banking institutions.

The first big warning issued recently came in the context of the Russian state default. European banking experts put out the word in late August that the Russian government's freeze on certain currency transactions was a threat to settlement of as much as \$100 billion in over-the-counter ruble "forward contracts." A Russian failure to meet these obligations threatened to trigger a chain reaction among the Western derivatives "counter-parties," the warning went.

Over the last two weeks, there have been hints that such a chain reaction might have begun. Certain major Western banks, including Deutsche Bank and Republic Bank, have reported hundreds of millions of dollars in losses (probably conservative figures) in connection with their Russian exposure.

The second major alarm was issued by Japanese Finance Minister Kiichi Miyazawa on Aug. 25. Speaking to the Parliament's Lower House, Miyazawa stated his belief regarding Japan's de facto bankrupt Long

Term Credit Bank that "the notional amount of LTCB's derivatives trade is over 50 trillion" yen. If LTCB "should find difficulty in paying," he added, "then there is a danger of default." Reuters reported that he concluded saying that such a default "could lead to a Japan-triggered global financial depression."

Does anyone doubt that Japan's banking system is intimately connected with the global one?

Then, in the wake of the currency controls announced by the government of Malaysia on Sept. 1, new warnings began to be heard. Malaysia's imposition of capital controls "threw Asian capital markets into chaos, threatening an international payments crisis as billions of dollars in ringgit-denominated financial contracts that are no longer freely tradeable start to come," the *Wall Street Journal* wrote on Sept. 3. Banks fear a "chain reaction of payments failures," the *Journal* added.

One European banker, when asked about this danger, pointed to the particular vulnerability of the Singapore stock exchange, where many of the ringgit-denominated trades were made.

Should we worry about the derivatives traders? No, not one bit. Not one penny should be given to save these speculators—who have been amply warned—from losing their shirts. Many of these traders are big hedge funds that deserve to be wiped out, and the banks that lent to them are barely any better. These are the guys who have been bringing in money hand over fist, while the real economies on which people's lives depend are bled dry.

So, let the derivatives go. They were always doomed. What we have to worry about is reorganizing the financial and banking systems so that they serve the interests of nations and peoples. Pensions and jobs have to be saved, and cheap, directed credit provided for reconstruction. Governments have to retake control of their currencies so that they are instruments of trade and production once again. As to the derivatives—good riddance.

# SEE LAROUCHE ON CABLE TV

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

## ALASKA

- ANCHORAGE—ACTV Ch. 44  
Thursdays—10:30 p.m.

## ARIZONA

- PHOENIX—Access Ch. 22  
Saturdays—2:30 p.m.
- TUCSON—TCI Ch. 63  
Thursdays—12 Noon

## ARKANSAS

- CABOT  
Friendship Cable Ch. 15  
Daily—8 p.m.

## CALIFORNIA

- CONCORD—Ch. 25  
Thursdays—9:30 p.m.
- COSTA MESA  
Media One Ch. 61  
Thursdays—12 Noon
- GARDEN GROVE—Ch. 3  
Mondays—11 a.m. & 4 p.m.
- LANCASTER/PALMDALE  
Jones—Ch. 16; Sun.—9 p.m.
- MARIN COUNTY—Ch. 31  
Tuesdays—5 p.m.
- MODESTO—Access Ch. 8  
Mondays—2:30 p.m.
- SAN DIEGO  
Southwestern Cable—Ch. 16  
Mondays—11 p.m.
- SAN FRANCISCO—Ch. 53  
2nd & 4th Tues.—5 p.m.
- SANTA ANA—Ch. 53  
Tuesdays—6:30 p.m.
- TUJUNGA—Ch. 19  
Fridays—5 p.m.

## COLORADO

- DENVER—DCTV Ch. 57  
Saturdays—1 p.m.

## CONNECTICUT

- BRANFORD—TCI Ch. 21  
Thu.—9:30 p.m.; Fri.—9 a.m.
- MIDDLETOWN—Ch. 3  
Wednesdays—10 p.m.
- NEWTOWN/NEW MILFORD  
Charter Ch. 21; Thu.—9:30 p.m.

## DISTRICT OF COLUMBIA

- WASHINGTON—DCTV Ch. 25  
Sundays—2 p.m.

## ILLINOIS

- CHICAGO—CAN Ch. 21\*

## IOWA

- DES MOINES—TCI Ch. 15  
1st Wednesdays—8:30 p.m.  
Following Sat.—3 p.m.
- WATERLOO—TCI Ch. 2  
Mondays—11 a.m.

## KANSAS

- SALINA—CATV Ch. 6\*

## KENTUCKY

- LOUISVILLE  
Intermedia—Ch. 25; Fri.—2 p.m.

## LOUISIANA

- NEW ORLEANS—Cox Ch. 8  
Mon.—1 a.m.; Wed.—7 a.m.  
Thu.—11 p.m.; 12 Midnite  
Sun.—4 a.m.
- WEST MONROE—Ch. 38  
Tuesdays—6:30 a.m.

## MARYLAND

- ANNE ARUNDEL—Ch. 20  
Fri. & Sat.—11 p.m.
- BALTIMORE—BCAC Ch. 5  
Wednesdays—4 p.m. & 8 p.m.
- MONTGOMERY—MCTV Ch. 49  
Fridays—7 p.m.
- P.G. COUNTY—Ch. 15  
Mondays—10:30 p.m.
- W. HOWARD COUNTY—Ch. 6  
Monday thru Sunday—  
1:30 a.m., 11:30 a.m.,  
4 p.m., 8:30 p.m.

## MASSACHUSETTS

- BOSTON—BNN Ch. 3  
Saturdays—12 Noon

## MINNESOTA

- DULUTH—PACT Ch. 50  
Thu.—10 p.m.; Sat.—12 Noon
- MINNEAPOLIS—MTN Ch. 32  
(starting Sept. 2)  
Wednesdays—8:30 p.m.
- MINNEAPOLIS (NW Suburbs)  
NW Community TV Ch. 36  
Mon.—7 p.m.;  
Tuesdays—1 & 7 a.m.; 1 p.m.
- ST. LOUIS PARK—Ch. 33  
Friday through Monday  
3 p.m., 11 p.m., 7 a.m.
- ST. PAUL—Ch. 33  
Sundays—10 p.m.
- ST. PAUL (NE Suburbs)\*  
Suburban Community Ch. 15

## MISSOURI

- ST. LOUIS—Ch. 22  
Wednesdays—5 p.m.

## NEVADA

- RENO/SPARKS  
Contl. Ch. 30; TCI Ch. 16  
Wednesdays—5 p.m.

## NEW YORK

- BROOKHAVEN (E. Suffolk)  
Cablevision Ch. 1/99  
Wednesdays—9:30 p.m.

## BROOKLYN—BCAT

- Time/Warner Ch. 35  
Cablevision Ch. 68  
Sundays—9 a.m.

## BUFFALO—BCTV Ch. 68

- Saturdays—12 Noon
- HUDSON VALLEY—Ch. 6  
2nd Sun. monthly—1:30 p.m.

## ILION—T/W Ch. 10

- Saturdays—12:30 p.m.

## IRONDEQUOIT—Ch. 15

- Mon. & Thurs.—7 p.m.

## ITHACA—Pegasys Ch. 57

- Mon. & Thurs.—9 p.m.

## JOHNSTOWN—Ch. 7

- Tuesdays—4 p.m.

## MANHATTAN—MNN Ch. 34

- Sun., Sept. 6 & 20: 9 a.m.

## MONTVALE/MAHWAH—Ch. 14

- Wednesdays—5:30 p.m.

## NASSAU—Ch. 80

- Wednesdays—7 p.m.

## OSSINING—Ch. 19-S

- Wednesdays—3 p.m.

## POUGHKEEPSIE—Ch. 28

- 1st & 2nd Fridays—4 p.m.

## QUEENS—QPTV Ch. 57

- Wednesdays—3 p.m.

## RIVERHEAD

- Peconic Bay TV Ch. 27  
Thursdays—12 Midnight

## ROCHESTER—GRC Ch. 15

- Fri.—11 p.m.; Sun.—11 a.m.

## ROCKLAND—PA Ch. 27

- Wednesdays—5:30 p.m.

## SCHENECTADY—SACC Ch. 16

- Tuesdays—10 p.m.

## STATEN ISL.—CTV Ch. 24

- Wed.—11 p.m.; Sat.—8 a.m.

## SUFFOLK, L.I.—Ch. 25

- 2nd & 4th Mondays—10 p.m.

## SYRACUSE—T/W Ch. 3

- Fridays—4 p.m.

## SYRACUSE (Suburbs)

- Time/Warner Ch. 12  
Saturdays—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  
Tuesdays—7 p.m.

## OREGON

- CORVALLIS/ALBANY  
Public Access Ch. 99  
Tuesdays—1 p.m.
- PORTLAND—Access  
Tuesdays—6 p.m. (Ch. 27)  
Thursdays—3 p.m. (Ch. 33)

## TEXAS

- AUSTIN—ACT Ch. 10/11\*
- EL PASO—Paragon Ch. 15  
Wednesdays—5 p.m.
- HOUSTON—Access Houston  
Mon., Aug. 31: 5:30 p.m.  
Thu., Sep. 03: 5-6 p.m.  
Thu., Sep. 10: 8-9 p.m.  
Fri., Sep. 11: 2:30 p.m.

## UTAH

- GREENWOOD, 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  
Tuesdays—5 p.m.
- FAIRFAX COUNTY  
FCAC Ch. 10  
Tuesdays—12 Noon  
Thu.—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  
Mondays—12 Noon  
Wednesdays—6 pm  
Thursdays—8:30 pm

## WISCONSIN

- OSHKOSH—Ch. 10  
Fridays—11:00 pm
- WAUSAU—Marcus Ch. 10  
Fri.—10 p.m.; Sat.—5:30 p.m.

If you would like to get *The LaRouche Connection* on your local cable TV station, please call Charles Nottley at 703-777-9451, Ext. 322. For more information, visit our Internet HomePage at <http://www.larouche.com/>

## Executive Intelligence Review

U.S., Canada and Mexico only

- 1 year . . . . . \$398
- 6 months . . . . . \$225
- 3 months . . . . . \$125

### Foreign Rates

- 1 year . . . . . \$490
- 6 months . . . . . \$265
- 3 months . . . . . \$145

I would like to subscribe to  
*Executive Intelligence Review* for

- 1 year  6 months  3 months

I enclose \$ \_\_\_\_\_ check or money order

Please charge my  MasterCard  Visa

Card No. \_\_\_\_\_ Exp. date \_\_\_\_\_

Signature \_\_\_\_\_

Name \_\_\_\_\_

Company \_\_\_\_\_

Phone ( \_\_\_\_\_ ) \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Make checks payable to EIR News Service Inc.,  
P.O. Box 17390, Washington, D.C. 20041-0390.



# FIDELIO

Journal of Poetry, Science, and Statecraft

*Publisher of LaRouche's major theoretical writings*

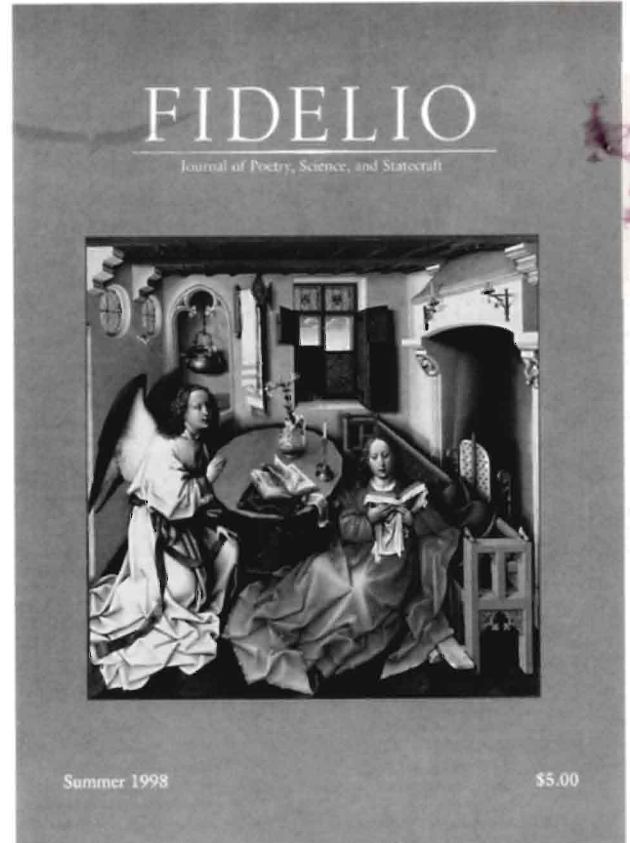
Feature articles, Summer 1998

SPECIAL ISSUE

## *How Gauss Determined The Orbit of Ceres*

by Jonathan Tennenbaum and Bruce Director

The 1801 determination of the orbit of the asteroid Ceres by the mathematician Carl F. Gauss, marked a triumph for the Platonic method in the sciences, over the sterile neo-Aristoteleanism of Newton, Descartes, and Leonhard Euler. The general problem—in Gauss's words, 'to determine the orbit of a heavenly body, *without any hypothetical assumption*, from observations not embracing a great period of time,' required a solution that both exposed the fraudulent-axiomatic assumption of 'linearity in the small' championed by the enemies of G.W. Leibniz, and opened the way for the revolution in geometry and physics wrought by Gauss's student Bernhard Riemann, which sparked the scientific advances of the 20th century.



## *Russia: A Coup from Above?*

by Lyndon H. LaRouche, Jr.

Sign me up for **FIDELIO** \$20 for 4 issues

NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

TEL (day) \_\_\_\_\_ (eve) \_\_\_\_\_

Make checks or money orders payable to:

**Schiller Institute, Inc.**

Dept. E P.O. Box 20244 Washington, D.C. 20041-0244