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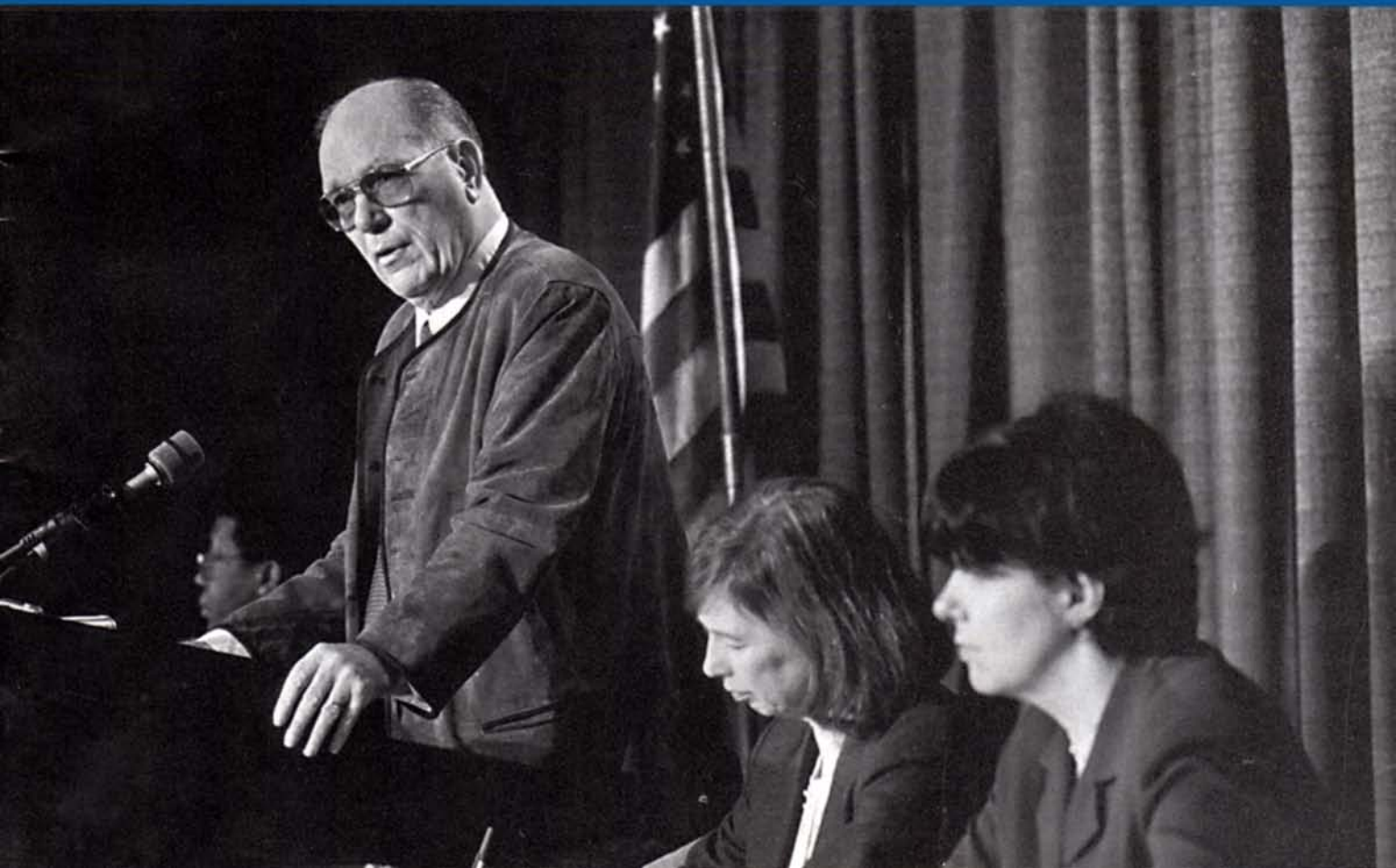
Executive Intelligence Review

October 9, 1998 Vol. 25 No. 40

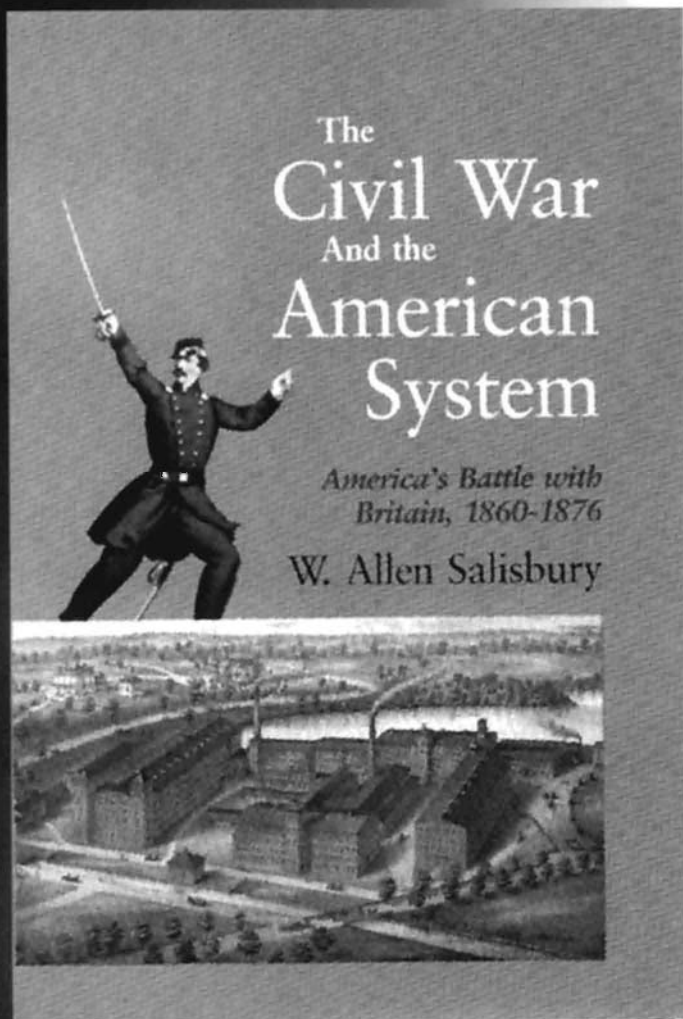
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EIR (ISSN 0273-6314) is published weekly (51 issues) except for the second week of July, and the last week of December by EIR News Service Inc., 317 Pennsylvania Ave., S.E., 2nd Floor, Washington, DC 20003. (202) 544-7010. For subscriptions: (703)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

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 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.

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

From the Managing Editor

As we go to press, on Oct. 2, President Clinton announced from the White House lawn that the date for the meeting of the Group of 22 officials, which he said in his speech to the New York Council on Foreign Relations on Sept. 14 would be convened to provide recommendations for a “new financial architecture,” has been set for Oct. 5, in Washington, D.C. The President said that he will “personally participate in their deliberations.”

It is a very good sign that the President is taking personal responsibility for the global financial collapse—and the oligarchy’s worst nightmare. As the Save the Presidency fight gains ground (see *National*), the President will have increasing freedom to deal with the financial collapse, and renewed threats of war around the globe (see p. 53, on the dangers in the Middle East).

Our job, is to ensure that a New Bretton Woods system is brought into existence. In particular, Lyndon LaRouche’s eight-point directive for “Emergency World Reorganization” (p. 4) outlines the principles upon which world leaders must proceed to this end. It is most urgent that this be circulated widely and quickly, worldwide. We also include in this issue, the historical precedents of “American Exceptionalism,” the “community of principle” among nations which guided Presidents Franklin Roosevelt and John Quincy Adams, which must be applied today (see *Feature*).

LaRouche’s authority is growing by the day, while those such as Alan Greenspan, are being thoroughly discredited. The collapse of the Long Term Capital Management hedge fund is the latest evidence that LaRouche’s forecasts, that the current IMF-dominated global financial system is doomed, have been correct, and those of his enemies, dead wrong (see *Economics* for articles on derivatives, and a timeline of what LaRouche said, what others said, and what actually happened).

LaRouche’s authority is also being borne out in other areas. For example, his design of the Strategic Defense Initiative, to use technologies based on new physical principles as a science-driver to build up the physical economy, has been shown to be correct (see *Science & Technology*).



EIR Contents

Interviews

- 25 Nedzib Sacirbey**
Bosnia's Ambassador-at-large discusses Milosevic's renewed genocide, this time in Kosovo.
- 54 Gen. Harold Bedoya**
Half of Colombia is being turned over to the narco-terrorists, says this former Presidential candidate.

Departments

- 72 Editorial**
Never again!

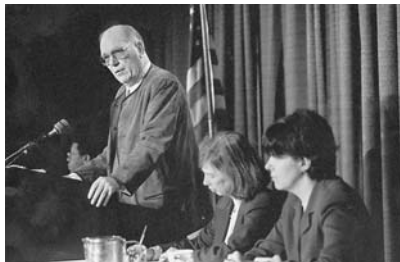
Science & Technology

- 28 Petawatt laser creates machine-tool revolution**
Scientists have designed a tabletop laser so powerful and precise that it will revolutionize the machine-tool-design sector.
- 31 LaRouche explained 'tuning' lasers in 1983**
LaRouche's design of the Strategic Defense Initiative program, as a science-driver for the economy, has been proven correct.

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Economics



Lyndon LaRouche outlines his proposal for a New Bretton Woods system, at an *EIR* seminar in Washington, D.C. on March 18, 1998. Seated, from left, *EIR* editors Nancy Spannaus and Debra Hanania Freeman.

- 4 Emergency world reorganization: What each among all nations must do now**
An eight-point directive by Lyndon LaRouche, defining the range of actions to be taken to wipe a mass of fictitious paper in excess of \$100 trillion off the books.
- 8 One derivatives disaster after another; will they never learn?**
- 11 Greenspan presides over LTC disaster**
After years of intimidating anyone who suggested that governments should regulate speculative instruments, this Ayn Rand cultist intervened to save a worthless hedge fund.

14 LaRouche told you so, 1993-98

A comparative chronology: what LaRouche said about derivatives, what Greenspan and other said, and who was right.

18 President Clinton's call for an emergency meeting

Excerpts from President Clinton's speech announcing an emergency meeting to deal with the global financial crisis.

20 Amidst world economic crisis, China is building its New Deal

Exemplary is China's approach to the horrible Yangtze flooding: Beijing is taking the opportunity to build new housing, infrastructure, water management, and industry.

25 Kosovars have been sentenced to death

An interview with Ambassador Nedzib Sacirbey.

26 Business Briefs

Feature

34 **The truth about ‘American Exceptionalism’**

What lies behind the British attack on the Presidency? An irrepressible fear that the American people will be catalyzed in the tradition of John Quincy Adams and Franklin Roosevelt, and defeat the oligarchs’ evil game.

36 **American Exceptionalism in the 20th century**

A born patrician, Franklin Delano Roosevelt spent his recovery from polio in researching the Founding Fathers. By 1928, he would announce his revival of their policies: “The time is ripe to start another chapter. On that new page there is much that should be written in the spirit of our forebears. If the leadership is right—or, more truly, if the spirit behind it is great—the United States can regain the world’s trust and friendship and become again of service.”

41 **John Quincy Adams and universal America**

A look at the role of John Quincy Adams, U.S. Senator, Secretary of State, President, and U.S. Representative. This Classically educated man set the precedents for the development of the independent United States as a great power, one with a universal mission of nation-building and resistance to British tyranny.

International

50 **Schroeder wins, as Germany faces global economic crisis**

The Christian Democrats weren’t defeated by the Social Democrats: They defeated themselves, by refusing to take leadership in the economic crisis. The new Chancellor, Gerhard Schroeder, is no better prepared.

53 **Israel’s Netanyahu pushing new war**

54 **The FARC narco-terrorists are about to be handed half of Colombia**

An interview with Gen. Harold Bedoya.

62 **International Intelligence**

National

64 **Fight to save the Presidency is rapidly gaining ground**

Gingrich’s rush to judgment against President Clinton has provoked a backlash, which the LaRouche movement is catalyzing into action.

67 **The truth about perjury**

Careerists in the justice system are so good at lying under oath, they refer to it as “testilying.” And these are Kenneth Starr’s associates.

68 **Congressional Closeup**

70 **National News**

Correction: The article “Bring Back DDT to Save Lives,” in the Sept. 25 issue, p. 17, contained a typographical error in a date in the first paragraph. Referring to “mosquito control (including spraying of house walls) and public health programs,” it should have read, “By the mid-1950s, it was taken for granted that this is what governments should do to protect their populations.”

EMERGENCY WORLD REORGANIZATION

What each among all nations must do now

by Lyndon H. LaRouche, Jr.

September 27, 1998

The world's nations are presently burdened by what is fairly estimated to be much more than \$100 trillions nominal value of combined on-balance-sheet and off-balance-sheet "derivatives" and kindred, fictitious financial instruments. This mass of fictitious paper is now collapsing in upon the world's financial and monetary institutions. Unless that mass of fictitious claims is wiped off the books very, very soon, the result will be a total, and chaotic disintegration of the world's existing public and private financial assets and monetary systems. There is no economic catastrophe in all modern history which compares with the global disaster which, unless prevented, will strike world-wide, within a period more likely countable in weeks, rather than months.

Under the rules of the game as perceived by U.S. Federal Reserve Chairman Alan Greenspan, and many other desperadoes in governments and financial institutions around the world, the only alternative is a desperation-driven, reckless hyperinflation, like that which crushed Weimar Germany in 1923. This has been the desperation-driven folly of the government of Japan, since the close of 1997. The recent proposals of circles such as Britain's Prime Minister Blair, or even the cautiously similar proposals of the circles of Germany's former Chancellor, Helmut Schmidt, will, if attempted, have similar effect to those taken by Japan's Obuchi government, or, more recently, Wall Street's hysterical Alan Greenspan.

In such circumstances, equivocation, sometimes called euphemistically, "crisis management," can be fatal to entire nations.

There is no time remaining to continue those infantile games of shilly-shallying, called "crisis management," which are typified by what has been just exposed, this past week, as U.S. Federal Reserve Chairman Alan Greenspan's prolonged, duplicitous, and reckless cover-up of the Long-Term Capital Management situation. If "sex scandals" in high places offend you, you should order the world's governments (at least most among them) to stop playing their favorite masturbational game of "crisis management." Meanwhile, be thankful that the world is not now facing a global war, like that of World War II, under the command of the kind of sodden-brained bankers and politicians who will always resort to "crisis management," rather than facing up to reality.

It is to be emphasized, in this connection, that what passes for "crisis management" practices in today's governments, is the product of a severe mental disorder, one commonly found among the generations currently dominating most leading positions in governments, banks, and other key institutions. The easily recognized code-name for this mental disorder, is "I don't go there!" Or, "It can't happen, because I will simply refuse to go there." Among the victims of this mental disease, the problem is recognized as of the form: "I don't have to face reality. We, who live in the 'information age,' can simply switch channels." Or, in other words, "I don't have to face reality; I can always switch to a newspaper, or rally to a political party, which shares my preferred delusions."

This mental disease, when accompanied by delusory seizures of little-Napoleonic vanity, may be expressed, euphemistically, by its victims' use of the term "crisis management." It is a disorder which, under present circumstances,

will probably prove fatal to those entire nations whose governments are under the influence of victims of the “crisis management” disorder. That fatal result could strike now, within as early as a matter of weeks. The time for shilly-shallying is over.

A program of action

It is time to set forth clear *directives* defining the range of actions to be taken.

We use the term “directive” in the Classical military sense associated with Germany’s Scharnhorst and “old” Moltke, and also, with Lazare Carnot’s 1792-1794 period of command of the military forces of France. In this case, the directives are issued to the governments of nation-states asserting their absolute sovereignty. The implementation of the directives (e.g., *Auftragstaktik*) is left to individual governments, acting individually, or in concert, as they may choose. This approach, avoiding the folly of quibbling over complex supranational architectures, is the only approach which could succeed, in the time available, under present, rapidly devolving circumstances.

The general directives are as follows:

1. In general, it must be recognized that this is not only the most explosive and dangerous financial and monetary emergency in modern history, but an immediate, and unavoidable threat. Only pre-emptive and immediate actions could prevent the present situation from bringing about the virtually immediate collapse of civilization world-wide. There will be, repeatedly, objections in the form of: “Is it really that bad, after all?” The answer is, invariably, “It is not only that bad, but much worse.” To the related objection, “But are such measures really necessary, after all?” The answer is, “Your life and your family’s life probably depend upon these actions.”

2. Each nation must assert the principle, that there exists no higher political authority on this planet, than a perfectly sovereign nation-state republic. The subversion of this sovereignty under the pretext of over-reaching powers assumed by supranational agencies must end, otherwise there is no feasible alternative to a general, early, and global disintegration of the world’s financial, monetary, and economic institutions, even disintegration of most among the nations of the world, each in their entirety. It is also to be understood, that any breach of that principle is tantamount to an act of war.

3. Supranational agencies should exist only as fora for either deliberations among nation-states, or facilitating agreements each has made as a perfectly sovereign nation-state.

For example: It is desirable that an institution such as the International Monetary Fund (IMF) facilitate the implementation of agreements among the nation-state parties, but must never over-reach the bounds of that function, to use its power to prescribe the policies of a sovereign state.

4. Under this assertion of sovereignty, each nation must assume perfect sovereignty respecting its financial, mone-

tary, and economic affairs. Under present circumstances, this requires immediate measures of capital controls, exchange controls, international regulation of financial and monetary affairs, and terms of trade, by each and all individual sovereign nation-states. This must include the setting of protected prices for essential commodities of domestic consumption and export-import trade. In many cases, it will be necessary, at least temporarily, to introduce rationing of essentials of household consumption and production, to ensure the protection of the continuity of such essential trade in defiance of price-speculation against actual or perceived scarcities. It is by parallel and cooperative use of these methods, that national economies shall be defended against an already inevitable, early, sudden, and rapid collapse of fictitious financial instruments.

5. Each sovereign state must place its financial, monetary, and economic affairs under general financial reorganization, as in general bankruptcy. Each such nation must act by its own sovereign authority and responsibility, to bring its own house into order in this manner and degree. The essentials of basic economic infrastructure, agriculture, manufacturing, international hard-commodity trade, and general social welfare, must be defended. Other financial claims are either nullified, or converted into long-term frozen assets at lowest interest-rates.

6. In general, the practice of issuance of international financial loans shall be terminated, “for the duration of the period of the continuing state of crisis.” Instead, state-backed credit shall be issued, chiefly long-term credit for basic economic infrastructure, agriculture, manufacturing, and world trade, at low discounts (below 1-2% per annum). This credit shall be issued by methods of national banking, using private “industrial-style” banking as the customary medium for issuance and supervision of state-backed credit issued as long-term and other loans. The level of credit so issued shall correspond to volumes sufficient to bring national physical-economic output above national-economic break-even levels. It is to be acknowledged, that large-scale basic economic infrastructure investments funded largely by state-issued credit, will serve as the principal means for reaching break-even during an initial, medium-term period, and beyond.

7. In general, the use of financial leverage as a method for assessing the market values of financial assets, shall be terminated, even outlawed, as “derivatives” should have been outlawed as “economic crimes” of fraud upon the finances and monetary affairs of nations, from the inception. An agro-industrial standard of return on medium-to-long-term investment, measured in ways cohering with physical-economic standards of growth, must be the general rule in the marketplace. This general rule must take into account both the essential function of basic economic infrastructure, and also the decisive role of capital-intensive, power-intensive modes of investment in scientific and technological progress, in deter-

mining those increases in the physical-economic productive powers of labor, per capita and per square kilometer, on which actual net economic growth depends absolutely. The lending, investment, and taxation policies of sovereign states and their partners should be crafted to provide the disciplining environment in the market-place required to satisfy those specifications.

8. International agreements require but a single general directive. No new "international authority" is needed; the world's economy is already being suffocated to death by an overdose of supranational authorities.

The sovereign interests, rights, and responsibilities variously stated or implied in the foregoing seven points, reflect a principle of self-interest by each nation-state. The function of international relations is to adopt that notion of the self-interest of a sovereign nation-state, as the common rule defining a community of principle, as U.S. Secretary of State John Quincy Adams defined a "community of principle," in his crafting of what became known as the 1823 Monroe Doctrine of the U.S.A.

The method for setting estimated semi-fixable parities of the currencies among sovereign nation-states participating in such a newly formed community of principle, is the method of "basket of physical commodities." This should be aided by reestablishing a gold-reserve standard among participating nations, as a convenient device for managing the medium-term stability of prices of currencies.

The strategy required

The foregoing eight-point directive should be regarded as elementary. No one who actually knows modern history, including economic history, should suffer any conceptual difficulties on this account. It is the international implementation of that same eight-point directive, which requires a certain elegance from among the relevant statesmen. Several considerations must be enumerated on this account.

The principle of emergency action

Every sovereign nation-state has available to it, those inalienable emergency powers inhering in the right of any sovereign nation-state republic to continue to exist. In U.S. constitutional law, this power is acknowledged, and specified, with varying degrees of explicit reference, and, otherwise, implicitly, in the U.S. 1776 Declaration of Independence and the Preamble of the 1789 U.S. Federal Constitution. The anti-Locke, Leibniz principle, of "life, liberty, and the pursuit of happiness," contained within that Declaration of Independence, and the related obligation to "ourselves and our Posterity," in the Preamble of that Constitution, are exemplary. Combined, these two constitutional cautions define the breadth of allowable emergency action, in scope, but also the specific moral limitations under which emergency action may be defined and employed.

To correlate the presently exploding global emergency with those principles, three leading considerations must be clarified: (1) The source of the authority for such emergency

powers; (2) The authority of such powers to override existing statutes; (3) The elementary considerations which exclude the possibility of any non-absurd form of explicitly limiting definition of such emergency powers. These three considerations are summarized, each, as follows.

(1) The history of the emergence of the modern nation-state, defines its relatively absolute authority, short of conditions of justified warfare, but also informs us of the precise source of that authority, and the limitations attached thereto. The modern nation-state was developed to create an institution freeing mankind from the imperial and kindred forms of tyrannies earlier imposed by various forms of oligarchical rule. The latter are typified variously by landed aristocracy, financier oligarchy, and the rule by an oligarchical form of bureaucratic caste. The urgency of the existence of the sovereign nation-state republic as a power, to protect the people against the over-reach of oligarchical pretenses, defines that nation-state whose political and related internal affairs are based upon a specific, literate form of language-culture. This nation-state form is the only known form of political institution which represents the interest of its people as a whole, and defends that interest against oligarchical over-reach. Insofar as the nation-state performs that delegated function, it has an authority which is implicitly universal with respect to matters of international and related law. It is from this latter quality of its authority, that proper notions of emergency powers are to be derived.

(2) The nature of *the relevant class of emergency*, is that, in each instance emergency powers are invoked, the crisis represents a state of affairs which has not been anticipated by pre-existing statute. By the nature of the crisis, the emergency is of a form which either was not anticipated in the crafting of relevant statute, or was of such a form that it could not have been anticipated until that point in time. In such a case, only the U.S. Constitution, as expressed chiefly by its Preamble and the related guidance from the Declaration of Independence, imply the needed powers and their limitations for addressing the crisis. In such a case, the task of government is not the bureaucrat's typically pettifogging project, of making new stereotypes in law governing possible future emergencies, but to take such immediate action as the given crisis requires, that according to the kind of constitutional principle implicit in the Preamble of our Federal Constitution.

(3) The general form of such emergencies should be compared to the usual circumstances of discovery of some experimentally validated new physical principle. In each case, the discovery was prompted by a paradox, a paradox which called into question all previously adopted beliefs respecting the laws of nature. To continue human progress beyond the point of that sort of crisis, a discovery was required, a discovery for which no precedent existed, nor could have existed. This same principle, so encountered within the domain of physical science, applies to the kinds of tasks which statecraft incurs under conditions of the type of emergency which confronts

our entire planet today.

Hence, the emphasis upon *Auftragstaktik*. We are confronted with a crisis, for which action is required. Those of us who understand how the crisis was brought about, know that the continuing cause of this disaster has been the pattern of follies imposed, as today's widely accepted law and other opinion, upon the world's governments, since approximately the death of U.S. President John F. Kennedy. We know that it is those changes which must be quickly uprooted, and the effects of their wicked influences addressed. The actions required, can be summarized efficiently in a set of strategic directives, as has been done here, above. The efficiency of such directives depends upon the implementation which follows the broad guidelines of those directives.

To propose to assemble a virtual rabble of decision-makers, usually featuring those parties who are still today advocates of the policies which have caused and aggravated this crisis, is scarcely a noble enterprise, nor a fruitful one. Some relatively few, in the position to issue influential directives, must preempt the situation. If the presently incumbent President of the U.S.A. does not assume the leading position in setting forth those directives, and that immediately, this planet is doomed to collapse into a global "new dark age," as soon as but a few months, or perhaps even some weeks ahead.

The general directives must specify actions which individual sovereign nation-states can enact unilaterally. The first

need is to set forth immediately, clear, common, and simple guidelines for such unilateral actions, as we have done above. This is somewhat akin to taking to the lifeboats. There is no sane alternative available to doing precisely that. Initially, set currencies, pragmatically, at some relative values referencing their prices prior to what the hedge-funds and other financial pirates unleashed during 1997. Next, set up international projects and lines of credit, for increasingly large-scale movements into physical-economic forms of growth, in basic economic infrastructure, agriculture, manufacturing, and movements of high-technology capital goods into the relatively less developed regions. The methods which the Franklin Roosevelt administration copied from the U.S. economic expansion of 1861-1876, provide the model of reference sufficient for this purpose. The exceptional success of Germany's Kreditanstalt für Wiederaufbau in the period of post-war reconstruction, is an excellent model for comparison.

The general directives are clear enough. What is needed, as General Ulysses Grant would have said of his Hammer: what we need now, is people who think and act like that U.S. master of *Auftragstaktik*, General William Tecumseh Sherman, to get the job done. When war breaks out, first fire the old generals; do not convene a meeting of the old generals who made the mess, to apply their alleged expertise to a situation which they have never understood, nor are prepared to understand.

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.

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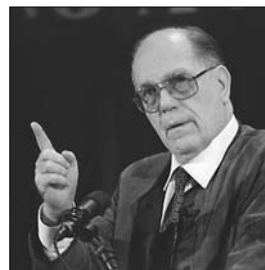
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THE WORLD FINANCIAL COLLAPSE LAROCHE WAS RIGHT! An EIR Video

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



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

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

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One derivatives disaster after another; will they never learn?

by John Hoefle

On Sept. 23, senior representatives of some of the most powerful investment and commercial banks in the world gathered at the Federal Reserve Bank of New York, for an emergency meeting to plug the trillion-dollar-plus hole in the world derivatives market, caused by the failure of Long Term Capital Management, a Connecticut-based hedge fund. The Fed and the bankers were faced with a difficult choice: Either pump billions of dollars (money which the already bankrupt banks can't afford) into Long Term Capital (LTC), or let LTC default on its debts, an act which would likely trigger a chain-reaction disintegration of the world derivatives markets, and consequently of the entire global financial system.

There was, of course, another possible option, the New Bretton Woods policy of Lyndon LaRouche, in which the unpayable derivatives and related financial claims would be written off. But these Hamlets of Wall Street could not bring themselves to take the only step which could save them; rather than abandon their sinking ship, they chose to apply yet another dose of the poison which has led the world to the brink of the worst financial collapse in centuries. They chose a bailout, slapping yet another patch on the bubble. The Fed followed up on Sept. 29, at its regularly scheduled meeting of the Federal Open Market Committee, by cutting the federal funds interest rate 0.25%, to 5.25%, signalling its intent to pump more hot air into the bubble, at the risk of setting off hyperinflation.

In a rational world, a policy which leads to an unending string of disasters, each worse than the one before it, would be abandoned. But, the modern financial system is not rational: The high priests of this failed religion of money would rather watch the entire world explode, than give up their power and wealth. The irony, and the tragedy, is that by clinging so desperately to their failed dogma, they are ensuring their own doom, and that of the world they presume to rule. Natural law is paying them a visit, and it's not happy.

'The best and the brightest'

The failure of Long Term Capital is a classic example of why the current system is doomed. LTC was, by the distorted

standards of Wall Street, a collection of the brightest minds in what is called the "financial services industry," a collection of Wall Street superstars, former regulators, and world-class mathematicians, who devised a betting system which made them billions of dollars of profits in the world casino. As a result of its competence at playing the system, LTC was able to borrow in excess of \$100 billion—by some accounts, as much as \$400 billion—from the world's largest and most sophisticated banks and investors, funds which they then used as collateral to make derivatives bets with a notional value well in excess of \$1 trillion. But this entire edifice was built, as it were, on axioms of sand.

Among its pantheon of superstars, LTC had two Nobel laureates, Robert Merton and Myron Scholes, who jointly won the Nobel Prize for Economics in 1997, for developing the mathematical formulas upon which the derivatives trade is based. Executing that strategy, was John Meriwether, the former Salomon Brothers whiz, who had made bundles of money for Salomon, until he was forced out in the wake of the 1991 Treasury bond scandal; and a collection of other notables, including former Federal Reserve vice chairman David Mullins, and several former Salomon traders.

If they were so smart, why did they fail?

As usual, the spin doctors are working overtime, pushing the line that LTC was to blame, that the firm simply made some bad bets. This is a variation of the "loan assassin" theory which is always used to explain away financial disasters, including the high-profile cases of Barings, Kidder Peabody, and Orange County, California. The consistent theme is that whatever went wrong, is the result of rogue elements abusing the system, a system which itself is sound. In short, they're lying.

The problem is not so much that LTC placed bad bets, but that the world financial system is disintegrating out from under those bets. It was the systemic crisis which blew out LTC—which means that the damage goes far beyond LTC: There are lots of other bets out there that have gone awry, but have not yet been publicly admitted.

The derivatives bets placed by LTC, were wagers that, over the long run, the interest rates of the major industrial

nations would converge upon their historical relationships, within parameters defined by Merton and Scholes's mathematical models. This assumption, that what has happened in the recent past, defines what will happen in the future, is the basis for the computer models used by virtually all of the players in the financial markets. But the world is non-linear: Computer models based upon exhaustive analysis of past financial data, cannot predict events which lie outside of their linear, statistical universe. LTC's financial models were incapable of forecasting the systemic disruptions which broke out in Asia and Russia, throwing the financial world into panic, and sending investors into the perceived safety of U.S. and German government bonds. That rush to "safety" widened the interest rate spread, causing major losses for LTC.

When the Asian and Russian crises occurred, LTC lost heavily, its capital dropping from \$4.8 billion at the beginning of the year, to just \$600 million when the banks took it over; the firm lost some 44% of its capital in August alone.

That LTC placed bets which proved deadly, is inescapable, but the problem is much larger than a single fund. LTC blew up because it was operating under false assumptions, the same erroneous axioms which underlie the bubble as a whole. It was their lack of understanding of true economic science which produced the losses, not some unexpected movements in the markets. LTC failed because reality di-

verged from the virtual reality upon which the firm bet its future. As such, LTC is a metaphor for the derivatives bubble as a whole, and an omen of things to come for other hedge funds, and for the big U.S. and European derivatives banks. (U.S. financial institutions have some \$40 trillion in derivatives, led by Chase Manhattan, with \$8.5 trillion, and J.P. Morgan, with \$7.5 trillion.) There is no "hedge" against natural law — all of these derivatives institutions are doomed.

Seal of approval

The Nobel Prize in Economic Sciences was awarded to Merton and Scholes in 1997 by the Royal Swedish Academy of Sciences, in the Academy's words, "for a new method to determine the value of derivatives. . . . Their methodology has paved the way for economic valuations in many areas. It has also generated new types of financial instruments and facilitated for efficient risk management in society. . . . [The late Fischer] Black, Merton and Scholes thus laid the foundation for the rapid growth of markets for derivatives in the last ten years." One example of their "vital contribution" can be seen in the accompanying box, which is an example of the Black-Scholes calculation of a European call option.

Contrast this gobbledygook with Lyndon LaRouche's Typical Collapse Function Triple Curve (**Figure 1**), which compares the growth of financial and monetary aggregates,

The Black-Scholes formula for valuing derivatives

In 1997, the Nobel Prize for economics was awarded for imputed success in devising "a new method to determine the value of derivatives." In announcing the prizewinners, the Royal Swedish Academy of Sciences stated: "Robert C. Merton and Myron S. Scholes have, in collaboration with the late Fischer Black, developed a pioneering formula for the valuation of stock options. . . . It has . . . generated new types of financial instruments and facilitated more efficient risk management in society."

A year later, in September 1998, Long Term Capital Management, the firm co-founded in 1994 by these Nobel laureates, had failed spectacularly. Here is the derivatives equation that won the Nobel Prize, but clashed with reality, taken from the Royal Swedish Academy of Sciences 1997 press release announcing the Nobel economics award to Merton and Scholes:

Black and Scholes' formula for a European call option can be written as

$$C = SN(d) - Le^{-rt}N(d - \sigma\sqrt{t})$$

where the variable d is defined by

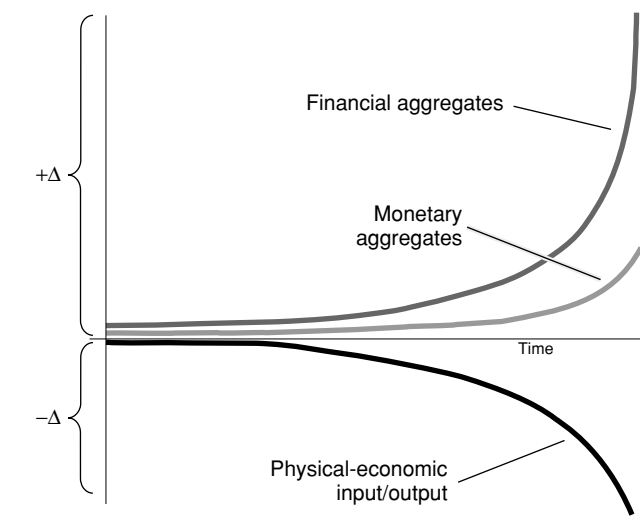
$$d = \frac{\ln\frac{S}{L} + (r + \frac{\sigma^2}{2})t}{\sigma\sqrt{t}}$$

According to this formula, the value of the call option C , is given by the difference between the expected share value—the first term on the right-hand side—and the expected cost—the second term—if the option right is exercised at maturity. The formula says that the option value is higher the higher the share price today S , the higher the volatility of the share price (measured by its standard deviation) sigma, the higher the risk-free interest rate r , the longer the time to maturity t , the lower the strike price L , and the higher the probability that the option will be exercised (the probability is evaluated by the normal distribution function N).

—John Hoefle

FIGURE 1

A typical collapse function



against the productive capacity of the physical economy. Were the Royal Academy serious about the science of economics, they would recall all of the Nobel Economics Prizes ever issued — with the exception of the one issued in 1988 to economist Maurice Allais — and award one to LaRouche for his Triple Curve and LaRouche-Riemann econometric model. But the Royal Academy is a political, not scientific, body — in fact, it is decidedly anti-science — which allocates its prizes to those who serve the interests of the Academy’s sponsors, the financial oligarchy. Thus, the prizes go to those who further the goals of the oligarchy, by promoting the bubble, fascist economics, and slavery.

By awarding the Nobel Prize to Merton and Scholes (who had been practicing their theories at LTC since 1994), the oligarchy was in effect putting its stamp of approval on the derivatives market in general, and LTC in particular. Far from being a rogue operation, LTC was a celebrated model for the derivatives market.

The system is the problem

To understand why these disasters occur, one must look beyond the individual crises, to the process which generates them. These crises are not, as the spokesmen of the bubble would have us believe, anomalies within the system, but are in fact *characteristic of the system*. The current global financial and monetary system, is based upon the belief that money is primary, and that all economic activity ultimately flows from the manipulation of money. The real world, to these money-changers, is just a vehicle for their financial games.

The system these high priests of money have created, is the one described by LaRouche’s Triple Curve: Financial

aggregates — derivatives, debts, equities — are growing at hyperbolic rates, creating claims which must at some point be paid. To provide the money to service these claims, governments and the banks have been pumping money into the system, causing the level of monetary aggregates to rise. But as these claims upon the physical economy have been growing, the productive sector of the economy — which produces the wealth upon which all financial activity ultimately depends — has been declining steadily since 1967-70, as money and activity that should have gone into increasing productivity, has instead been diverted to feed the bubble.

In mathematical terms, this mutually hyperbolic relationship between the three curves, defines a discontinuity in the process — a boundary condition has been reached, from which the present system cannot survive. The shocks in Asia and Russia, and the far bigger shocks to come, are the result of this system breaking apart.

By attempting to save the bets of LTC, and by lowering interest rates, the bankers are attempting to save their speculative system — to save the value of their money — by applying more of the same poison which created the bubble in the first place. But, their attempt to pump up the bubble only increases the instability of the system, making its inevitable disintegration even worse. The harder they try to save it, the more certain is its doom.

For previews and information on LaRouche publications:

Visit EIR's Internet Website!

- Highlights of current issues of EIR
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Greenspan presides over LTC disaster

by Richard Freeman

The collapse of the Long Term Capital Management (LTC) hedge fund, has triggered hysterical behavior on the part of U.S. Federal Reserve Board Chairman Alan Greenspan and the leadership of the Federal Reserve Bank of New York, who have muscled 14 banks to pony up a \$3.6 billion cash infusion into LTC in an attempt to prevent the entire world's derivatives market and banking system from melting down. This marks the thorough discrediting of Greenspan, who has lied over the years, especially since the December 1994 derivatives debacle of Orange County, California, that "derivatives are not a problem," but "useful and necessary instruments" of the information age economy.

Now, Greenspan and his allies, with the LTC calamity far from over, and fearing that many other potential derivatives disasters are "still out there" in the world markets, are pursuing a reckless, 1920-23 Weimar-Germany-style hyperinflationary course. On Sept. 29, the Federal Reserve Board, under Greenspan's leadership, cut the federal funds rate by 0.25%, to 5.25%, opening the floodgates to pumping new liquidity into the financial system.

As Greenspan perceives the rules of the game, either he does nothing, and the financial system will collapse through a derivatives-triggered chain-reaction meltdown, or he injects vast amounts of liquidity, which would "hold the structure up" in the short term, but will actually bring it down through hyperinflation soon thereafter.

Replacing this system with a rational bankruptcy reorganization and a return to Hamiltonian national banking, is not an option for Greenspan. He has staked his reputation, and spent the last 11 years as Federal Reserve Board chairman, and three decades before that as a banker and consultant, in building up this speculation-laced, derivatives-larded financial bubble. This financial system is *his* financial system, and he will do everything he can to preserve it, even though it is bankrupt beyond rescue. Greenspan is readying to apply ferocious austerity in an attempt to loot the additional margins of wealth needed to keep the bubble afloat.

We present the history of Greenspan's continued support of the derivatives market, his attempt to cover up the bankruptcy of the system (now out in the open), and his record of austerity measures, including looting Social Security through privatizing it, to prop up the bubble.

Greenspan defends Soros

In August 1997, in response to fierce hedge-fund attacks on the Asian currencies, including the Thai baht, Malaysian ringgit, and Indonesian rupiah, led by the British Commonwealth's foremost speculator, George Soros and his Quantum Fund, Malaysian Prime Minister Dr. Mahathir bin Mohamad called Soros a "moron," and warned that there were plans afoot for the "financial recolonization of Malaysia." At the time, Greenspan was attending the annual meeting of bankers and economists sponsored by the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming. According to the Sept. 2, 1997 German business daily *Handelsblatt*, Greenspan took time out from the meeting to "lash out at Mahathir," in defense of Soros and the speculators. Greenspan called Mahathir's charges "baseless and absurd accusations," and insisted that Malaysia and other Asian economies are responsible for the currency crises. Greenspan's outburst against Mahathir, reflects the eruption of Greenspan's deeply held axiomatic beliefs in irrationalism, speculative looting, and hatred of the American System of political economy and the nation-state.

Alan Greenspan was born in New York City in 1926. During the late 1940s and early 1950s, he became an acolyte in the cult of Russian expatriate and fascist Ayn Rand. Rand argued that any form of state intervention, especially regulation, would suppress the individual. She called her philosophy "Objectivism," and assembled around her an inner circle of disciples, called "The Collective." Among them was Greenspan, whom Rand dubbed "the undertaker." Greenspan commented on the pre-publication drafts of her books, wrote for the cult's newspaper, and taught for a decade at the Objectivist school. Rand taught that the individual must give free rein to his or her nihilistic-irrationalist rage, as well as to free trade and usury. In Rand's book, *The Fountainhead*, the protagonist Howard Roark, in a famous court scene, states: "This country was not based on selfless service. . . . It was based on man's right to the pursuit of happiness. His own happiness. Not anyone else's."

Greenspan told Rand's biographer, Barbara Branden, that her Hobbesian system was "the only system consistent with political freedom. . . . A whole new view of society was opened up to me." When Greenspan was sworn in, in 1974, as the head of President Richard Nixon's Council of Economic Advisers, Rand was seated in the front row. Greenspan has remained faithful to Rand's philosophy to this day.

For much of the period from 1954 through 1987, Greenspan was a partner, and then the head of Townsend-Greenspan, a consulting firm to New York City's financial community. From 1977 to 1987, Greenspan was a member of the board of directors of both Morgan Guaranty Trust, and its parent company, J.P. Morgan. Morgan is the top British intelligence operation in the banking community.

In August 1987, Greenspan was appointed as chairman of the Federal Reserve Board.

Greenspan has long been an advocate of the deregulation of the U.S. banking system, and supported the 1982 deregulation of the U.S. banking system. This deregulation led in short order to the savings and loan disaster, and the commercial bank financial disaster, in particular in the real estate market, from the middle 1980s into the early 1990s. In fact, in 1991-92, when Citibank, then America's largest bank, and other money center banks, such as Manufacturer's Hanover, Chemical Bank, and Bank of America, were about to go under, Fed Chairman Greenspan personally organized the operation, by which the discount rate was lowered. Through seven rate cuts, rates eventually dropped to 3.0%, so that the commercial banks could borrow at the Federal Reserve's discount window at 3.0%, and then turn around and invest this money in U.S. Treasury bonds paying 3 to 4 percentage points higher. The Fed poured in billions of dollars, in effect subsidizing the big commercial banks, which were engaged in all sorts of speculation, because the banks were dubbed "too big to fail."

In June of this year, Greenspan vigorously supported H.R. 10, which would further deregulate the banking system by eliminating the last protective features of the 1930s McFadden and Glass-Steagall Acts: It would allow banks to set up and/or buy banks across state lines, and it would allow commercial banks, investment banks, and insurance companies to commingle and merge, and sell insurance, take deposits, and buy and sell securities as financial supermarkets.

Greenspan's actions flow from his belief in transforming the United States away from a manufacturing-agriculture-infrastructure-vec-tored economy, based on capital-intensive, energy-intensive development, into a deregulated, globalized information age economy. Financial services, led by derivatives, stock speculation, etc., are the main feature. In an Oct. 14, 1997 address to the libertarian Cato Institute in Washington, D.C., Greenspan said that physical economic production plays a far less important role "in the creation of wealth," than the combined weight of "processing of information" and "financial services."

'Derivatives Liberation Front'

Greenspan has discouraged with an unbridled ferocity any attempt to bring derivatives under regulation or to impede their growth, and has done everything within his power to support, provide liquidity for, and give preference to the growth of derivatives. The power of the Federal Reserve, both in monetary-credit policy, and also in the realm of regulatory-supervisory power, is immense. Any decision by the Fed to block the growth of derivatives, using the full arsenal of weapons at its disposal, would have meant that they would exist only at a fraction of their current cancerous size, or would not exist at all.

- In 1992, at the time that the Federal Reserve Board had Citibank under effective receivership, according to knowledgeable sources, Citibank made large loans to Soros's Quan-

tum Fund, providing the money for Soros to attack the Italian lira and the British pound. There were more than 100 Federal Reserve supervisors and/or auditors stationed in key departments in Citibank. Citibank could not make loans of any significant size without the approval of the Fed. Thus, Citibank's large loans to Soros had to have been approved by the Fed, all the way up to and including Greenspan, because of Citibank's importance.

- In a Feb. 21, 1997 speech to the Financial Markets Conference of the Federal Reserve Bank of Atlanta, in Coral Gables, Florida, Greenspan derided government regulation of derivatives, saying that banks should be allowed to continue their practice of "self-supervising." Greenspan said, "If private market regulation is effective, then government regulation is at best unnecessary. At worst, the introduction of government regulation may actually weaken the effectiveness of regulation. . . . More likely, it will prove unnecessary, burdensome, and perhaps even contrary to what more careful consideration would reveal to be the underlying objectives." Greenspan further warned: "In the case of the institutional off-exchange derivatives markets [such as those traded by LTC], it seems abundantly clear that private market regulation is quite effectively and efficiently achieving what have been identified as the public policy objectives of government regulation. . . . Thus, there appears to be no need for government regulation of . . . derivative transactions between institutional counterparties."

In practice, over the last several years, Greenspan has ridden roughshod over anyone who would regulate derivatives. In the summer of 1997, the Financial Accounting Standards Board (FASB), an independent accounting board, proposed that derivatives contracts be reported on balance sheet, at current market value, which would simply tell investors how much derivatives liability a company held; Greenspan wrote three letters to the FASB and Congress attacking the FASB, saying that derivatives should be kept off-balance-sheet. In his third letter, released July 31, 1997, Greenspan stated, "The FASB proposal may discourage prudent risk management activities and in some cases could present misleading financial information"! The letter was signed, he claimed, by the heads of 22 "major companies in a number of industries that use derivatives [and] have expressed serious concerns about the FASB's proposed rules changes." The 22 corporate leaders were mostly the heads of banks.

The House Banking Committee, under Rep. James Leach (R-Iowa), held hearings on the FASB proposal, which threatened the FASB not to make the changes. Greenspan was a featured speaker at the hearings.

In May 1998, Greenspan attacked the proposal by Commodity Futures Trading Commission head Brookesly Born, for a CFTC investigation into the risks of over-the-counter (OTC) derivatives (which are traded by banks and hedge funds), while he worked with his cronies in Congress to set

up hearings to thwart the CFTC investigation.

In fact, every time an attempt has been made to rein in derivatives, even in a small way, Greenspan has acted to run interference for derivatives.

When Greenspan took over as head of the U.S. Federal Reserve in August 1987, the size of U.S. holdings of derivatives was approximately \$3 trillion. Under his nurturing, today, counting derivatives holdings by U.S. commercial banks, investment banks, and other U.S. corporations, America's holdings of derivatives is *\$40 trillion*. This should be appropriately labelled the Greenspan derivatives bubble.

Slashing living standards

The derivatives bubble, like a cancer, requires the most ferocious austerity to suck out wealth from plant and equipment of factories and from living standards of the population, to transfer to the account of the bubble.

Greenspan has made repeated attacks on living standards. For example, in Oct. 8, 1997 testimony to the House Budget Committee, he went after Social Security. He lied that the reason the Social Security trust fund is having problems, is because benefits are too high (in reality, whatever problems the trust fund will have, are because of the collapse of the U.S. physical economy). He stated that benefits need to be reduced, and that people should work longer before they could retire and receive Social Security benefits. He laid out a formula, which he said would help solve the Social Security situation, arguing that, since people are living longer, the percent of time they are retired, relative to their life-span, should remain the same. This is another way of saying that they should be forced to work longer. Greenspan also called for reducing the cost-of-living adjustment that elderly citizens receive in their benefits, by rigging the Consumer Price Index downward.

During questioning, Greenspan was effusive in his praise of privatization of the Social Security system, a Wall Street scheme to steal several trillion dollars and invest them to prop up the stock market bubble. Greenspan told the committee that he had recently met with José Pinera, who privatized Chile's Social Security system, and who now works on privatizing America's Social Security system for the Cato Institute. Greenspan stated, "José Pinera . . . said something at a dinner which I was at which I thought was really engaging, that when people got their recognition bonds [given to people in Chile's privatized Social Security system] and they knew what they owned in their retirement program, as distinct from having sort of a very generic overall type of program [i.e., real Social Security], there was a very considerable amount of pride." What Greenspan omitted to say, is that the Pinera privatization of Chile's Social Security occurred at gun-point during the neo-liberal dictatorship of Gen. Augusto Pinochet. Further, since Aug. 31, 1997, because of the collapse of the stock market, Chileans have lost 22% of the value of their retire-

ment funds.

In his July 22, 1997 "Humphrey-Hawkins" annual address to Congress on employment, Greenspan spoke positively about worker insecurity — due to globalization, downsizing, layoffs — as an essential ingredient to keeping wages down.

In other Congressional hearings, he said that it was better to run a government budget surplus than to spend the money on building infrastructure, whose benefits he said were "unresolved."

In his book *Locked in the Cabinet*, an account by President Bill Clinton's first-term Labor Secretary Robert Reich, Reich gave an insight into the intimidating influence which the Federal Reserve Chairman has. Reich called Greenspan a "robber-baron pimp." Reich said: "Greenspan haunts every budget meeting, though his name never comes up directly. . . .

"Like Paul Volcker, the Fed chief before him, Greenspan can put the economy into a tailspin simply by tightening his grip. Volcker did it in 1979, and Jimmy Carter was fired. Bill Clinton knows that. Greenspan has the most important grip in town: Bill's balls, in the palm of his hand."

Reich gave an account of the effect that this had on Clinton himself. "He stalks around the room, fuming, 'We're doing everything Wall Street wants! Everything Wall Street *doesn't* want gets slashed!' He takes another few steps. 'We're losing our *soul!*' He talks to no one in particular, but I can't help imagining he's yelling at Alan Greenspan, 'I can't do what I *came* here to do.' "

Now, hyperinflation

The LTC crisis thoroughly discredits Greenspan's limp contention that "there are no problems with derivatives." This time there is no story about a "loan assassin" like a Robert Citron in Orange County, or Nick Leeson at Barings Brothers Bank, on whom to blame a derivatives mistake. The mistake is the entire \$130 trillion worldwide derivatives trading system. The biggest banks in the world were involved in LTC, but at the hub of the world derivatives network stands Alan Greenspan and the Federal Reserve Board, who refuse to shut the derivatives system down.

Greenspan is attempting to sabotage President Clinton's Sept. 14 proposal at the New York Council on Foreign Relations for a new financial architecture, and the concept of Treasury Secretary Robert Rubin that the banks must take a hit and accept 5¢ on the dollar for their worthless paper.

Instead, Greenspan has put his hand on the printing press, in the insane judgment that the derivatives market should be bailed out, and the equally insane judgment that it *can* be bailed out. This will set off hyperinflation, in a derivatives market many orders magnitude greater than any market that existed in the 1920s in Weimar Germany.

Greenspan's reputation for competence, however undeserved, is now gone.

LaRouche told you so, 1993-98

The following three-part chronology shows: how Lyndon LaRouche repeatedly warned of the menace of derivatives; how Federal Reserve Chairman Alan Greenspan and others defended derivatives and speculation; and what took place.

LaRouche told you so

1993

March 9: LaRouche proposes a 0.1% transaction tax on derivatives, and proposes emergency measures to restore the physical economy. "The derivatives bubble, by the very nature of these transactions, is a financial bubble in the tradition of the more primitive, more rudimentary, and far less dangerous bubbles of the 18th century, such as the John Law bubble in France, and the South Sea island bubble in England in the same period of time. This is the John Law bubble gone mad. The vulnerability to the entire financial system, the chaos and destruction of actual physical processes of production, distribution, employment, and so forth is incalculable in potential, and therefore this thing must be brought under control promptly."

July: In a mass-circulation pamphlet, "Tax Derivatives Speculation; Pop the Financial Bubble, Rebuild the World Economy," published by the *New Federalist* newspaper, LaRouche warns of "the prospect of a derivatives bubble which grows like a cancer at the expense of its host, and shrinks its host, at the same time its appetite is growing, while the means of satisfying that appetite are collapsing."

Aug. 12: The LaRouche Exploratory Committee for a LaRouche Presidential campaign is set up, with anti-speculation and economic growth policies as the keystone issue.



Lyndon H. LaRouche, Jr.

What Greenspan and others said

1993

Feb. 19: "I would not be overly concerned about the future," Greenspan says in the Federal Reserve's semi-annual report to Congress. "If we can keep this process [of budget cutting] going . . . then I think the outlook looks to me a lot more hopeful than I think it looked fairly recently."



Federal Reserve Chairman Alan Greenspan

March 19: *Forbes's* cover story promotes derivatives.

July: A new report, "Derivatives: Practices and Principles," is released by the Group of 30 top executives from money-center banks (Dennis Weatherstone, chairman of J.P. Morgan, Inc., heads the group, which includes former U.S. Fed Chairman Paul Volcker). The report asserts that there is no cause to worry about derivatives.

1994

May 25: Bank of England Executive Director Brian Quinn praises derivatives before a conference co-sponsored by the Futures and Options Association and the Futures Industry Association: "The ingenuity of the specialists who design and price derivatives products . . . seems boundless. . . . Derivatives do not entail any new risks. . . . If the presence of derivatives makes prices of financial assets more volatile, does this necessarily mean the financial system is inherently less stable? The instinctive an-

What went on

1993

May: Notional principal value of derivatives contracts in the United States is in range of \$16 trillions. Several Ohio counties rack up huge derivatives losses: Sandusky, \$5.5 million; Portage, \$5 million; and Putnam, \$0.5 million.

June: Rep. Henry Gonzalez (D-Tex.), chairman of the House Banking Committee, makes a series of speeches in the House, deriding derivatives as "a fancy name for gambling." He calls for an investigation of George Soros's profiteering in the 1992 turmoil in European currencies. He scores Citibank and other major banks for off-balance-sheet derivatives speculation. "Is there money out there in these international markets for the procurement of goods, for firing the engines of manufacturing and production? No. it is paper chasing paper."

August: Feruzzi, the multinational food giant, reveals \$3 billions of derivatives losses.

September: The House Banking Committee holds hearings on the financial protocols of NAFTA, including testimony by *EIR's* John Hoefle, who warns of the spreading speculation and derivatives.

Oct. 28: The House Banking Committee holds first-ever hearings on derivatives, on Oct. 28. *EIR* submits written testimony, entitled "Tax and Dry Out the Derivatives Market; Don't Regulate It."

December: Big derivatives losers are Germany's Metallgesellschaft, \$1.34 billion; Malaysia's Bank Negara, \$3 billion.

1994

February: Fed raises interest rates slightly, for the first time in five years, which is seen as an attempt to slow speculative bubbles. The result is a bloodbath in speculative markets. Hedge funds lose billions; the mortgage-backed securities market disintegrates. Rumors fly that there is trouble at Bankers Trust.

Long Term Capital Management (LTC) hedge fund starts up.

David Askin's "toxic waste" mortgage-backed securities hedge fund, Granite Partners, collapses. Askin was the principal

1994

June 13: LaRouche releases his “Ninth Forecast,” published in *EIR* on June 24 (“The Coming Disintegration of Financial Markets”). “The presently existing global financial and monetary system will disintegrate in the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year. . . . That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization.”

FIGURE 10
U.S. at ground zero of derivatives explosion
(share of global derivatives exposure)

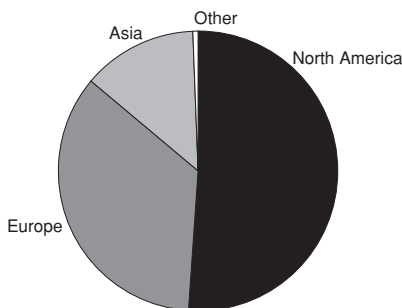
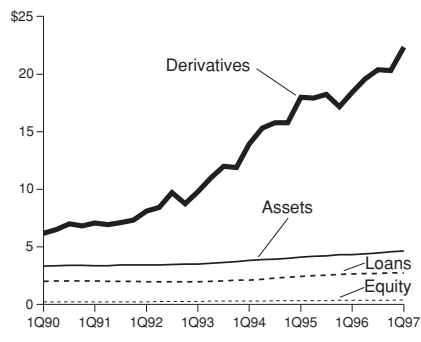


FIGURE 11
U.S. banks addicted to derivatives:
derivatives versus assets, loans, and equity
(trillions \$)



Figures reprinted from *EIR*, Sept. 25, 1998.

swer to this question seems to be ‘yes.’ However, academic work—while inconclusive—suggests that, if anything, the opposite is the case.”

May 26: Greenspan testifies before the House Finance Subcommittee hearings on derivatives, telling them, don’t worry, and don’t regulate. “There is nothing involved in federal regulation per se which makes it superior to market regulation. Today’s markets and firms, especially those firms that deal in derivatives, are heavily regulated by private counterparties who for self-protection insist that dealers maintain adequate capital and liquidity.”

July 14: Felix Rohatyn, senior partner of Lazard Frères, argues in the *New York Review of Books* for the freedom of the “global private capital markets”: “A genuine worldwide market in stocks, bonds, currencies, and other financial instruments has emerged, tied together by modern data-processing and communications technology, and operating 24 hours a day. . . . The cold-blooded selection process by which world capital is invested will determine the economic progress of many nations.”

Dec. 7: Greenspan tells the Congressional Joint Economic Committee, that no Federal regulation of derivatives is called for. “I do think we are in a period of evolving both private market and supervisory procedures in this regard. We are dealing with a very rapidly growing market in which there are very complex techniques involved in creating various products to unbundle risk. It is not easy to determine what the optimum amount of disclosure is, because if you’re talking about full disclosure in all respects and all regards, then everyone is going to have to disclose very elaborate mathematical models with extraordinary detail involved in it, which would not serve anybody’s purpose.” (At this time, the Long Term Capital Management hedge fund was in the process of being formed based on mathematical formulae, e.g. “Black-Scholes,” see p. 00.)

“waste” disposal unit for GE’s Kidder Peabody.

April: Crisis surfaces at the venerable Kidder Peabody investment house; in August, GE dumps it.

Derivatives losers over the spring months, include hedge funds: George Soros, \$600 million; Julian Robertson, \$875 million; Michael Steinhardt, \$1 billion; Askin Securities, \$600 million; Vaircana Ltd., \$700 million. Others: Bankers Trust, \$250 million; Gibson Greetings, \$23 million; Cargill, \$100 million. Public funds and entities include: City Colleges of Chicago/Cook County, \$19.2 million; Eastern Shoshone Tribe of Wyoming, \$700,000.

September: Gibson Greeting Cards sues Bankers Trust over derivatives losses.

October: Procter & Gamble sues Bankers Trust over derivatives losses.

November: SEC and CFTC investigate Bankers Trust, which fires its derivatives executives.

December: Orange County, California, one of the nation’s richest, files for bankruptcy after losing \$1.7 billion in the derivatives market. Runs spread to TexPool, in Texas.

Derivatives losses become a byword across the country, ranging from Minnesota Orchestral Association, \$2 million; to Odessa College, Texas, \$11 million; to Piper Jaffrey Mutual Funds, \$700 million. The states of Florida, Ohio, South Carolina, Colorado, and Maine are also hit.

Mexico’s financial system implodes, with an imminent worldwide blowout, which is averted only by a \$500 billion rescue package organized by the U.S. and other governments.

SEC/CFTC and Bankers Trust reach agreement, in which the government takes control of the bank, and Bankers Trust pays a \$10 million fine.

Dec. 7: The Joint Economic Committee of Congress calls Greenspan to testify and grills him on derivatives. Committee Chairman Kweisi Mfume (D-Md.) remarks: “The action that the Fed took with respect to Banker’s Trust is a welcome one, but I personally am not convinced that this Federal action alone constitutes an adequate Federal response for the very significant amount of financial exposure that our country seems to be facing, as a result of derivatives.”

Rep. Ron Wyden (D-Ore.) asks: “The Fed, and I believe you personally, have taken the position in the past that no legislation is required to deal with this issue. Again, given the innumerable, large financial players, municipalities, and others that seem to now be caught in the spiral of financial woe as a result of derivatives, is the Fed rethinking its position with respect to whether or not some legislation may be necessary?”

1995

Feb. 1: LaRouche tells the “EIR Talks” radio interviewer: “We are now in the middle of a new phase of disintegration of the global monetary and financial system.”

April 18: LaRouche produces an economic memorandum, “Global Financial Crisis: ‘To Be, or Not to Be,’ ” (*EIR*, April 28): “Today, the political and financial system of Japan has been brought to near a point of discontinuity, by the failure of U.S. representatives to acknowledge the severity of the ongoing, global financial collapse of the international monetary and financial system. Although the U.S. government’s refusal, thus far, to face the reality of this ongoing systemic breakdown is no worse than virtually every leading government in the world, Japan’s relations with the United States are of a very special nature; a lack of adequate response to Japan from Washington could set forth a chain-reaction of collapse of every vital U.S. policy-interest in East Asia, and beyond.”

July 14: In an *EIR* Feature on “Why Most Nobel Prize Economists Are Quacks,” LaRouche said: “Today, every nation on this planet is under the domination of a single, worldwide, monetary and financial system: the so-called International Monetary Fund system. That system is about to go out of existence. The worst financial collapse of the Twentieth Century could erupt within as soon as weeks, or, in the unlikely case, the disintegration of the system could be postponed until as late as early 1997.”

Dec. 2: At conferences in Italy and Germany, LaRouche releases his “Triple Curve” Typical Collapse Function schematic (see p. 00). He describes it as follows: “This figure is a summary of three curves which are characteristic of the process of monetary and financial disintegration of the world economy.” (See *EIR*, Jan. 1, 1996.)

1996

April 24: LaRouche addresses a roundtable discussion in Moscow, sponsored by the Institute for Socio-Political Research of the Russian Academy of Sciences, the Free Economic Society of Russia, and the Schiller Institute for Science and Culture of Moscow: “We are in the middle of the worst international monetary and financial crisis of the century. The financial crisis has two dimensions: its severity, and the efforts of many leading institutions in the world to pretend it doesn’t exist.”

1995

March 8: Speaking to a House Budget Committee hearing, Greenspan stressed a goal of a balanced Federal budget. “I think that we would find that the general state of the financial markets would be far more solid than I think we have seen in a particularly long period of time. I think the underlying outlook would be significantly improved for long-term economic growth sustained and perhaps hopefully accelerated into the 21st century.”

1996

January-February: Ethan D. Kapstein, Director of Studies for the New York Council on Foreign Relations, writes in the Council’s journal *Foreign Affairs*, under the headline, “Shockproof: The End of the Financial Crisis”: “Many Chicken Littles had predicted during the late 1980s and early 1990s that trading in derivatives—futures, swaps, and options—would trigger the next global financial crisis. But they overlooked the important role that derivatives have played in moderating systemic risk, providing banks with increased opportunities to diversify their portfolios and protect themselves from sudden market shifts. . . . The international financial markets have not suffered because the roots of the disease have largely been eradicated.”

March 5: Greenspan speaks to the National Governors Association, praising the “ever-increasing conceptualization of our gross domestic product—a substitution, in effect, of ideas for physical matter in the creation of economic values.” These “trends toward conceptualization,” he argues, “have focused today’s views of economic leadership” away from “output of such products as steel, motor vehicles, and heavy machinery” and toward “down-sized, smaller, less palpable evidence of outputs.”

1995

February: Barings Bank, one of the oldest, most prestigious institutions, connected to Britain’s royal family, fails over Asian derivatives. Blame is placed on a “loan assassin,” Nick Leeson, of its Singapore office.

May-November: Swiss Bank Corp. acquires S.G. Warburg, as huge waves of mergers occur: Dresdner Bank acquires Kleinwort Benson; First Union-First Fidelity merger announced.

December: Derivatives losers for the year include dozens of counties in Wisconsin, Missouri, Florida, and other states, plus the U.S. Army Welfare Fund, the State of Connecticut pension fund, etc.

1996

January-August: More localities are hit by derivatives losses: Collier County, Florida; Wisconsin state retirement fund; Vista Irrigation District in California; Pennsylvania school districts of Bethel Park, Moon Township, and New Brighton.

June: Pennsylvania State Rep. Harold James (D-Phila.) introduces House Bill 2833, to levy a state tax at the rate of two-tenths of 1% on the transfer or sale of “any bond, stock, security, future, option, swap or derivative.” James urges immediate adoption of the bill, both for revenues to back state medical and other urgent services, and to discourage speculation. Similar bills are proposed in Louisiana, Alabama, and New Hampshire.

September: RhumbLine, a Massachusetts-based asset management company, racks up derivatives-based losses from January 1995 through September 1996, including \$12 million in losses for the Massachusetts state employees and teachers fund; and \$150 million for the AT&T pension fund.

December: Year-end U.S. statistics document trouble—a record 1 million bankruptcy filings; U.S. credit cards show \$4 billion in delinquent accounts; U.S. corporate layoffs add up to 477,147 for 1996.

1997

Feb. 5: Interviewed by “EIR Talks,” LaRouche, for the first time, warns individuals of the danger of staying in the stock market, and of speculation. “The only thing I can say, is that the persons—and there are about 40 million Americans, I think, who are exposed to this, who are betting that they have a pension, and a future invested in mutual funds, onto the stock market, or some plan of that sort—if they stay, they’re going to be slaughtered. They’ll lose everything. . . .

“Sure, Treasuries don’t yield as much, but you’ve got one advantage with Treasuries: The government has agreed to back them up, and you’ve got something. Whereas, on these indexes, these futures, these options, when that market goes, you’ve got less than nothing.”

June: LaRouche tells “EIR Talks”: “Sometime very soon, between now and the end of the year, possibly in the month of August—more probably, *no later than October*, but certainly, by around the end of the year—this world is going through one or two of the greatest shocks, financial shocks of the century.”

1998

Jan. 17: Speaking at a Martin Luther King Day conference, LaRouche says, “If you think things are scary now, come back in about four weeks from now, and then tell me how scary it’s become.”

March 18: LaRouche tells a Washington, D.C. *EIR* seminar that we need a “New Bretton Woods” effort: “The fact that the present crisis is *global and systemic*, rather than *regional or cyclical*, must be acknowledged.”

April 2: At a New Bretton Woods meeting in Rome, Italy, LaRouche said, “The system is essentially bankrupt. The international financial system is bankrupt. There is only the prosperity of fools in the system. We have in the world presently, dominated by so-called derivatives, about \$140 trillion equivalent of short-term gambling debts. In the recent years, especially since 1982, and most emphatically since 1987, the growth of derivatives has taken over and eaten up the banking system itself.”

1997

Feb. 21: Greenspan tells the Atlanta Federal Reserve meeting in Coral Gables, Florida: “There have been occasions when we have been on the edge of a significant breakout,” but thus far, the Federal Reserve’s response has “turned out to be adequate to stem the atomic erosion.”

March 4: Sen. Phil Gramm (R-Tex.), before the Securities Subcommittee of the Senate Banking Committee, opposes proposed Security and Exchange Commission regulations, issued Jan. 26, to force U.S. corporations to disclose their derivatives exposure, complaining that the regulations “will induce firms to use derivatives less.” Gramm insists that the derivatives “industry” must be left to regulate itself; and that derivatives losses by Orange County, Procter & Gamble, and others are “isolated” events.

April 12: Greenspan touts virtues of “private regulation,” in a speech to the Association of Private Enterprise Education in Virginia, saying, “private market regulation can be quite effective,” while “regulation by government unavoidably involves some elements of perverse incentives.”

July: Greenspan writes three letters to the Financial Accounting Standards Board, vehemently opposing its proposal that derivatives contracts be listed on corporate books. In his third letter, released on July 31, he writes: “The FASB proposal may discourage prudent risk management activities and in some cases could present misleading financial information.” He says that his letter was endorsed by the heads of 22 “major companies in a number of industries that use derivatives [and] have expressed serious concerns about the FASB’s proposed rules changes.” These 22 corporate leaders are mostly bank heads.

1998

March: Greenspan opposes Commodities Futures Trading Commission head Brooksley Born’s proposal to study U.S. derivatives trade.

Sept. 16: Greenspan assures Rep. Richard Baker (R-La.) that the risk in hedge funds is under control.

Sept. 23: The Fed moves to bail out Long Term Credit Management’s creditors; a \$3.6 billion rescue fund is set up.

Oct. 1: Greenspan tells the House Banking Committee, don’t study and don’t touch derivatives. “The structure of counter-party interrelations is the main means of regulation.”

1997

January-September: The notional principal value of off-balance-sheet derivatives holdings of U.S. commercial banks rises 26.5%, to a record \$25.7 trillion, more than 62 times their equity capital.

April: The House Agriculture Subcommittee on Risk Management and Specialty Crops holds hearings on H.R. 467, the Commodity Exchange Act Amendments, which seek to further *deregulate* U.S. derivatives exchanges. The exchanges object that their “competitiveness” will be harmed by regulation. CFTC Chairman Brookesly Born warns that such deregulation would “pose grave dangers to the public interest.” She is overridden.

July 2: Thailand floats baht (which drops 20%), after losing \$4 billion in currency defense against hedge fund attacks. Soon, crisis rips through all East Asia, then South Korea, Japan, and globally.

September: At IMF/World Bank annual meeting in Hong Kong, Malaysian Prime Minister Dr. Mahathir scores currency speculation, naming George Soros in particular.

October: “Black Monday” hits Oct. 20 on Asian markets; Oct. 23 in New York.

November: Yamaichi Securities, Japan’s fourth largest investment house (\$31 billion in assets), declares bankruptcy. Union Bank of Switzerland, one of the Swiss “Big Three,” has huge derivatives losses.

Dec. 24: Treasury Secretary Robert Rubin commits aid to South Korea, stating that “not a nickel” of public money will go to aid world banks. *EIR* estimates world derivatives contracts are now \$125-150 trillion.

1998

January: East Asia crisis intensifies. Indonesian rupiah devalued 84% since August 1997. Major banks reporting billions in derivatives losses because of Asian exposure.

Spring: Commodities markets collapse (oil, wheat, corn, metals, etc.). Oil-producing nations plunged into crisis. Food shortages intensify in Indonesia, Russia.

April 16: Group of 22 meets in Washington, on “new financial architecture.”

July 13: IMF and Russia announce a two-year, \$22.6 billion rescue package; it fails.

Aug. 17: Russian government imposes capital and currency exchange controls.

Sept. 1: Malaysia announces capital and exchange controls to thwart speculators. Taiwan disallows George Soros; Hong Kong/China move against stock speculators.

Sept. 14: President Clinton calls for G-22 meeting within 30 days. (Later set for Oct. 5.)

Sept. 23: Long Term Capital Management fails, having once had derivatives transactions outstanding totalling \$1.5 trillion face value.

President Clinton's call for an emergency meeting

While EIR has provided news coverage of President Clinton's initiative for an emergency meeting of the Group of 22 to discuss the "new architecture" for the world economy, given at the New York Council on Foreign Relations on Sept. 14, we have received requests for more extensive excerpts of the speech. We print below portions of the speech and the ensuing press conference by Treasury Secretary Robert Rubin and Assistant to the President for Economic Policy Gene Sperling, with emphasis on those section which reflect a change in the President's outlook toward the world financial system, toward reality.

. . . The subject that I want to discuss—let me just say one thing in advance. I'm going to give you my best thoughts. We have been working on this for three years at some level of intensity or another going back to the Naples G-7 meeting in the aftermath of the Mexican financial crisis. I have done everything I could do personally to reach out across the country and, indeed, across the world, for any new ideas from any source. Now I'm going to give you my best thinking today about what we can do, but I want you to know that I'm here, and if I had my druthers, this would be about a three-hour session where I'd give this talk and then I would listen for the rest of the time. . . .

. . . But if you consider today's economic difficulties, disruptions, and plain old deep personal disappointments of now tens of millions of people around the world, it is clear to me that there is now a stark challenge not only to economic freedom but, if unaddressed, a challenge that could stem the rising tide of political liberty as well.

Obviously, we have profound interests here. It is a great irony that we are at a moment of unsurpassed economic strength at a time of such turmoil in the world economy. We, I think, all of us in this room, know that our future prosperity depends upon whether we can [act] with others to restore confidence, manage change, stabilize the financial system, and spur robust global growth.

For most of the last 30 years, the United States and the rest of the world has been preoccupied by inflation. . . .

But clearly the balance of risks has now shifted, with a full quarter of the world's population living in countries with declining economic growth or negative economic growth. Therefore, I believe the industrial world's chief priority today plainly is to spur growth. . . .

Above all, we must accelerate our efforts to reform the

international financial system. Today, I have asked Secretary Rubin and Federal Reserve Board Chairman Greenspan to convene a major meeting of their counterparts within the next 30 days to recommend ways to adapt the international financial architecture to the 21st century. . . .

. . . Still, what has been done is clearly not enough to reverse the decline in particular countries, to douse the flames of the international financial crisis, to support steady and sustainable growth in the future.

In the face of this new challenge, America can and must continue to act and to lead, to take the urgent steps needed today to calm the financial crisis, restart the engine of growth in Asia, and minimize the impact of financial turmoil on other nations, and to make certain that for tomorrow, the institutions and rules of international finance and international trade are prepared to support steady and sustainable growth over the long term.

First and foremost, the leading economic nations must act together to spur global growth. Our strong and growing economy here has made a major contribution to global growth, just as our weak economy was holding the world back six years ago, when I attended my first G-7 meeting in Tokyo, and every other country said the first thing they needed was for America to put its economic house in order. We did that, and now I believe strongly we must maintain our fiscal discipline. It has led to lower interest rates and a huge investment in job growth. Maintaining economic growth is the best thing we can do right now, not only for the United States, but for the global economy. . . .

We've worked with international lenders, like the IMF, to help these nations to adopt pro-growth budget, tax, and monetary policies. But clearly, we're going to have to do more to restore Asian growth. We must work to lift the weight of private sector debt that has frozen the Asian economies. Today I'm asking Secretary Rubin to work with other financial authorities and international economic institutions to enhance efforts to explore comprehensive plans to help Asian corporations emerge from massive debt where individual firms have been swept under by systemic national economic problems rather than their own errors. We need to get credit flowing again. We need to get business back to making products, producing services, creating jobs.

Third, Asian businesses need assistance, but so do millions of Asian families. We must do more to establish an adequate social safety net in recovering nations. Wrenching economic transition without an adequate social safety net can sacrifice lives in the name of economic theory, and, I might add, can generate thereby so much resistance that reform grinds to a halt. If we want these countries to do tough things, we have to protect the most defenseless people in the society, and we have to protect people who get hurt when they didn't do anything wrong. I think that is terribly important. . . .

From the G-7 meeting in Halifax in 1995, in the wake of the Mexican financial crisis, to the Birmingham meeting this year, we have been working also with our major economic

partners to plan for a new financial architecture for the 21st century. For the first time this year, we included key emerging markets in the process, in a new group of 22, recognizing their important stake in the global economy. This group has been working together for nearly a year now, to improve the global financial assistance with a special focus on improving financial sectors, on transparency, and on private sector burden-sharing.

I just want to emphasize again that even as we respond to the urgent alarms of the moment, we must speed the pace of this systemic work as well. That is why I've asked Secretary Rubin and Chairman Greenspan to convene the finance ministers and central bankers of the G-7 and key emerging economies in Washington within 30 days to develop a preliminary report to the heads of state by the beginning of next year on strengthening the world financial system. We must develop current policies so that countries can reap the benefits of free-flowing capital in a way that is safe and sustainable.

We must adapt the IMF so that it can more effectively confront the new types of financial crises, minimizing their frequency, severity, and human cost. We need to consider ways to extend emergency financing when countries are battling crises of confidence due to world financial distress, as distinct from their own errors in policy. We must find ways to tap the energy of global markets without sentencing the world to a cycle of continued extreme crises. For a half-century now in our national economy, we have learned not to eliminate but to tame and limit the swings of boom and bust. In the 21st century, we have to find a way to do that in the global economy as well. . . .

Now, let me just say it all again very briefly. In short, we must improve our ability to address the current financial emergency, and we must build a system to prevent such future emergencies whenever possible and to blunt their impact when they do occur. There is no mission more critical to our own strength and security.

And let me say this again. What is at stake is more than the spread of free markets and their integration into the global economy. The forces behind the global economy are also those that deepen democratic liberties, the free flow of ideas and information, open borders and easy travel, the rule of law, fair and even-handed enforcement, protection for consumers, a skilled and educated workforce. Each of these things matters not only to the wealth of nations but to the health of freedom. If citizens tire of waiting for democracy and free markets to deliver a better life for them, there is a real risk that democracy and free markets, instead of continuing to thrive together, will begin to shrivel together. . . .

At this moment, therefore, the United States is called upon once again to lead; to organize the forces of a committed world, to challenge the unruly energies of the global economy into positive avenues to advance our interests, reinforce our values, enhance our security. In this room I think it is not too simple to say we know what to do. The World War II generation did it for us 50 years ago, now, it is time for us to

rise to our responsibility, as America has been called upon to do so often, so many times in the past. We can, if we do that, redeem the promise of the global economy and strengthen our own nation for a new century.

Sperling on debt release

Q: Gene, the part of the speech that dealt with debt release was a little bit vague about what he had in mind, for the banks. Can you spell that out a little more?

Sperling: Well, Secretary Rubin did answer that and I don't want to go too much beyond, but he is referring to the domestic debt problems in countries where there's been a systematic problem that has put a significant number of corporations and companies in debt problems and where it is not clear that a U.S.-style bankruptcy case-by-case approach would be either fast enough or deal with the systematic nature. So, the goal is to explore whether there are comprehensive approaches that would give incentives for all the players—for the banks, for the other creditors, and for the companies to try to get this debt overhang out of the way so that they could begin getting new capital and investing and expanding, and—

This is something that certainly Secretary Rubin and Treasury have been working on, and the President is asking them to expand those efforts, but at this point I don't think that it would be prudent for us to go into more detail.

**“Long before Paula Jones,
long before Monica Lewinsky,
there was a conscious decision, made in
London, that there would be a full-scale
campaign to destroy Bill Clinton,
and to destroy, once and for all,
the credibility of the office of the
Presidency of the United States.”**

—Lyndon H. LaRouche, Jr.



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Amidst world economic crisis, China is building its New Deal

by Mary Burdman

Over the past two months, as the world financial situation rapidly worsened, the Chinese government has been deliberately carrying out its "New Deal" economic development policy. The program is apparently already taking effect, despite the regional collapse in trade in Asia, which is badly hitting China's exports, and the disastrous floods which struck the Yangtze Valley (which has a population as large as the entire United States) and northern China.

Due to the government's investment policy, August marked a turning point for China's economy, Zeng Peiyan, Minister of the State Development Planning Commission, said in a press conference in Beijing on Sept. 23.

China has been constantly expanding the scope of its New Deal project. Zeng Peiyan stated that the massive infrastructure-development program, outlined since the beginning of this year, is being enlarged to meet the current situation. "Only if overall fixed-asset investment grows by 15-18%, can we reach 8% economic growth," he said. Earlier, in the spring, government officials had proposed 15% growth in investment to achieve sufficient economic development. Zeng said that China is proceeding with plans to spend the equivalent of \$1.2 trillion on new infrastructure over the next three years. Previous figures for the level of planned investment stated by leading Chinese officials, have ranged from the equivalent of \$750 billion to \$1 trillion.

China's investment policy, launched in the beginning of 1998, has resulted in a year-on-year increase of 17.7% in state-sector fixed-asset investment in the first eight months of the year, Zeng said. But, there was concern that a slowdown in investment in the non-state sector, which accounts for 40% of total investment, could erode the achievements of the state sector. Therefore, the government has decided to increase spending with funds raised through a treasury bond issue worth 100 billion yuan (\$12 billion). This, Zeng said, will prompt banks, local governments, and enterprises to spend another 250 billion yuan in the projects, creating another 1% in economic growth this year. Falling exports to its neighbors make it imperative that China spend aggressively to reach its economic goals, Zeng said.

"The targets proposed by the government at the beginning of the year: 8% growth in GDP, inflation of less than 3%, and

a stable yuan exchange rate, can all be reached," Zeng said. He reiterated that China will not devalue its currency, the renminbi.

"Speaking overall, China's economic situation is good and the measures the government has taken to expand domestic demand and stimulate the economy have already started to take effect," he said. Fixed-asset investment growth rose to 26.9% in August, 4% higher than July. Growth in consumption also recovered to 13% in August, 1.2% more than in July. The growth of industrial added-value rose by 7.9%, compared to 7.6% growth in July.

"However, problems still exist in achieving the annual growth goal, and we need to work even harder to solve them," Zeng said. "The government will need to ensure more and efficient investment in key projects, achieve a good autumn grain harvest, expand the domestic market and export, adhere to a stable renminbi, and step up efforts in water control and resettlement of residents affected by the summer floods," he said.

During the same period, especially since the beginning of September, China has imposed more and more controls on currency movements, foreign exchange, prices, and other financial items.

Reaction to the Clinton initiative

Of greatest potential importance, have been Chinese reactions to the initiative taken by U.S. President Bill Clinton in his speech at the New York Council on Foreign Relations (CFR) on Sept. 14, when he called for an emergency international meeting on the world financial crisis.

When Clinton met Chinese Foreign Minister Tang Jiaxuan at the White House on Sept. 29, the two discussed cooperation on exactly these problems, according to Chinese reports. The national news agency Xinhua quoted a Chinese official saying that the U.S. President "has pledged to continue to work with China in stabilizing the world economic situation and to expand cooperation in various fields." Clinton himself said that Sino-U.S. relations are at "a new stage of development," and both agreed to the importance of following up the Sino-U.S. summits.

Clinton also praised China's efforts to keep the renminbi

strong, and said that China had proven itself a stabilizing force in the region and the world.

Tang said that Clinton's domestic problems would not harm U.S.-Chinese ties, because better relations are the shared common wish, and serve the fundamental interests of both countries. Tang said that the scandals are a U.S. internal matter. "President Clinton has made a very important and valuable contribution to the development of the U.S.-China relationship, which is something we will never forget. I am looking forward to further sustained growth of the relationship."

Tang Jiaxuan also met Treasury Secretary Robert Rubin, and the two discussed their countries' responses to the world financial crisis, the Hong Kong *South China Morning Post* reported. Rubin praised China for maintaining the stability of the yuan, calling it "right for China and also very good for the rest of the world."

Immediately after Clinton's CFR speech, there were marked reactions in the official Chinese press. Beijing's paper of record, the *People's Daily*, published a column on Sept. 18, quoting Clinton "urging major industrialized countries to coordinate their action to jointly deal with the serious international financial turmoil at present in order to promote sustained development of the world economy." This speech and other reactions demonstrated a "positive change" in "the attitude of economic powers toward fighting the financial crisis," *People's Daily* wrote.

Previously, the industrialized nations' view that they were "immune" to the crisis, led them to refuse to take responsibility for the financial disaster, only making it worse. This refusal to act seems now to have changed. "Only the economic powers can provide effective assistance," *People's Daily* wrote. "That the economic powers and the developing countries jointly fight against the international financial crisis at present and, in the course of this, explore the establishment of a new international financial order and promote the world's prosperity and development in the next 1,000 years, are the common desire of people of various countries."

A Xinhua commentary at the same time noted the "strong signals" being sent from New York and London due to the Russian crisis. "The signal from New York was personally issued by U.S. President Clinton, [who] pointed out that the current financial crisis is the 'greatest financial challenge the world has faced over the last half-century,' that has sunk one-third of the world into economic recession."

Xinhua cited Clinton saying that the United States could not isolate itself from the increasingly fierce financial storms, and that it "has an 'unevadable' responsibility to combat the global financial storms."

The ferocity of the current "global financial storms," has forced Western nations to pull their heads out of the sand. The "sense of panic around the world must not be underestimated," Xinhua wrote. But even international meetings will not suffice. "There must be extensive common understanding,

a well-thought-out plan, and practical yet bold actions. A key to putting the financial storms to rest is to carry out bold adjustments and reform of the current unreasonable international financial system, structure, and supervision and management mechanisms. In particular, by establishing new international financial laws and regulations, we should prevent a very small number of international big financial speculators from carrying out vicious speculative activities."

Speculation a 'global threat'

The Chinese Foreign Ministry gave the Hong Kong authorities its full backing in their battle against the global hedge funds, including against the nasty criticisms of U.S. Federal Reserve Chairman Alan Greenspan. "Regarding U.S. Federal Reserve Chairman Greenspan's criticism of the Hong Kong government's incursion into the stock market, Foreign Ministry spokesman Zhu Bangzao clearly stated that it is an affair within the autonomy of the Hong Kong Special Administrative Region government to adopt measures to defend its linked exchange rate and stabilize its finances. The central government understands and respects the decision of the S.A.R. government," the Beijing-owned Hong Kong daily *Wen Wei Po* reported on Sept. 18.

Just days earlier, *Wen Wei Po* had published an editorial warning that hedge fund speculators remain "a global threat." The editorial reported that Hong Kong Financial Secretary Tsang Tam-kuen, who described hedge funds' operations as "financial terrorism," will tour the United States, the U.K., Germany, and the Netherlands to discuss defense against the funds. "It is indeed a miracle that Hong Kong has remained the only region in the world boasting a stable exchange rate despite four successive attacks by hedge funds," *Wen Wei Po* wrote. "We believe that developing countries will also advance measures of exploring ways and means of fighting against hedge funds and call for straightening out the global financial order at the upcoming conference."

A Sept. 19 *Wen Wei Po* editorial accused Greenspan of "obviously . . . speaking on the side of hedge funds," when he attacked Hong Kong's intervention. "The plundering in newly developing markets by huge external funds is unethical," the daily said. Greenspan is giving the hedge funds "an outer coat of rational and ethics, which is inappropriate."

This type of discussion indicates that China is not only considering its own welfare in carrying out its increased protectionist measures, and the "free trade" cabal is most unhappy with this. The City of London's *Financial Times* and the *New York Times* are complaining of the "chill in China." The London International Institute of Strategic Studies' Gerald Seagal, whose much-touted "breakup of China" scenario of the early 1990s has proven false, recently claimed in the *International Herald Tribune* that there is an economic "crisis" inside China. The Sept. 30 *New York Times* worried that Chinese trade negotiators have been telling U.S. officials that Beijing is not so eager to win quick entry into the World Trade

Organization, and that some leaders are warning that this is the wrong time to join a body that will force China's markets to open too rapidly.

U.S. Secretary of State Madeleine Albright harped at Tang Jiaxuan during his Washington visit on Sept. 29, that the growing trade deficit between China and the United States (the size of which is disputed by China) is something that could threaten the two nations' relationship. China, claimed Albright, should take on the issue so that "it does not become a source of estrangement instead of engagement." Fortunately, she apparently spared Tang one of her song-and-dance routines.

U.S. Undersecretary of Commerce David Aaron, who was in Beijing on Sept. 24, claimed that U.S.-Chinese trade relations are at a "turning point," due to U.S. concern that China is adopting new protectionist measures. "We do not want to see protectionism spreading as a result of the crisis," Aaron said. He claimed that China's trade surplus with the United States, likely to jump 20% this year to \$60 billion, was "politically unsustainable."

On his return to the United States, Aaron threatened that, in implementing stricter measures, the "Chinese authorities may be underestimating the level of frustration in the business community. There is increasing world competition for scarce investment dollars. Nowhere is this competition going to be more fierce than with China's neighbors."

Another test for China will be the visit on Oct. 6-10 of Britain's Prime Minister Tony "Third Way" Blair. There are those in China, motivated particularly by "practical" considerations, who consider all-out reform of the world financial system too great a challenge, and who might give lip service, at least, to Blair's empty blatherings about a "new" financial system, one that he demands retain all the insanity of the current, bankrupt one. Blair's nonsense will have little effect, certainly, on domestic Chinese policy; the critical question is that he not be allowed to meddle in the essential U.S.-Chinese relationship.

Quality economic growth

Already at the beginning of September, Chinese State Councillor Wu Yi, the former Trade Minister promoted to a position of eminence on trade and investment issues, said that China's economy was showing itself strong enough to ward off the risks posed by the Asian monetary crisis. At an international symposium in Beijing on transnational investment strategy on Sept. 8, Wu Yi said, in her speech entitled "The Asian Monetary Crisis and China's Economic Growth," that the Chinese government's policies for coping with the Asian monetary crisis are being demonstrated to be correct. Industrial growth in China has been 7.8% in the first half of this year, and fixed-asset investment in July was up 22.8%, which was 6.5% greater than the previous month. In addition, China's foreign reserves stood at \$140.2 billion

as of early August. All this, in contrast to the devaluations, surging prices, and economic recession caused by the monetary crisis in vast areas of Asia. She also described China's policy to develop its internal economy, focussed on infrastructure projects.

Speaking in Beijing on Sept. 14, Bai Hejin, secretary general of the State Development Planning Commission, the new ministry formed when Zhu Rongji became Prime Minister last year, said that the quality of China's economic growth must be maintained, not just a high growth rate. Bai warned that pursuing too-high growth, such as 10%, during the next three years, would not succeed. China should proceed with a moderate annual growth rate of 7-8% in the last three years of the Ninth Five-Year Plan (1996-2000), a transitional period for China's economy. Due to both the internal situation and the international environment, pursuing the higher growth rate will not be suitable, he said. Bai Hejin stressed: "The significance of China's economic growth does not lie in pursuing an absolute figure; in ensuring economic growth, we must not sacrifice the quality of the national economy, this is the precondition. Therefore, blind, duplicate construction solely for a high economic growth must be absolutely prohibited."

China's government has refused to allow the damage done by this summer's "century floods," estimated to cost at least \$20 billion, to stall economic growth; in fact, the disaster is being used as a basis, not only to pull the nation together to combat the crisis, but to renew and expand agriculture, housing, industry, and infrastructure in the affected areas. President Jiang Zemin and Prime Minister Zhu Rongji, along with many other leading officials, have spent weeks touring the flooded regions.

Indeed, as the floods were reaching their heights, Chinese officials were announcing a series of new, massive infrastructure projects for the entire country, including specifics on nine large rail projects to be constructed over the coming years.

On Aug. 31, the *People's Daily* reported on plans to construct a rail link to Hainan, the large island province off China's southernmost coast across the Beibu Gulf from Vietnam. The rail link, which will cost about 4.5 billion yuan (\$540 million), would involve building 542 miles of track and constructing China's first train ferry across the Jingzhou Strait, which separates Hainan from the province of Guangdong. The project, to be completed in 2001, will be funded by the Rail Ministry and the governments of Guangdong and Hainan provinces.

In mid-August, the Rail Ministry announced that it had completed the feasibility study and on-site route surveying for an 1,100-kilometer rail line which will connect the Tibetan capital, Lhasa, with the rail system of central and western China. The project, called the Qingcang Railroad, "will fill up a blank in our country's western rail system, and at the

same time it will mark the end of the historical period when Tibet had no railroad," *People's Daily* reported. This new railroad, will be an engineering wonder, travelling through valleys between mountains higher than 6,000 meters. The total length of bridges and tunnels will be 30.6 kilometers, and the total investment, calculated in 1995 fixed values, will be 13.92 billion yuan.

The ministries of Railways and Communications are both reporting that rail and highway construction would be increased this year. By early September, Beijing had added another 4.2 billion yuan to rail investment, bringing the total for 1998 to 53 billion yuan. Some 41.3 billion yuan will go into construction of large and medium-sized projects. These include laying 1,876 km of rail tracks, and building 1,210 km of new rail lines, 575 km of double-tracked lines, and 1,091 km of electric railways. The work in the next four months will exceed that of the past eight months. In addition, construction of 16 priority projects will be intensified, including double-tracking the southern section of the Beijing-Kowloon rail line, and electrification of the Chengdu-Kunming rail line.

However, rail construction in the past few months has been slower than expected, due to a lack of preparatory work. Major problems have arisen in acquiring the land required for building the lines, problems compounded by the floods.

By Sept. 20, the Rail Ministry announced that it has spent more than 6 billion yuan on infrastructure this year. Now, rail speeds will be improved. The highest speed of trains on the three major lines—Beijing-Guangzhou, Beijing-Shanghai, and Beijing-Harbin—will reach 140-160 kilometers per hour, and a high-speed train on the Guangzhou-Shenzhen line will run at an average of 200 kph. The new north-south main line, Beijing-Kowloon, will focus on cargo transport, because it is only using 20 million tons of a designed annual cargo transport capacity of 70 million tons, while the older Beijing-Guangzhou Railway will focus on passenger transport.

In addition, railways in the severely transport-short south-western China have been upgraded, the ministry said.

Investment in highway construction was 86.2 billion yuan in the past eight months, up 82% over 1997, employing over 3 million workers. There are projects to build 38,500 km of highways this year, costing 180 billion yuan.

Repairs of flood-damaged infrastructure will also get big investment, Xinhua reported. Some 29,000 km of roads were damaged by the floods, about 2.5% of China's total. The Ministry of Communications has earmarked 60 million yuan for repairs.

On Sept. 20, China announced that it will invest the equivalent of \$7.23 billion by 2010 to build five hydropower plants. China has tapped only 15% of its potential exploitable hydropower of 378 million kilowatts, the largest in the world. Western nations, in contrast, are now exploiting 50-90% of their

hydropower potential. Hydropower accounts for only 24% of China's power-generating capacity, while 70% of electricity is produced by coal-burning plants, creating a serious air-pollution problem and causing inefficient use of China's still-limited rail infrastructure to haul coal.

Hong Kong, hard hit by speculator attacks and the collapse of trade in Asia (last year Hong Kong was the busiest port in the world), is also expanding its infrastructure. While the other "Asian tigers" have cancelled all big infrastructure projects, the Hong Kong government announced on Sept. 16 that it will build its planned West Rail project, a 30.5 km double-tracked rail line, of which 45% must be built on viaducts, and 40% underground. The project will create 13,000 jobs.

Financial control

China is also steadily strengthening its control over capital flows. It is clearly recognized in China that its national policy to maintain the limited convertibility of the currency, the renminbi, has provided critical protection from the murderous attacks that the international hedge funds have mounted against all other countries in Asia. The renminbi is convertible only on current, not capital, account.

But, problems have arisen in reaction to the severity of the financial debacle in Asia, and to fears, constantly aggravated by financial speculators, that the renminbi might be devalued, despite repeated, reasoned statements of Chinese leaders that such a step would only worsen China's economic situation. China's foreign exchange reserves, at \$140 billion the second-highest in the world, have not been growing in the recent period, and black market speculators in China have been pushing the value of the renminbi down in illegal street trading. While these problems, especially the second, are limited, Beijing is not taking chances.

On Sept. 28, the State Council, China's Cabinet, put out a circular calling for "strengthening the administration of foreign exchange and debt, which is a critical measure to avoid foreign financial risks, keep the balance of the international payments, and maintain the stability of the renminbi," the *People's Daily* reported. Some "localities and businesses have willfully floated overseas loans without authorization," the circular said. Financial institutions have been ordered to "exercise stricter administration of financial affairs and foreign exchange, to prevent the evasion of foreign exchange payments," the circular said.

Any enterprises with import or export management rights, which are involved in illegal dealings worth more than \$1 million, will have their permits revoked.

The state must maintain "uniform supervision over the total volume and structure of foreign debts," the circular stated. Illegal overseas funding "is prohibited. Only State Council-authorized official bodies can borrow from international monetary organizations or foreign governments."

U.S. Postal Service
**STATEMENT OF OWNERSHIP, MANAGEMENT
AND CIRCULATION**
Required by 39 U.S.C. 3685

1. *Publication Title:* EIR
2. *Publication No.:* 0273-6314
3. *Filing Date:* September 29, 1998
4. *Issue Frequency:* Weekly except for the second week of July and the last week of December
5. *No. of Issues Published Annually:* 50
6. *Annual Subscription Price:* \$396
7. *Complete Mailing Address of Known Office of Publication:* 317 Pennsylvania Ave, SE, 2nd Fl, Washington, D.C. 20003-1148
Contact Person: Stanley Ezrol; Telephone: 703-777-9451, x362
8. *Complete Mailing Address of the Headquarters or General Business Offices of Publisher:* POB 17390, Washington, DC 20041-0390
9. *Full Names and Complete Addresses of Publisher, Editor, and Managing Editor*
Publisher: EIR News Service, Inc.; POB 17390; Washington, D.C. 20041-0390
Editor: Susan S. Welsh, POB 17390, Washington, D.C. 20041-0390
Managing Editor: Ronald S. Kokinda, John W. Sigerson; POB 17390, Washington, D.C. 20041-0390
10. *Owner:* EIR News Service, Inc., POB 17390, Washington, D.C. 20041-0390
Nancy B. Spannaus, POB 17390, Washington, D.C. 20041-0390
Marjorie Hecht, POB 17390, Washington, D.C. 20041-0390
Webster G. Tarpley, POB 17390, Washington, D.C. 20041-0390
11. *Known Bondholders, Mortgagees, and Other Security Holders Owning or Holding 1 Percent or More of Total Amount of Bonds, Mortgages or Other Securities:* None.
12. *Tax Status: For Completion by nonprofit organizations authorized to mail at special rates:* Not Applicable.
13. *Publication Title:* EIR
14. *Issue Date for Circulation Data Below:* 9/18/98
15. *Extent and Nature of Circulation*

	Average No. Copies Each Issue During Preceding 12 Months	Actual No. Copies of Single Issue Published Nearest to Filing Date
a. Total No. Copies	17,048	25,900
b. Paid and/or Requested Circulation		
(1) Sales Through Dealers and Carriers, Street Vendors and Counter Sales	4,032	8,135
(2) Paid or Requested Mail Subscriptions	8,949	8,596
c. Total Paid and/or Requested Circulation	12,981	16,731
d. Free Distribution by Mail	206	209
e. Free Distribution Outside the Mail	3,403	5,871
f. Total Free Distribution	3,609	6,080
g. Total Distribution	16,590	22,811
h. Copies Not Distributed		
(1) Office Use, Leftovers, Spoiled	458	3,089
(2) Return From News Agents	—	—
i. Total Percent Paid and/or Requested Circulation	78.0	73.0

16. *Publication of Statement of Ownership.* Publication required. Will be printed in the Oct. 9 issue of this publication.
17. *Signature and Title of Editor, Publisher, Business Manager, or Owner:*
Susan Welsh, Associate Editor 9/29/98
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“State-owned financial institutions must have permits from the People’s Bank of China, before borrowing money from overseas organizations,” the circular stated.

The next day, Wu Xiaoling, director of the State Administration of Foreign Exchange (SAFE), gave a press conference to announce measures to prevent billions in foreign exchange from leaving China. Wu said that the series of measures announced in the past weeks would put the illegal holding of foreign exchange by Chinese companies abroad under control. She confirmed that SAFE had ordered such companies to repatriate this foreign exchange by Oct. 1.

“This is nothing new,” Wu said. “All Chinese legal persons are required to keep their foreign exchange within China. . . . If [companies] comply by Oct. 1, they will not be punished. If not, they will be punished.”

Under new currency restrictions, banks must show that all transactions of more than \$100,000 are fully backed by documentation for the customs clearance. SAFE also said that it will closely monitor any transactions of more than \$200,000.

Wu said that Beijing had “lost several billion U.S. dollars” through fake customs documents so far this year alone. “Such a disorderly capital flow is destructive to China,” she said. “These kinds of transactions have intensified pressure on the foreign exchange market and have had a negative impact on China’s balance of payments and the stability of the yuan exchange rate.” She said that illegal holding of foreign exchange was responsible for the lack of growth of China’s reserves, which had been growing at a double-digit rate in previous years. Wu said that Chinese citizens also hold about \$80 billion in foreign exchange in the country, not counted in foreign reserves, and that that money could also get out of the country if controls are not tightened.

In September, SAFE had banned foreign companies in China from borrowing renminbi to pay off foreign-currency loans before they are due. The regulation was made to ensure that China’s four big “policy” banks will have sufficient funds in order to support the government’s infrastructure program. The policy banks have been directed to purchase 100 billion yuan in new government bonds issued in August, to fund infrastructure development. In addition, the ceiling on domestic lending was raised by 100 billion yuan, to 1 trillion yuan, to provide new loans to rebuild after the floods.

Foreign companies had previously borrowed renminbi from Chinese banks to pay off their foreign-currency loans before they were due, in an effort to “hedge” against a possible devaluation of the renminbi, the *Financial Times* had reported.

Price controls are also being imposed on machinery and equipment manufacturers, to prevent enterprises from selling below cost. The competitive, under-priced selling has forced many enterprises to lay off workers. Products affected by the price floors include computerized machine tools, automobiles, trucks, and power-generating equipment.

Kosovars have been sentenced to death

Nedzib Sacirbey is Bosnia's Ambassador-at-large. He talked to EIR's Umberto Pascali on Sept. 30, upon returning from a visit to Bosnia for the Sept. 12-13 elections there.

EIR: Mr. Ambassador, will NATO intervene to stop Serbian dictator Slobodan Milosevic in Kosova?

Sacirbey: When you are talking about NATO, people will ask you: What is NATO? All these discussions about NATO's intervention, NATO's action, all put NATO in a position where no one believes in NATO any more. Because it is better not to promise, and not to talk, than to talk and do nothing. Look at Bosnia; look at the indicted war criminals: NATO did not do anything. In the meantime, there are more than 300,000 refugees in Kosova, displaced people, so many burned villages, almost 1,000 ethnic Albanians killed, and the number is rapidly growing, but still we are looking for the proof. Well, today, we have the proof of this massacre near Pristina. All these people living in the mountains and woods in Kosova, in absolutely abject conditions, *they have been sentenced to be sick, and then die*. They are already getting sick because of the cold. . . .

EIR: Many governments and humanitarian organizations are warning of an impending "humanitarian catastrophe."

Sacirbey: Yes, but we have to point the finger at who is responsible. And probably, NATO is in part responsible, because they promised; many things and did nothing. This is a serious problem; this is also the main cause for what happened in Republika Srpska. . . .

EIR: In the recent election in the part of Bosnia inhabited by a Serbian majority, President Biljana Plavsic, who is supported by the West, lost to one of the supporters of genocide, the leader of the local Serb Radical Party, Nikola Poplasen.

Sacirbey: There is no doubt that the West and NATO contributed to it because their credibility is very low there, because of Kosova and because of Bosnia. Everybody believes that the West does not have any real power to put things together. If they had arrested and sent to the War Crimes Tribunal in The Hague, Radovan Karadzic and Ratko Mladic, as it was said they would do, the voter turnout and orientation would have been different. If you are dealing with war criminals, you have to demonstrate to the average people that you do what you say. If you don't do that, the voters in Republika

Srpska remain under the influence of Belgrade and Milosevic.

EIR: Milosevic has been conducting his genocide in Kosova, saying that he is fighting "terrorism."

Sacirbey: What is happening in Kosova, the popular uprising against Milosevic, was provoked by the lack of human rights, respect, and dignity. The recruiting of Kosova Liberation Army (UCK) was triggered by Milosevic's atrocities. The problem is: Who brought Milosevic back into the game every time? At the time of the Dayton agreement, mediators had a position like: "When I want to have a deal, I will get it by pleasing the stronger and putting pressure on the weaker." Milosevic was given the position of "guarantor" of the agreement. Again, this approach was tried for Kosova. I do give Richard Holbrooke [Dayton mediator and U.S. ambassador nominated at the UN] credit for visiting Kosova and for meeting Kosovar leaders and militants. . . . I agree that the U.S. cannot accept Kosovars' goals of total independence as their own; but at the same time, the U.S. cannot bless Milosevic. Milosevic never respects any deal.

EIR: In fact, the genocide Milosevic unleashed in Kosova is a war against the civilian population.

Sacirbey: Yes, absolutely true. Milosevic is just killing people, destroying their means of existence. The UCK is a pretext. Paradoxically, maybe someone will ask: Did someone in the UCK have some kind of understanding with Milosevic? Because what Milosevic is doing is undermining the economic basis for the existence of people there. Bombing villages and towns, burning houses to the ground, destroying harvests, killing cattle—basically eliminating any means of survival.

EIR: What will happen now to the refugees?

Sacirbey: A NATO intervention is the key. Not in order to favor one side over another, but to create the basis to save lives. Again, I want to stress that we Bosniaks want to be friends with both Albanians and Serbs. So, NATO intervention is the first inescapable step if people really want to stop the humanitarian catastrophe. Will Milosevic succeed in postponing and avoiding intervention? It is possible, now that he is asking for "evidence" that his forces committed the massacres they committed. He also now pretends that his forces are withdrawing; thus, no need for air strikes. . . .

EIR: Does he hope to gain time?

Sacirbey: He has an expertise in pseudo-diplomatic tricks, pseudo-negotiations. What he has achieved now is a successful genocide. He has forced Kosovars back to a nomadic life. Because if these people are without livelihood, without villages, houses, if their crops are destroyed, this people cannot have the basis for existence there. . . . Milosevic wants these people, who have been hard working, productive, to lose the basis for existence. . . . What I ask for is: Protect human rights and human lives; reestablish economic justice.

Business Briefs

Nuclear Energy

Funds okayed for Russian power plants in India

The Indian Union Cabinet on Sept. 9 approved the supplement to an agreement between India and Russia to set up two units at the Kundankulam Nuclear Power Station in Tamil Nadu, and approved the transfer of funds required for the project, the *Times of India* reported on Sept. 11.

The Cabinet also approved an outlay for preliminary expenses, which will be provided to the Nuclear Power Corp. in the form of interest-free loans. The project consists of two units of 1,000 megawatts each at Kundankulam. The agreement had been signed in 1988 between India and the former Soviet Union, and was modified by the supplement signed on June 21 this year with Russia under a technical cooperation arrangement. The agreement said India would benefit from planning and executing the project for developing nuclear energy to generate electricity on a commercial basis.

Labor

Unemployed heads toward 1 billion by end of 1998

Some 1 billion people will be without full-time employment by the end of 1998, the International Labor Organization (ILO) said in a report on Sept. 24. The ILO says the turmoil in Asia will cause the number of unemployed to rise by 10 million, to 150 million, while the number of people lacking full-time jobs or earning less than the minimum needed to survive, will rise to 30% of the world's workers, or 750-900 million people.

The report, which is over-optimistic in its forecasts with respect to the United States and Europe, said that "there has been an above-average increase in jobs in the United States, despite growing wage inequality and a fall in real wages." In Europe, the report says, there are 18 million unemployed in the European Union, "but output and employment showed signs of picking up later in the year."

Unemployment is rising in the two Southeast Asian nations which have been hardest hit by the financial crisis: Thailand's unemployment is forecast to rise to 6%, or 2 million; Indonesia is expecting a steep rise, along with food shortages.

Poverty will spread in Russia, and it "threatens to replicate the earlier experience of Indonesia." Unemployment remains high in central and eastern Europe, while a "potential global pull-back by investors" in Ibero-American emerging markets will increase unemployment and "underemployment."

Sub-Saharan Africa, after "a prolonged period of poor growth, has given way to slightly improving employment in 1998, but most new jobs are in low-productivity agriculture."

Poland

High social costs of economic 'reforms'

Poland is faced with growing social and economic problems despite a new administrative division of Poland, according to *Trybuna*, a weekly associated with the former Workers' Party, in an article entitled "Old Poverty in New Boundaries," the Foreign Broadcast Information Service reported on Sept. 10. The growing problems are the result of so-called economic reforms.

According to the 1997 Gus (Main Office of Statistics) report on living conditions, as many as 5% of households cannot afford even the cheapest food and clothing. Some 26% of Polish families cannot afford prescription medicines. Nearly 16% of households are late in paying rent and other fixed fees. Electricity and gas bills are not being paid by 13.8% of households, and 12.2% are behind in paying off housing loans. One-third of all households have declared their need for financial assistance.

Unemployment is falling, according to the National Labor Office. Yet, in many regions, the unemployment rate is still high. For Poland as a whole in July it was 9.8%; however, in many provinces, it was twice as high. For example, in Slupsk, it was 18.8%; in Koszalin, 17.8%; in Walbrzych, 17.5%;

in Olsztyn, 17.2%; and in Wroclaw (which was hit by floods last year), 16.6%. This is now rapidly getting worse, because of the crisis in Russia and Ukraine. Many Polish farmers and small producers were able to survive because of trade along the border on the open-air markets. Now, with the devaluation of the ruble, even this source of income is drying up.

Even in those regions where the situation is considered a little better, for example, in Silesian province, where the unemployment rate was 6.2% prior to the mass layoffs of miners, the proportion of unemployed women is higher than in any other province: 69%.

The new boundaries will worsen it, the weekly said, because responsibility for education, health care, and infrastructure will be passed from the central government to local governments, which do not have any tax base. Poor regions in eastern and northern Poland will be merged. Zamosc will be in the same group with poor Chelm, Biala Podlaska, and the economically depressed Lublin. Bialystok will remain with Suwalki and Lomza.

Indonesia

Malnutrition alarming, according to UNICEF

A recent UNICEF report which focusses on the island of Java, where about 140 million of Indonesia's more than 200 million people live, reports alarming rates of malnutrition, according to the Sept. 24 *South China Morning Post*. The report is entitled "Indonesia: Malnutrition Stunts Growth of a Generation."

According to the report, more than half the children under two years of age in Java suffer from malnutrition; the number of children under three who suffer severe malnutrition has risen to 1 in 7, up from 1 in 12 in 1996, according to a study by the Helen Keller International charity. Anemia in children below three is up 50% since 1996, and now affects 60% of Java's children, while diarrhea rates have doubled among women and children.

Dr. Dini Latief, head of community nu-

ITALY granted \$1.2 billion in credit to Iranian banks, during the third session of Iran-Italy Joint Economic Commission, in Tehran on Sept. 20. Firms receiving the credit are to purchase Italian-made products and engage in projects to which Italy is a party.

TAIWAN is reconsidering plans for full liberalization of international capital flows, which were supposed to go into effect by the end of 2000, due to the financial crisis in Asia, the London *Financial Times* reported on Sept. 23.

AUSTRALIA is one of the six poorest countries in the developed world, with one in eight people living below the poverty line, according to the UN *Human Development Report*. It is estimated that 1.7 million Australians are likely to die before the age of 60 because of poverty, and half the children of single parents live in poverty.

BLAKENEY Management is moving to take over Lonrho Africa, the non-mining side of what was once Tiny Rowland's Lonrho. Blakeney has acquired almost 10% in Lonrho Africa. One of the main investors in Blackeney is Nicholas Roditi, a Rhodesian who runs George Soros's Quantum Fund.

MEXICO'S tortilla prices were hiked 15.4% in mid-September, the third rise this year, *El Financiero* reported on Sept. 18. The price for a kilo of tortillas has risen 58% so far in 1998, and 300% since December 1994. It is the only food eaten by the majority of Mexico's more than 40 million poor.

THE GOLD MARKET is becoming tight, and fuelling panic in the financial markets. The London Bullion Markets' one-month lease rates, i.e., the cost of borrowing gold from central banks, increased overnight recently by 130 basis points, toward 1.7%. The rush toward gold, contrasts with recent articles alleging that gold has lost its "safe haven" function.

trition at the Indonesia Department of Health, says that 8 million children under five suffer malnutrition ranging from mild to severe, which she attributes to low income. She said that caloric intake is only 75-80% of minimum daily requirements.

The reports corroborate recent statements by Indonesian Food Minister A.M. Saefuddin, who said that 4.4 million people in Central and East Java can afford only one meal a day, while 17 million face food shortages.

Brazil

Interest rates will shut down production

"The country and the productive sector will not survive these interest rates," the president of the Brazilian Machinery Association, Luiz Carlos Delben Leite, stated upon taking office in mid-September, *Jornal do Brasil* reported on Sept. 21. Employment in the sector is already below 1992 levels, when the machine-making industry in Brazil employed 235,000 people. At the end of 1997, that had dropped to 180,000; today, there are 170,000 employed, and that number, he said, will fall further, as soon as the September interest-rate increases hit full force. Today there are only 4,500 businesses left in the sector, as some 1,300 companies have been forced to shut down or become sellers of imported machines, since President Fernando Henrique Cardoso imposed his free trade "Real Plan" in 1994. Brazil imported \$2.6 billion worth of machines in 1993, and \$8.9 billion worth in 1997, with most of that increase replacing national production, he charged.

In addition, the government development bank, BNDES, said on Sept. 17 that it will no longer provide 100% financing for machinery and equipment purchases, but only 60% financing. According to Delben, BNDES financing covers 50-60% of all sales in the sector. "The decision is unacceptable," and will lead to layoffs, he warned.

The auto industry is also shutting down. One auto executive called the situation "much worse" than that of October-November 1997, when interest rates also paralyzed

sales. The four top producers (Fiat, Ford, General Motors, and Volkswagen) have already imposed across-the-board "collective holidays," i.e., temporary plant shut-downs, to try and lower inventories. The permanent workforce has also been reduced: Fiat employs 6,500 fewer workers than it did in 1997 (employing 17,000 now); VW will employ 4,200 fewer workers at the end of this year, compared to last. The auto parts industry is asking workers to accept lower salaries and shorter working hours, or face firings.

Health

Doctors warn of spread of Russian tuberculosis

A mutant form of tuberculosis that is "multi-drug resistant" (MDR-TB) is pouring onto the streets of Russia from fetid prisons, and doctors are warning that its worldwide spread could be extremely rapid, the Sept. 23 London *Guardian* reported. Russian jails are thought to have up to 20,000 inmates with MDR-TB.

Tina Demeulenaere, of the Moscow chapter of the Doctors Without Borders aid group, is quoted: "Sub-standard treatment and non-isolation of TB patients means the prison system is turning out MDR-TB patients like biscuits. It is a time bomb, because they are being freed, they infect other people, these people travel. It'll be all over the world before you know it." Dr. Oleg Zezelkalo, also with Doctors Without Borders, says the disease is "comparable to AIDS. TB has a tendency to spread. We're in the early stages of an epidemic. It's moving up the social scale to the middle classes, and it's not going to stop at the borders of Russia."

A joint appeal by Doctors Without Borders, the British aid agency Merlin, and the United States Public Health Research Institute warns: "It is only a matter of time before MDR-TB of Russian origin becomes a daily reality worldwide." Alex Goldfarb, director of the Russian TB Project, asserts that if some \$250 million is not spent soon on this health crisis, "the cost of the epidemic to the world will be counted in billions, and may become unmanageable."

Petawatt laser creates machine-tool revolution

Scientists have designed a tabletop laser so powerful and precise that it will revolutionize the machine-tool-design sector. Charles B. Stevens reports.

The fall of 1998 may be marked as the dawn of the Third Industrial Revolution, which will be further advanced early in the next millennium with the launch of the first interstellar, relativistic rocketship, and the demonstration of laser fusion. But, this fall, at the Y12 plant at Oak Ridge National Laboratory in Tennessee, the first true laser machine tool will go into industrial operation.

Not coincidentally, all three events will have been produced by the same group of scientists and engineers who are primarily working on the perfection of inertial confinement fusion at Lawrence Livermore National Laboratory, the University of Rochester, and other laboratories throughout the world.

The tabletop petawatt laser provides an exemplary case of the machine-tool-design principle enunciated by Lyndon H. LaRouche. The original application for which the petawatt laser (*peta* means 10^{15} or 1,000 trillion) was designed, was for aiding research and development of inertial confinement fusion energy (ICF). The petawatt laser is a new type of laser technology, and a new type of laser system. For ICF, the extremely powerful, though ultrashort pulse is designed to help ignite fusion fuel pellets.

The tabletop petawatt laser (**Figure 1**) was already 10 times more powerful than the gargantuan NOVA laser system which generates a very high-energy pulse for compressing spherical pellets of fusion fuel: The idea is to have the petawatt pulse be delivered after the maximum compression of the fusion fuel pellet has been achieved. The high-power pulse would interact with the surface of the compressed pellet and generate high-energy electrons, or what are called “hot” electrons. The “hot” electrons could then penetrate to

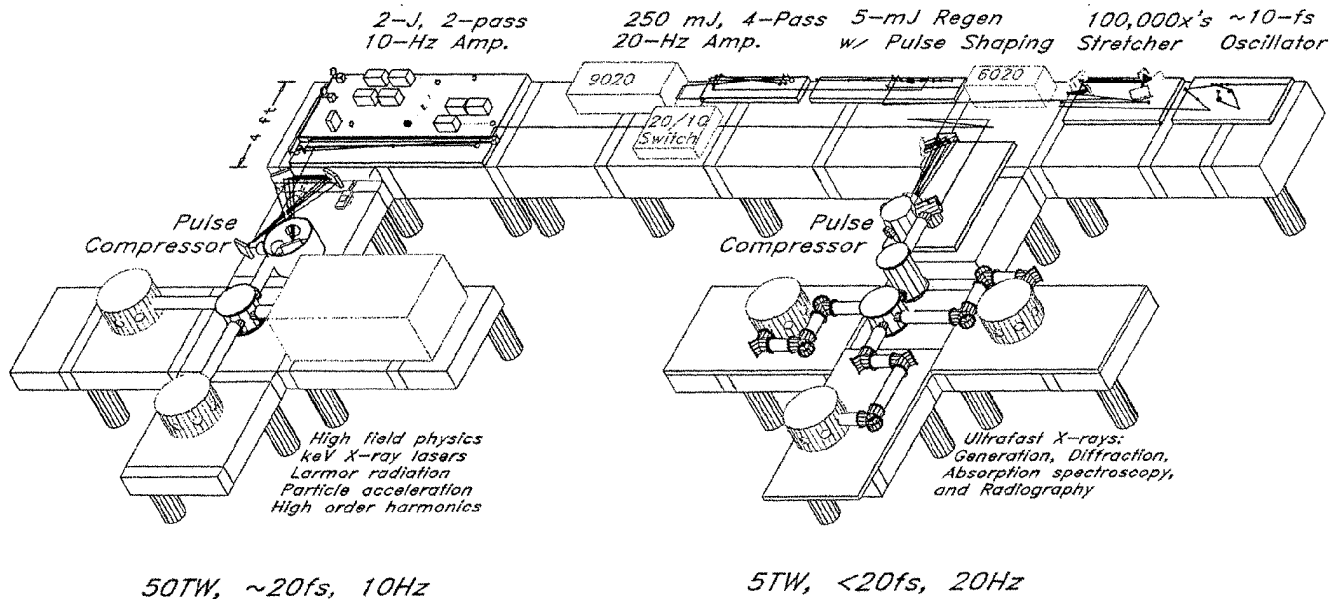
the center of the compressed pellet and ignite the cold, compressed fusion fuel to above the 100 million degrees centigrade temperatures, which are required to sustain nuclear fusion of the hydrogen isotopes, deuterium and tritium. The energy output from the core region would spread outward and ignite the remaining fusion fuel in the pellet before the pellet blows apart. In this manner, a high-energy gain—that is, a much greater fusion energy output than the total energy input of the original laser pulses—could be achieved. In short, the tabletop petawatt laser was developed as a tool to take the National Ignition Facility (NIF), under construction with a completion date of 2003, well beyond its original gain specification. (The contrast in scale is remarkable: The existing Livermore NOVA laser system is on the scale of a modest arena, while the NIF, under construction, is on the scale of a large arena. The petawatt laser fits on the top of a few tables.)

Thus, this new tool would demonstrate a new scientific concept: fast ignition with hot electrons.

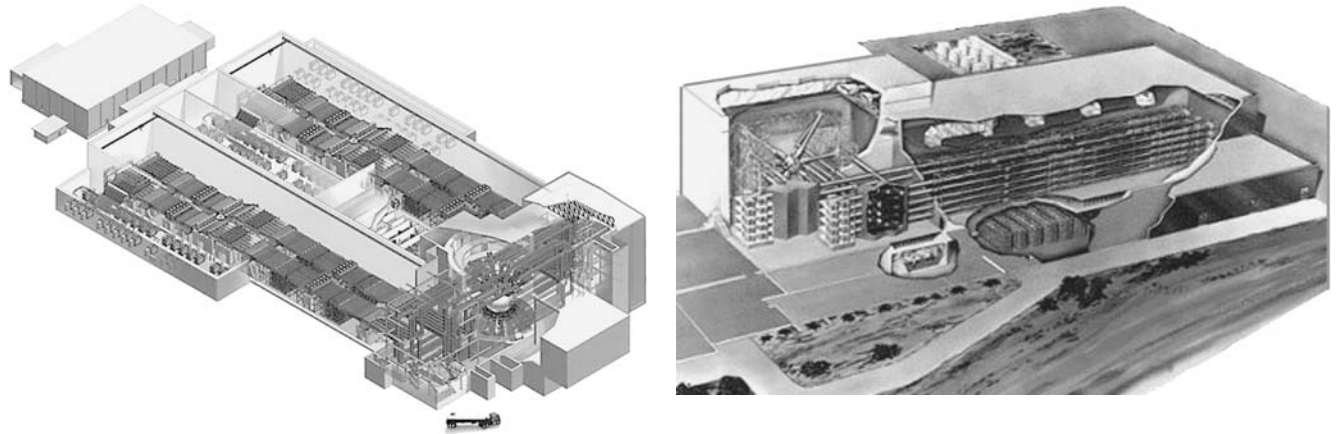
However, the petawatt laser has now demonstrated a new type of interaction with matter, leading to the development of an entirely new type of machine tool for industry, allowing that technology to proliferate throughout the economy. Because the petawatt laser manifests new interactions between light and matter, it is already revolutionizing many fields of scientific research other than inertial confinement fusion, and its use is spreading rapidly, primarily because of its small size and relatively small cost, which makes it accessible to a wider range of researchers. Already the petawatt laser has produced novel physical conditions in combination with high-energy particle accelerators. Last year, scientists working on the

FIGURE 1

Comparison of laser facilities



The diagram (above) shows the petawatt laser system, which can fit across a few table tops. By comparison, the National Ignition Facility laser (bottom left), under construction, is the size of a large arena. The artist's conception shows a truck parked next to the NIF to indicate the scale. The existing Livermore laser system, also shown as an artist's rendition, is about the scale of a modest arena.



Stanford Linear Accelerator (SLAC) were able to “spark” the vacuum and generate matter directly from the vacuum—that is, pairs of electrons and antimatter positrons—when the SLAC beam was combined with a powerful pulse from the petawatt laser. It is already projected that the ultrashort-pulse petawatt laser can be combined with an upgraded SLAC to generate energies in excess of 10 trillion electron volts. This will create conditions for entirely new types of physical interaction at the frontiers of science.

Over the last decade, laser intensities have been increased by more than a factor of 10,000 to attain power densities of greater than 10^{20} watts per square centimeter (see **Figure 2**).

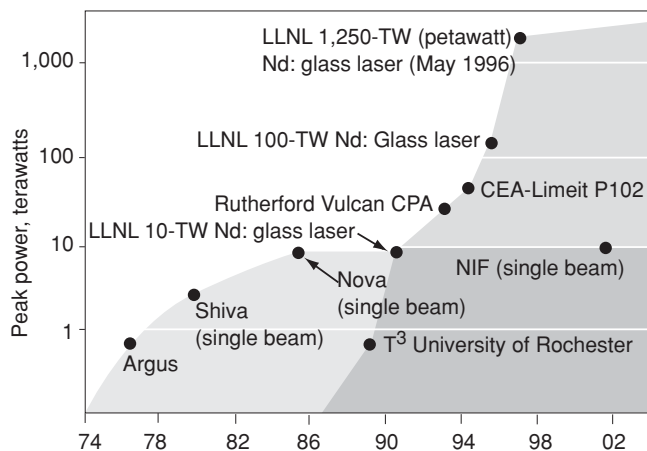
The electric field strength at these intensities is on the order of a trillion volts per centimeter. This is 100 times the electric field that binds electrons into their orbits within the atom. And at these intensities the light pressure is up to 1 trillion times that of one atmosphere. The physical conditions generated are either found only in the interior of stars or even denser astronomical singularities.

How the petawatt laser works

The petawatt laser was first realized through the work of D. Strickland and G. Mourou, who were then working at the University of Rochester Laboratory for Laser Energetics, the

FIGURE 2
Peak power reached by lasers, 1974-2002

(in terawatts)

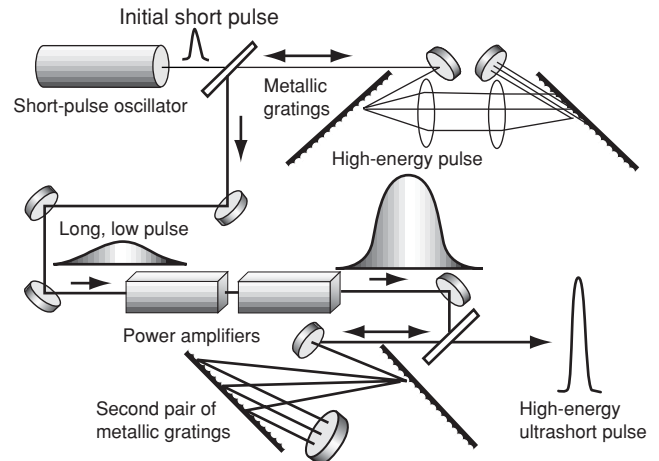


second major laser fusion laboratory in the United States, located in New York. Strickland and Mourou applied a technique that had been originally utilized in pulse amplification of radar outputs and in compression of telecommunication transmissions: chirped-pulse amplification (CPA). In May 1996, scientists working under Michael Perry at Lawrence Livermore National Laboratory succeeded in perfecting this CPA procedure to produce the first petawatt laser pulse. This was 10 times greater than the output of the giant Livermore NOVA laser fusion system.

As shown in **Figure 3**, the first step is to generate a low-energy, broad-band ultra-short laser pulse from a solid-state titanium sapphire laser. This pulse is as coherent as ordinary monochromatic laser pulses, but it consists of many different wavelengths—that is, many colors. This is what makes the pulse broadband. The pulse is then passed through a diffraction grating, which breaks the pulse up into its various colors, just as a prism does with white light. Each of the colors of the pulse then travels a separate path of varying length. The pulse is reflected off a second grating and an elongated version of the original pulse is thereby generated. The “stretcher” action increases the pulse length by a factor of roughly 10,000. The elongated pulse is then passed through a broadband solid-state series of amplifiers, in which process the energy of the pulse is increased by as much as 100 billion times. The pulse is then passed through a second series of gratings in which the colors are recombined in space and time to regenerate the original length pulse, but at 100 billion times greater energy.

Once this new level of power density was achieved by the petawatt laser development team, they faced a major hurdle

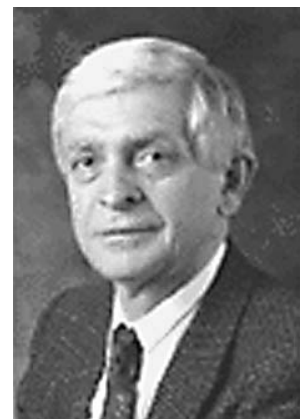
FIGURE 3
How the short-pulse petawatt laser works



The short pulse originates from a titanium-sapphire laser oscillator that produces a broadband initial short pulse. Mirrors deflect this initial pulse to metallic diffraction gratings which stretch it out into a long, low-energy pulse. One set of mirrors deflects this stretched pulse into broadband power amplifiers, which produce the high-energy pulse. A second set of mirrors deflects this pulse into a second pair of metallic diffraction gratings, which compress the high-energy pulse into a high-energy ultrashort pulse. A plasma mirror is then utilized to focus this final pulse onto a target.

with respect to how to generate optical materials that could withstand the new power density, so that the beam could be focussed. This problem was solved by the development of a radical new approach developed by Michael Perry and Livermore Associate Director at Large John H. Nuckolls. (Dr. Nuckolls is the father of laser pellet fusion. Beginning in the 1950s, he pioneered the work upon which today’s inertial confinement research is based.)

The new approach to optical mirrors was based on utilizing a plasma for the mirror. The plasma could withstand the 700 billion watts per square centimeter of the petawatt laser beam. In practice, the first part of the petawatt laser pulse generates a short-lived dense plasma, when it encounters the surface of a polished glass mirror. And just as the Earth’s ionospheric plasma will reflect radio waves of the right wave-



Dr. John H. Nuckolls

length range, the petawatt laser's short-lived plasma has sufficient density to reflect the laser pulse. Because the pulse is so short, the plasma does not have time to expand during the remainder of the main body of the pulse which is reflected. (Besides reflecting this higher power density, the short-lived plasma protects the remaining mirror surface and other delicate optical and diagnostic instruments down the line, which could be damaged by radiation generated when the petawatt laser pulse hits a target.)

This breakthrough in optics indicates that those who criticized the original Strategic Defense Initiative in the 1980s, may have underestimated the potential for plasma "optics" in the case of the X-ray laser.

Using lasers in machining

Machining with conventional lathes and machine tools is limited to cuts down to 100 microns width at depths on the order of one millimeter. Below this level, laser and

LaRouche explained 'tuning' lasers in 1983

The following are excerpts from a presentation by Lyndon H. LaRouche, Jr. to a Washington, D.C. conference of the Fusion Energy Foundation, on April 13, 1983. The full text appeared in EIR, April 26, 1983.

It is true that many voices, such as the *New York Times*, insist that this is all unworkable "star wars" technology; it should be remembered that the *New York Times* said the electric-light bulb should not be developed, and that people of the same views said such silly things as that it would be ten years after World War II before the Soviet Union could develop a fission-weapon, and that thermonuclear fusion was impossible. Others say this is all music of the future, no earlier than 20 years ahead. In some cases, they could know the facts, but refuse to discover those facts; in other cases, even among some professionals, they are sincerely ignorant of some basic principles of Riemannian physics. We limit our brief discussion of the point here to the case of lasers and both the military and civilian-economy feasibilities involved.

There are two broadest relevant features of lasers and laser-like systems. First, if we concentrate even a fairly small quantity of wattage on a sufficiently small area, the concentration of energy, which we call its energy-flux density, can be made sufficient to "boil," so to speak, any material. This much seems to be explainable in terms of widely acceptable theory of heat; the second principle can not be so explained. Second, lasers have a property which is sometimes called "self-focusing." This is described more accurately by reporting that each range of the upper electromagnetic spectrum has very distinct qualities of harmonic resonance. In one case, this focuses the energy on the molecular scale, in another the atomic scale, in

another the nuclear scale, and in higher ranges, the sub-nuclear scale. To cause a laser to work as desired, one must tune the laser to monochromatic frequencies such that very little of the laser's beam is absorbed by the medium through which it is transmitted, and the beam is tuned at the same time to the part of the spectrum of matter of the target selected. Thus, what is called "self-focusing" of lasers at the point of contact with targets, is actually a reflection of the indicated harmonic-resonance principles.

There is a precise analogy for this from *bel canto* methods of singing. A master of *bel canto* methods should be able to break a glass, but at the same time, the singer's breath will not disturb the flame of a candle in front of his mouth.

By aid of these self-focusing properties of lasers and laser-like particle-beams, we are able, in effect, to concentrate the wattage of a beam into areas measurable, in some instances, in fractions of Angstrom units. No material can withstand such impact for even microseconds. . . .

The principles governing the way in which a coherent, directed beam does work on its target, are, most immediately, the principles defined by Bernhard Riemann's 1859 paper, "On the Propagation of Plane Air Waves of Finite Magnitude," Riemann's proof of Leonardo da Vinci's earlier definition of the hydrodynamic generation of acoustical shock-waves. The principles of this 1859 paper apply not only to such things as the "sonic boom" of a supersonic projectile; they are a universal principle of action in our universe, a principle which the Soviet literature terms "Riemann waves." . . .

If we examine the kinds of processes which lasers and laser-like beams involve from any standpoint but Riemann's, progress in this field is not altogether impossible, but is very cumbersome, and is a succession of fits and starts, as one attempts to interpret the phenomena by varieties of mathematical-physics doctrines which are not the most appropriate for this work. From Riemann's standpoint, the whole domain is wonderfully simple to understand. . . .

electron beam tools are utilized for high precision work. Electron beam and laser industrial technologies now in use remove material by a thermal process, where the material to be removed is heated to the melting or boiling point. With a few specialized materials, more efficient molecular dissociation of materials can be achieved with excimer lasers, but this photo-dissociation mechanism does not work with metals.

With conventional lasers, i.e., with longer pulses, energy is deposited from the incident beam in the material in the form of heat, that is, lattice vibrations. The absorbed laser energy therefore generates a rise in temperature at and near the absorption site, resulting in melting or boiling as temperature increases. Material is then removed by conventional melting or vaporization. In some materials, this temperature rise can be very fast, which results in the generation of ablation and shock waves passing through the material. The thermal and shock effects result in an actual change in the grain structure or even in the composition of the material in the area of the cut. The affected zone can range from a few microns to several millimeters. A concomitant drawback to conventional laser machining is that material is redeposited or resolidified on the workpiece. In most high-precision work, the presence of slag is unacceptable.

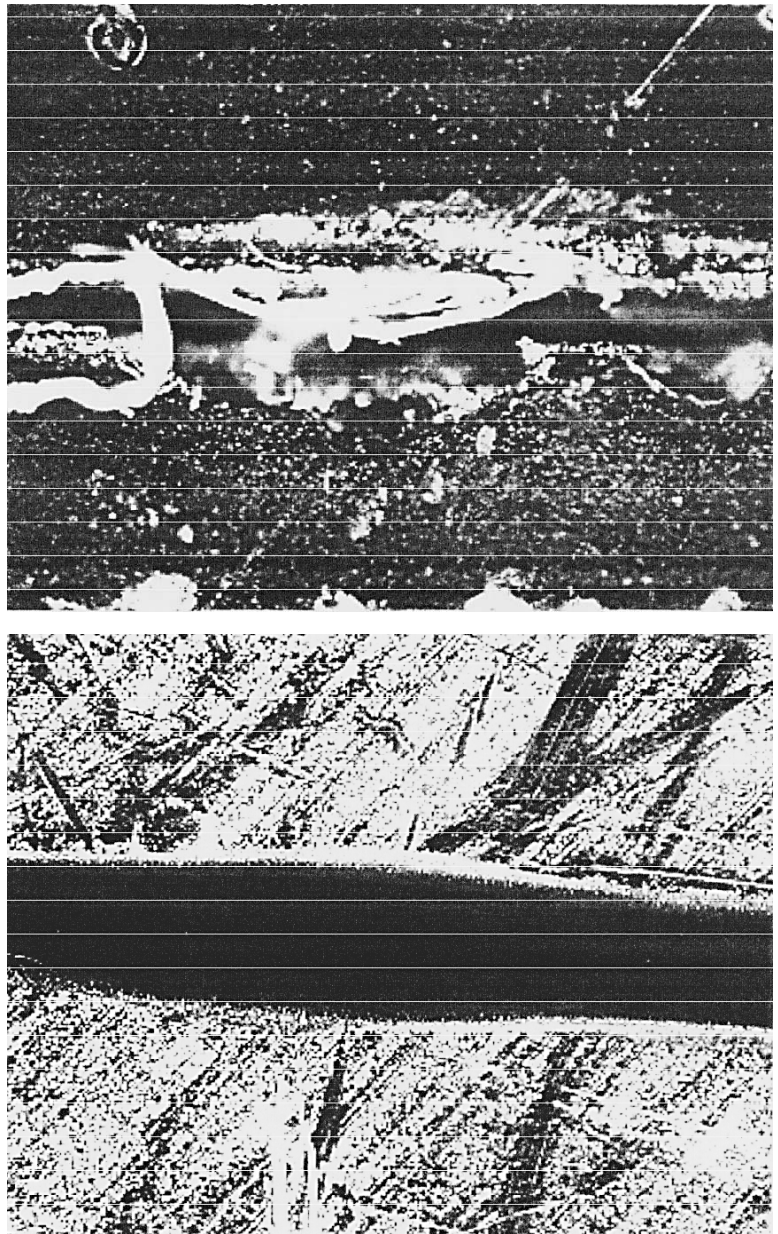
With the development of even shorter pulse systems, down to the femtosecond level (10^{-15} seconds), a new interaction with matter was observed. This new type of “cold” ablation offers a major advance over conventional machining. With these ultra-short pulses, absorption of the laser energy occurs with virtually no heat transfer to the surrounding material, which generates a “cold” laser-cutting process, as distinct from the thermal processes generated by laser pulses longer than 10^{-11} seconds, in which the cutting process first melts and then vaporizes the material, with significant transfer of heat to the material outside the cutting region. And unlike the chips and flakes generated by ordinary machine tools and long-pulse laser cutting, the short-pulse laser method, for the most part, generates only solid carbon or benign gases, which can either be released into the air or captured.

Livermore experiments showed that as one proceeds to shorter and shorter laser pulses, there is a transition from the thermal mode of energy transfer to a new mode of energy transfer, which is characterized by collisional and

multiphoton ionization and the formation of a highly organized plasma. Once formed, the plasma protects the remaining material at the site of the laser cut, because it reflects any further incident laser light during the short pulse. (The

FIGURE 4

Comparison of ‘hot’ versus ‘cold’ laser machining



Shown here are top views of “hot cut” (top) and “cold cut” (bottom) stainless steel. The “hot cut” stainless steel was cut with a conventional 1.053 micron laser, operating at a pulse length greater than 1 nanosecond. The presence of resolidified molten material, which is called slag, and poor single-pass cut quality, indicative of laser cutting by conventional methods, is readily apparent. The “cold cut” stainless steel was cut with a 350-femtosecond pulse laser, and the edges are obviously clean.

plasma dissipates very rapidly and thus allows further pulses to act on the material.) Heat transfer to the lattice of the material being cut does not occur, since the laser pulse is less than or equal to the shortest period of the highest frequency lattice vibrations.

In experiments with metal, it was found that the short laser pulse does initially produce joule heating as the electromagnetic fields of the laser pulse diffuse into the metal up to the “skin” depth expected. But the formation of the short-lived plasma sheath above the material stops this diffusion and reverses it. For pulses in the range of 100 to 150 femtoseconds, there is virtually no heat energy transferred to the metal.

The Livermore experiments report that, typically, each laser pulse removes a few microns of material. The pulses can be readily generated in rapid fire, thousands of times per second. This means that the cutting process is fairly rapid, while at the same time being “cold”: There is no significant transfer of heat to the material being worked (**Figure 4**).

A wide range of materials has been tested with this new laser machine tool. Diamond, for example, does not absorb light at the wavelength of the petawatt laser, 0.82 microns. But the beam intensity is sufficient to produce charge carriers by multiphoton processes, which leads to the generation of other carriers by an avalanche breakdown process in the strong electric fields of the laser pulse, and thus a plasma is formed. The result is efficient and accurate cutting of diamonds. A range of metals were successfully cut, as were semiconductor materials.

Many biological materials, such as tissue, bone, cartilage, and teeth have also been successfully machined. The laser machine tool holds great promise for some medical procedures, such as painless removal of dental cavities, and laser angioplasty. (Previous attempts to use lasers in angioplasty have led to pieces of plaque being broken off, threatening to cause clots in blood vessels.)

The first industrial-scale application of the new Livermore femtosecond laser machine tool will be to disassemble weapons containing high explosive materials—old nuclear weapons, and biological and chemical warheads and shells. With more conventional laser cutting and machine tools, these materials are very unsafe, and can easily be ignited by subsidiary heat and shock. The new femtosecond laser machine tool ideally solves these problems. And, because of its accuracy, in many cases, parts that have not suffered wear and tear can be reutilized.

Another immediate application of the femtosecond laser is for generation of cooling ducts in turbine blades. Whereas current machining methods introduce damage and imperfections into the turbine blades, thereby decreasing their strength and limiting the temperatures and speeds at which they can operate, the new Livermore laser system could revolutionize turbine blade design and manufacture.

LaRouche-Riemann model vindicated

Livermore’s success with the first effective laser machine tool is a resounding confirmation of the LaRouche-Riemann method for physical economy, which was the basis for Lyndon LaRouche’s concept of a ballistic missile defense system, and which underlay the strategic doctrine announced by President Ronald Reagan, the Strategic Defense Initiative (SDI).

In 1982-83, when LaRouche was organizing for the Reagan administration to implement his missile defense strategic policy, even LaRouche’s closest scientific and technical allies in the government objected to LaRouche’s projections that a technological revolution would be engendered by the development of the same laser, directed-energy beams, and “new physical principles” designed to make nuclear missiles “impotent and obsolete.”

During this period, 1982 and early 1983, many meetings were held with National Security Council staff in the Old Executive Office Building, during which a major topic of debate was LaRouche’s specification that an SDI would constitute a science-driver for the entire U.S. economy. By sparking new technologies and new production methods based on new physical principles, the military SDI program would more than pay for itself, through spin-offs in the civilian economy, according to LaRouche. A major example put forward by LaRouche was the utilization of the laser as a machine tool.

For example, Dr. Ray Pollock, a National Security Council specialist on missile defense and a former Los Alamos National Laboratory scientist, joined other government scientists in taking the role of devil’s advocate, and strongly objected that all of the extant technical facts indicated that such diffusion into the civilian economy—such as with laser machining—was “unrealistic.” In the case of the laser, they argued, the primary means of energy transfer was heat. This meant that, while the laser could possibly be useful as a spot welder or rough cutter of metal sheet, it could not compete with the efficient and accurate removal of material that was achieved with existing machine tools. The scientists putting forward this pessimistic analysis were the world’s leading laser scientists.

Yet, now with the realization of the Livermore short-pulse laser machine tool, LaRouche has been fully vindicated. And he would have been vindicated far more quickly, had his SDI science-driver policy been fully implemented in the 1980s. Instead, the Fusion Energy Foundation, which LaRouche had founded in 1974 and which had worked on the strategic policy for ballistic missile defense since 1979, was illegally shut down—along with several other LaRouche-associated groups—by the Justice Department “permanent bureaucracy” in 1987. LaRouche’s enemies then had him sent to prison for five years in 1989.

The Livermore breakthrough with ultrashort-pulse petawatt lasers demonstrates LaRouche’s machine tool principle in practice and will hopefully open the minds of researchers to LaRouche’s unique comprehension of Riemannian physics.

The truth about ‘American Exceptionalism’

by Jeffrey Steinberg

It is no secret that the institution of the U.S. Presidency is under the gravest attack in memory, at precisely the moment that the world financial system is near melt-down. The collective wisdom of the financial marketeers stands discredited for all but the most ideologically blind worshippers of “free trade.” Concerted action by governments is urgently required, before the world monetary system, and with it, the world’s productive economy, evaporates.

No living human being has been more prescient about the onrush of global economic disaster than Lyndon LaRouche. His nine published forecasts, spanning 40 years, have identified the underlying policy flaws that led to our current mess. No one has been more precise about the emergency measures that must be taken to avert global disaster. Therefore, it is of great importance today, to understand why LaRouche has warned repeatedly that the United States must provide leadership, if the world is to successfully find a solution to the financial crisis, and avert a collapse into a worldwide new Dark Age.

At the heart of LaRouche’s assertion that the United States must lead, is his profound understanding of the unique historical contribution of the American Revolution, the U.S. Federal Constitution, and what was once known as the “American System” of political economy. These ideas are not historical relics, but are alive today, albeit badly tarnished, in the hearts and minds of a majority of Americans, and in many of the nation’s institutions, particularly the U.S. Presidency.

More than 375 years ago, leading European republicans set out to build, on the shores of North America, a nation-state, based on the highest principles of Christianity. They sought refuge from the power of oligarchism in Europe, and formed colonies, upon principles that would produce the greatest experiment in constitutional government known to man. They succeeded, with the vital assistance of European-based republican allies, in winning a War for Independence.

Once they consolidated the Constitutional Republic, the Founding Fathers sought opportunities to repay their debt of obligation to republican allies around the world. Even as the United States was struggling against the efforts of the British



President Franklin Roosevelt addressing Congress. FDR consciously modelled his diplomacy on that of John Quincy Adams. Upon entering the White House in 1933, despite the preceding 30 years of treachery and mediocrity in the White House, Roosevelt succeeded in reviving the principles of American System economics and diplomacy.

oligarchy to overthrow the American Revolution, such figures as John Quincy Adams, the American-trained German nation-builder Friedrich List, Joel Poinsette, Edgar Allan Poe, E. Peshine Smith, Mathew and Henry Carey, and others, sought to aid the emergence of republican nation-states on every continent, while simultaneously spreading science and invention to all corners of the earth, in the belief that, in the words of the Declaration of Independence, “All men have been endowed by their Creator” with the inalienable rights of “Life, Liberty, and the pursuit of Happiness.”

Despite persistent attacks from the forces of European-centered oligarchism, abetted by traitorous elements at home, the United States prospered as a nation, and as a force for republican virtue in the world. The burning of the White House by British Red Coats during the War of 1812; the British-provoked war of Southern secession, the Civil War; and the London-ordered assassinations of Presidents Lincoln and McKinley, failed to bury the principles of the American Revolution. Despite one-third of a century of treachery and mediocrity in the White House, beginning with Theodore Roosevelt in 1901, Franklin Delano Roosevelt succeeded in reviving the principles of American System economics and diplomacy, upon entering the White House in 1933. America turned from the Depression, to become an engine of global economic recovery and victory over fascism.

As we show here, FDR demonstrated that the American people could be mobilized in the spirit of the Founders. FDR consciously modelled his diplomacy on that of John Quincy Adams, the man who institutionalized America’s relations

with other nations around a “community of interest.”

The tradition of the Founding Fathers has taken root in the minds of most Americans. Most voting-age citizens have living relatives who experienced the FDR revival of the American tradition. Even the now-ruling generation of Baby Boomers have memories of the Presidency of John Kennedy, who sought to revive the tradition of Lincoln and FDR. They have memories of the words of Dr. Martin Luther King, Jr.

These universal ideas have no precedent with any other nation today. This is the essence of “American Exceptionalism.” This is why Lyndon LaRouche has stated, that the last best hope for mankind to avert a new Dark Age, lies with a revival of American leadership—not on behalf of some utopian notion of “new world order,” but on behalf of a revival of the proven policies of John Quincy Adams, FDR, and others. The assault on the Presidency today can only be understood from the standpoint of the oligarchy’s fear that American Exceptionalism can once again catalyze the defeat of their evil game.

The rich history of the United States, as the leadership of a worldwide republican movement, born centuries ago in the European Renaissance, must be unleashed as a weapon in this period of crisis. The lost history of America must be told and retold.

At the Schiller Institute Sept. 5-6 conference near Washington, D.C., some of that history was presented. Here are two speeches at that conference. An accompanying speech, by H. Graham Lowry, “The Exceptional Mission of America,” is published in the Oct. 5 *New Federalist* newspaper.

American Exceptionalism in the 20th century

by Jeffrey Steinberg

By the time Franklin Delano Roosevelt was inaugurated President of the United States, in March 1933, America had gone through one-third of a century without a President in the tradition of John Quincy Adams or Abraham Lincoln. Yet, the founding principles of our Republic, the universal principles distilled from nearly 2,000 years of Western Christian civilization, were alive and well in the person of FDR, and he, in turn, was able to rekindle that spirit in a majority of Americans, whom he mobilized through the Great Depression and a world war.

Franklin Roosevelt was, in a sense, an unlikely candidate to revive the American System tradition for the twentieth century. He was born to a patrician New York family. His great-grandfather made his fortune in the Far East opium trade as a junior partner to the British East India Company. FDR attended Groton and Harvard. He became a rising star of the Democratic Party, serving as Undersecretary of the Navy in the Woodrow Wilson administration. At the time, he was hardly a critic of his cousin, Teddy Roosevelt, a leading figure in the national imperialist tradition of American foreign policy.

Yet, something profound happened to FDR that would transform him. In 1921, at the age of 39, Franklin Roosevelt was struck with polio. He removed himself totally from public life, to fight the disease. During this period of nearly six years, Roosevelt immersed himself in a study of American history, especially the Founding Fathers. He became an enthusiast of the economic policies of Alexander Hamilton. His battle with polio also opened FDR's heart to the plight of the less fortunate, a concern he carried with him for the rest of his life, in the form of a burning passion to bring an end to colonialism in all forms.

FDR, perhaps with a sense of irony, chose the pages of the New York Council on Foreign Relations' quarterly journal to relaunch his political career—on a very different track.

A view of U.S. foreign policy

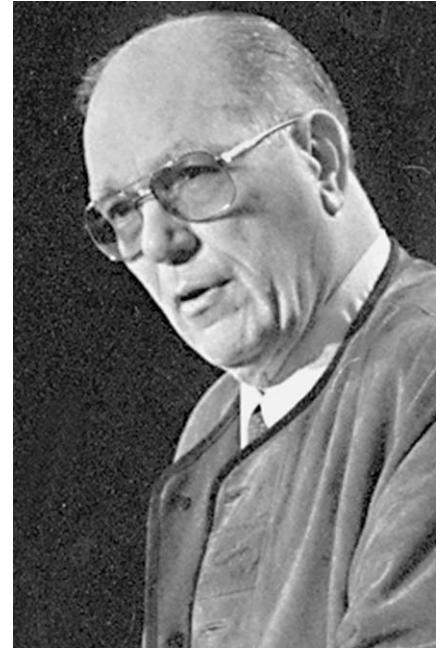
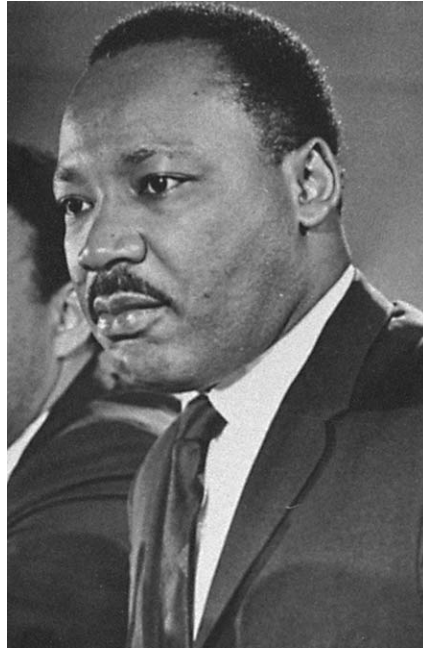
In the July 1928 issue of *Foreign Affairs*, FDR spelled out "A Democratic View" of "Our Foreign Policy." In that article, FDR unambiguously declared his commitment to revive the founding principles of the American Republic, particularly the guiding principles of American foreign policy associated with John Quincy Adams. Freely acknowledging the degradation of American diplomacy through decades of "dollar diplo-

macy" and "gunboat diplomacy," Roosevelt nevertheless optimistically asserted, "An analysis of our own history disproves the accusation that this selfish spirit is the real American spirit. In the debates during the war of the Revolution and in the long discussions immediately preceding the adoption of the Constitution it was plain that careful thought was being given to every conceivable form of government in the hope that what the United States finally adopted might serve as a pattern for other people, especially in regard to the spirit that should govern the relations of one state with another. The words of the Declaration of Independence itself invoke a 'decent respect to the opinions of mankind.'"

He continued, "After the general peace of 1815, the newly won independence of the Central and South American nations provided frequent opportunities for reconquest and disturbance; our response was the Monroe Doctrine, a policy aimed not only at self-protection but, in the larger sense, at continental peace. Promulgated by a Democratic Administration, it was our counter-move against the desperate attempt of the Holy Alliance to curb the rise of liberalism by interfering in the internal affairs of government and by crushing revolting colonies desirous of setting up democracies. Here again the thought of America was not solely selfish, but was influenced by an ideal."

Roosevelt concluded his essay in the present tense: "The time has come when we must accept not only certain facts but many new principles of a higher law, a newer and better standard in international relations. We are exceedingly jealous of our own sovereignty and it is only right that we should respect a similar feeling among other nations. The peoples of the other Republics of this Western world are just as patriotic, just as proud of their sovereignty. Many of these nations are large, wealthy and highly civilized. The peace, the security, the integrity, the independence of every one of the American Republics is of interest to all the others, not to the United States alone. . . . Single-handed intervention by us in the internal affairs of other nations must end; with the cooperation of others we shall have more order in this hemisphere and less dislike. . . . The time is ripe to start another chapter. On that new page there is much that should be written in the spirit of our forebears. If the leadership is right—or, more truly, if the spirit behind it is great—the United States can regain the world's trust and friendship and become again of service. We can point the way once more to the reducing of armaments; we can cooperate officially and whole-heartedly with every agency that studies and works to relieve the common ills of mankind; and we can for all time renounce the practice of arbitrary intervention in the home affairs of our neighbors."

Four years later, Franklin Roosevelt was elected President of the United States. From the moment he took office, he dedicated himself to the revival of the "American Ideal" that he invoked in the 1928 essay. He had written to historian Claude Bowers on April 3, 1929: "I think it is time to claim Lincoln as one of our own. The Republican Party has certainly



From left, President John F. Kennedy, Dr. Martin Luther King, Jr., and Lyndon LaRouche, the modern-day heirs of “American Exceptionalism” who have sought to strengthen the republican nation-state, and who have based their work on the belief that, in the words of the Declaration of Independence, “All men have been endowed by their Creator” with the inalienable rights of “Life, Liberty, and the pursuit of Happiness.”

repudiated, first and last, everything that he stood for. That period from 1865-1876 should be known as America’s Dark Ages. I am not sure that we are not headed for the same type of era again.”

Again, Roosevelt showed a flair for the ironic. Not only was Bowers a one-time *New York Times* reporter and a leading State Department Anglophile, but he had written a history of the Civil War, shortly before FDR wrote to him, that was an unabashed apology for the Confederacy.

Roosevelt’s appreciation of Lincoln, nurtured during his intense study of the Founding Fathers and the American System while he was engaged in his long fight to overcome polio, was also something that flowed from his own generational experience. His father, James Roosevelt, had been born in 1828, and was a Union Democrat. His grandfather, Isaac Roosevelt, had been born in 1790, just three years after the Constitutional Convention.

A revival of American System diplomacy

In the White House, confronted with the onset of a Great Depression at home, FDR, nevertheless, launched a revival of American System diplomacy in his first inaugural address, delivered on March 4, 1933: “In the field of world policy,” he announced, “I would dedicate this nation to the policy of the good neighbor—the neighbor who resolutely respects himself and because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of agreements in and with a world of neighbors.”

To demonstrate that these were not empty phrases, Roosevelt convened a special session of the governing board of the Pan American Union in Washington, D.C. just a month later. On April 12, 1933, in an address which was broadcast all across the hemisphere in several languages, Roosevelt stated, “Common ideals and a community of interest, together with a spirit of cooperation, have led to the realization that the well-being of one Nation depends in large measure upon the well-being of its neighbors. . . . Friendship among Nations, as among individuals, calls for the constructive efforts to muster the forces of humanity in order that an atmosphere of close understanding and cooperation must be cultivated. . . . In this spirit, the people of every Republic on our continent are coming to a deep understanding of the fact that the Monroe Doctrine, of which so much has been written and spoken for more than a century, was and is directed at the maintenance of independence by the peoples of the continent. It was aimed and is aimed against the acquisition in any manner of the control of additional territory in this hemisphere by any non-American power. . . . Each one of us must grow by an advancement of civilization and social well-being, and not by the acquisition of territory at the expense of any neighbor.”

The following year, Roosevelt completed a personal mission that he had first launched in the 1920s. He pushed through Congress the Philippines Independence Act of 1934, which granted the Pacific nation full independence by 1946, to follow a period of intensive American investment in the improvement of living standards and education on the islands.

Roosevelt's action toward the Philippines would give him the moral high-ground for his future battle with British Prime Minister Winston Churchill and the entire structure of British and continental European imperialism. Roosevelt's notion of a United Nations—in contrast to the One World Federalist views of the H.G. Wells and Bertrand Russell British camp—was as a collection of sovereign states, serving as trustees, overseeing the decolonization of the colonial world, and preparing those peoples, through similar investment in education and industrial development, for true sovereignty.

Roosevelt's efforts to revive the American Ideal in domestic and foreign policy were consciously steeped in the Platonic and New Testament principle of *agapē*. Consider these words, from his June 27, 1936 speech at the Democratic Party Convention, where he accepted his renomination as the party's candidate for President. "It has been brought home to us that the only effective guide for safety in this most worldly of worlds, the greatest guide of all is moral principle. We do not see faith, hope and charity as unattainable ideals, but we use them as stout supports of a Nation fighting the fight for freedom in modern civilization. . . . Faith—in the soundness of democracy in the midst of dictatorships. Hope—renewed because we know so well the progress we have made. Charity—in the true spirit of that grand old word. For charity literally translated means love, love that understands, that does not merely share the wealth of the giver, but in true sympathy and wisdom helps men to help themselves. We seek not merely to make Government a mechanical implement, but to give it a vibrant personal character that is very much the embodiment of human charity. . . . In the place of privilege we seek to build a temple out of faith, hope and charity. . . . Governments can err, Presidents make mistakes, but the immortal Dante tells us that divine justice weighs the sins of the cold-blooded and the sins of the warm-hearted on different scales."

The battle over the postwar future

As war in Europe commenced, President Roosevelt was faced with a series of challenges: to mobilize the American industrial base, and the American people, as never before, to defeat the Nazis. And, to lay the basis, during the wartime alliance with Britain and the Soviet Union, for a postwar world free from the degradation of colonialism. For FDR, to have accomplished the first objective without the second would have been tantamount to defeat, as sure as if Hitler had conquered all of Europe.

We have the benefit of Roosevelt's intimate discussions with his son, Elliot, during some of the most crucial diplomatic conferences of the war: Argentia, Casablanca, Cairo, and Tehran. In 1946, Elliot Roosevelt was driven to publish his private discussions with his father in the form of a book, *As He Saw It*, for reasons he made clear in the opening pages. "The decision to write this book was taken recently, and impelled by urgent events. Winston Churchill's speech at Fulton, Missouri, had a hand in this decision. . . . All the signs of

growing disunity among the leading nations of the world, all the broken promises, all the renascent power politics of greedy and desperate imperialism were my spurs in this undertaking. . . . The unity that won the war should be, must be, a fact today, if we are to win the peace. . . . But more and more since V-E Day, and since the atom bomb first fell, this unity has disappeared. It is because I doubt that we have only *drifted* away from this unity, it is because I am convinced that we are being *shoved* away from it, by men who should know better . . . that I felt it important for me to write this book. . . . I am writing this, then, to you who agree with me that . . . Franklin Roosevelt's ideal and statesmanship would have been sufficient to keep that unity a vital entity during the postwar period, and who agree with me that the path he charted has been most grievously—and deliberately—forsaken." *As He Saw It* was dedicated "To all those who believed in my father."

Months before the United States formally entered the war, following the attack on Pearl Harbor, FDR met with Churchill at Argentia, in Newfoundland, Canada. It was August 1941. Roosevelt was clear as to the stark differences between the United States and Britain. He told Elliot, "I think I speak as America's President when I say that America won't help England in this war simply so that she will be able to continue to ride roughshod over colonial peoples." The next day, meeting with Churchill, Roosevelt was equally blunt: "I am firmly of the belief that if we are to arrive at a stable peace it must involve the development of backward countries. Backward peoples. How can this be done? It can't be done, obviously, by eighteenth-century methods."

Churchill, his neck beet-red, interrupted, "Who's talking eighteenth-century methods?"

Roosevelt: "Whichever of your ministers recommends a policy which takes wealth in raw materials out of a colonial country, but which returns nothing to the people of that country in consideration. Twentieth-century methods involve bringing industry to these colonies. Twentieth-century methods include increasing the wealth of a people by increasing their standard of living, by educating them, by bringing sanitation—by making sure that they get a return for the raw wealth of their community."

Elliot Roosevelt observed, "The P.M. himself was beginning to look apoplectic. 'You mentioned India,' he growled."

FDR: "Yes. I can't believe that we can fight a war against fascist slavery, and at the same time not work to free people all over the world from a backward colonial policy."

At Argentia, Roosevelt prevailed, forcing Churchill to sign the Atlantic Charter, a document that spelled out the principles of universal freedom from the colonial yoke, for the postwar world.

The 'Four Freedoms'

Even before his first face-to-face confrontation with Churchill, Roosevelt had spelled out the principles for which America was prepared to fight. In his State of the Union message, on Jan. 6, 1941, FDR told the American people, "In

future days, which we seek to secure, we look forward to a world founded upon four essential human freedoms”:

The first is freedom of speech and expression—everywhere in the world.

The second freedom is freedom of every person to worship God in his own way—everywhere in the world.

The third is freedom from want—which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants—everywhere in the world.

The fourth is freedom from fear—which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor—anywhere in the world. . . .

Since the beginning of our American history we have been engaged in change—in a perpetual peaceful revolution—a revolution which goes on steadily, quietly adjusting itself to changing conditions—without the concentration camp or the quick-lime in the ditch. The world order which we seek is the cooperation of free countries, working together in a friendly, civilized society.

This Nation has placed its destiny in the hands and heads of its millions of free men and women; and its faith in freedom under the guidance of God. Freedom means the supremacy of human rights everywhere. Our support goes to those who struggle to gain those rights or keep them. Our strength is in our unity of purpose. To that high concept there can be no end save victory.

Like another American statesman, Lyndon LaRouche, Roosevelt relished the opportunity to travel around the world, to discover first-hand the history of other nations. Invariably, the discussion would turn to concrete plans for the postwar liberation and economic development of areas under the British, Dutch, Belgian, French, and Portuguese colonial yoke. During the Tehran conference, where the President met for the first time with Josef Stalin, FDR held just such a discussion with Mohammed Reza Pahlevi, the young Shah of Persia. Elliot Roosevelt described the discussion:

“As ever, Father was interested in finding out more about the country, and in probing around for ideas that would help to solve its problems. He and the Iranian officials discussed the barren desert which made up such a great part of the country; they told him how, in centuries past, their land had been heavily wooded, and told of how it had become a dust bowl. This was a familiar subject to Father; warming up, he raised the question of a gigantic reforestation program; shifted from there to the plight of the majority of the Shah’s subjects; tied the two things together; and was at length drawn by his visitors to a consideration of the economic grip which Britain had on Iran’s oil wells and mineral deposits. Father nodded

sympathetically, and agreed that steps should be taken to safeguard Iran’s natural wealth.”

Moments after the meeting broke up, FDR instructed Elliot, “Go find Pat Hurley, and tell him to get to work drawing up a draft memorandum guaranteeing Iran’s independence and her self-determination of her economic interests. . . . An agreement from the Russians and the British guaranteeing Iranian sovereignty and political independence. . . . It should be a good example of what we’ll be able to accomplish, later on.”

Within days, Hurley had accomplished the task. Stalin enthusiastically backed FDR’s plan, Churchill did all he could to squirm out of it, but, ultimately, was boxed in and added his signature.

The Iran memorandum provoked another revealing discussion between FDR and his son. Roosevelt was painfully aware that his policies were not universally adored by London and by the permanent bureaucracy in Washington.

“You know, Elliot,” FDR began, “men like Pat Hurley are invaluable. Why? Because they’re loyal. I can give him assignments that I’d never give a man in the State Department, because I can depend on him. You know what I mean? You know, any number of times the men in the State Department have tried to conceal messages to me, delay them, hold them up somehow, just because some of those career diplomats aren’t in accord with what they know I think. They should be working for Winston. As a matter of fact, a lot of the time they are. Stop to think of ’em: any number of ’em are convinced that the way for America to conduct its foreign policy is to find out what the British are doing, and then copy that. It isn’t a question of whether they’re Democrats or Republicans. As far as I know, Pat Hurley and a half-dozen others who work for me are dyed-in-the-wool Republicans. But they know their country’s at war, and they’re anxious to do what they can for their country. So they do it. I was told six years ago to clean out that State Department. It’s like the British Foreign Office. They have a man there, his title is Permanent Under-Secretary. He’s Permanent Under-Secretary if the Government is Tory, or if it’s Labor, or if it’s Liberal. Makes no difference. There he is: Permanent. That’s our State Department.”

Plans for postwar recovery

As “unconditional victory” came nearer, President Roosevelt directed more of his attention to the details of a postwar recovery plan. In his brief, fourth inaugural address, which he delivered on Jan. 20, 1945 at the front of the White House, FDR prayed, “The Almighty God has blessed our land in many ways. He has given to our people stout hearts and strong arms with which to strike mighty blows for freedom and truth. He has given our country a faith which has become the hope of all peoples in an anguished world. So we pray to Him now for the vision to see our way clearly—to see the way that leads to a better life for ourselves and for all our fellow men—and to the achievement of His will to bring peace on earth.”

Earlier in the month, in his annual budget message to Congress, FDR had spelled out detailed plans for a \$100 billion postwar infrastructure program, to transform and expand the war industry into postwar civilian industry, and to make education, quality health care, and affordable housing available to all Americans, beginning with the returning GIs. In the budget message, he spelled out his idea of a World Bank, devoted to providing cheap, long-term credits for reconstruction to nations ravaged by war and colonial looting. The World Bank credits should be secured by loan guarantees from economically stronger nations, led by the United States. He called for Congress to vastly expand the Export-Import Bank toward the same end, and called for investment tax credits for U.S. industries committed to the worldwide reconstruction effort.

On Feb. 12, 1945, Roosevelt delivered another message to Congress, urging the ratification of the Bretton Woods Accords. "We all know," he began, "that a prosperous world economy must be built on more than foreign investment. Exchange rates must be stabilized and the channels of trade opened up through the world. A large foreign trade after victory will generate production, and therefore wealth. It will make possible the servicing of foreign investments. . . . Almost no one in the modern world produces what he eats and wears and lives in. It is only by the division of labor among people and geographic areas with all their varied resources

and by the increased all-around production which specialization makes possible, that any modern country can sustain its present population. It is through exchange and trade that efficient production in large units becomes possible. To expand the trading circle, to make it richer, more competitive, more varied, is a fundamental contribution to everybody's wealth and welfare." FDR emphasized that such postwar trade ties and economic expansion was the work of sovereign nation-states, working in collaboration, not the task of a "super-government."

On April 12, 1945, FDR died, at the age of 63. From the moment that Harry Truman was sworn in as President, at 7:07 p.m., the United States and the world were plunged into another 15 years in which U.S. Presidential leadership was found wanting. Others, like Elliot Roosevelt, carried the policy banner of FDR, but never captured the ear of either Truman or Eisenhower.

Historian Samuel Flagg Bemis, who had served as an adviser to the wartime Roosevelt government, wrote a two-volume popular biography of John Quincy Adams, which won the 1949 Pulitzer Prize. In a very real sense, the book was an outgrowth of the effort by a group of scholars, diplomats, and wartime soldiers, to pass on the American System legacy, particularly the legacy of John Quincy Adams, the father of American diplomacy, to a whole generation of Americans. With the same general purpose in mind, A. Whit-

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ney Griswold had already written a history of *The Far East Policy of the United States*, while at Yale with Bemis, and another American diplomatic historian, Nicholas J. Spykman. Arthur Whitaker, a veteran of the Policy Planning Staff at the wartime State Department who did not fit the mold of the “pin-striped suit” permanent bureaucrat loathed by FDR, contributed a series of essays, *The Western Hemisphere Idea*, which further advanced the effort to keep the FDR vision of a postwar “American Century” alive.

But, it would take the 1960 Presidential elections to restore elements of the FDR vision to the Office of the Presidency. In both image and content, John F. Kennedy sought to revive the American Century ideals embodied in FDR’s Four Freedoms.

The optimism of the FDR-led World War II generation had fuelled a domestic civil rights movement in America, which embodied the same vision of a more perfect world—including for all Americans, regardless of race or color. Dr. Martin Luther King, Jr. best expressed those aspirations in his famous speech before 250,000 civil rights activists at the Lincoln Memorial in 1963. President Clinton, just last month, commemorated the 35th anniversary of that March on Washington, and reflected on the profound impact that King’s words that day had had upon him.

In the span of less than five years, both John Kennedy and Martin Luther King were taken from us, the victims of assassins dispatched by the same London-centered imperial cabal that had earlier assassinated Presidents Abraham Lincoln and William McKinley.

JFK was the first American President born in the twentieth century. His violent death, and the cover-up that followed, caused a mass shock trauma, that drove many young Americans into the British trap known as the counterculture. For the past 30 years, with the brief exception of President Ronald Reagan’s bold Strategic Defense Initiative, an effort launched by Lyndon LaRouche, the nation has drifted far afield from the America of Franklin, Adams, and FDR.

Yet, when President Clinton, the first American President born *after* the death of Roosevelt, showed even a glimmer of the FDR aversion to British imperial manipulations, first in the Balkans, later in Northern Ireland and the Middle East, all Hell broke loose against him. The institution of the Presidency, for reasons that are, hopefully, clear to all of you, is under the greatest attack in history, an attack being led, literally, by the heirs of Churchill. Their ever-present fear is that, under proper leadership, the American commitment to a better world, for all the peoples of all the nations of the globe, can be quickly rekindled.

With FDR and, to a lesser extent, with JFK, that leadership flowed from the Oval Office, America’s great republican bully pulpit. Today, the highest expression of American leadership and the clearest voice of “American Exceptionalism” exists in the person of Lyndon LaRouche, and us, gathered here as LaRouche Democrats.

John Quincy Adams and universal America

by Anton Chaitkin

Let us:

- look at the development of the independent United States of America as a great power, through the life of John Quincy Adams;
- understand the universal *mission* of the country as this classically educated man came to express and carry out that mission;
- see why America insisted on national sovereignty, against any foreign control, and how we applied our sovereign powers to industrialize, and to create a unified, continent-wide nation;
- recognize how we spread our mission of nation-building, and resistance to British imperial tyranny, from here to other continents;
- and see how John Quincy Adams’s accomplishments prepared the way for Abraham Lincoln’s victories, and the triumph of the American System.

And, let us come to understand better how Lyndon LaRouche, *uniquely* among today’s leaders, represents the economics of the founders, and builders, of the United States. LaRouche is the consummate American.

John Quincy Adams was born in 1767 south of Boston, Massachusetts. His childhood was filled with the events of the Revolution. When he was seven years old, he went with his mother to watch the battle at Bunker Hill, early in the Revolution.

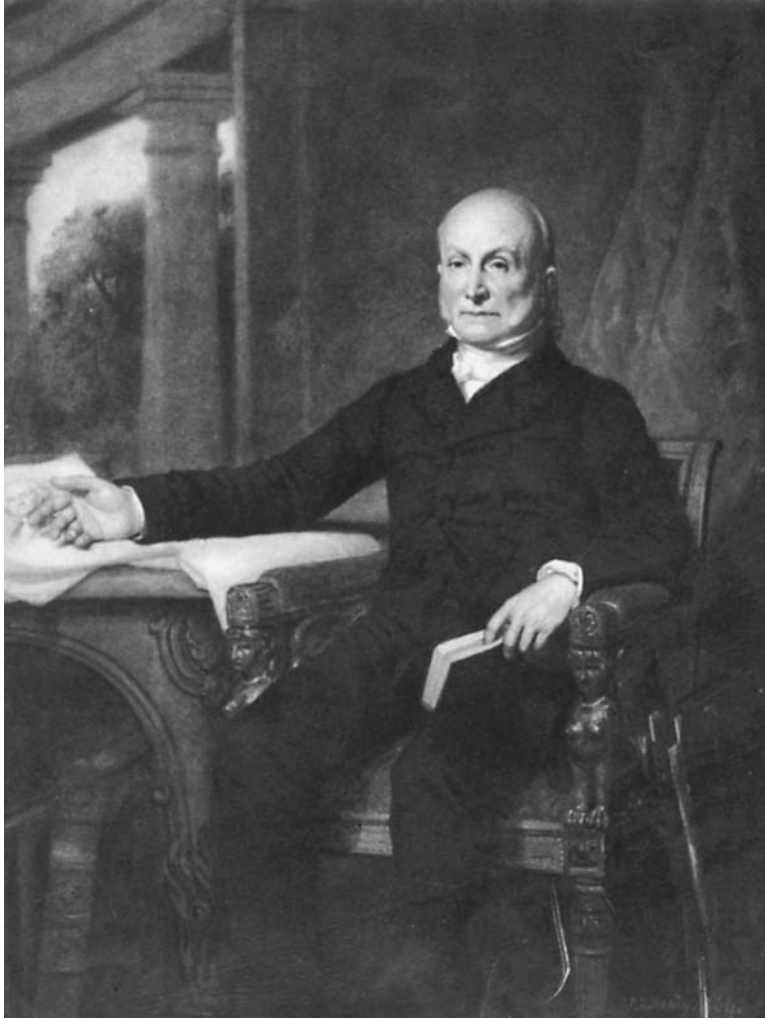
In 1778, and then again in 1780, as a young boy, he went with his father, John Adams, to Europe—his father was a leader of our Revolutionary fundraising and diplomacy.

John Quincy Adams’s mother, Abigail Adams, wrote to him that he should go ahead with his father to Europe and not worry about missing some school; because, she said, “This is a time in which a genius would wish to live.” And, he lived his whole life with this revolutionary sense of excitement and determination, hour to hour, minute to minute.

In Europe, he studied French, and some Dutch, and a whole array of Classical studies.

In 1781, at age 14, in the middle of the American Revolution, in Europe on this mission with his father, he went to Russia as a private secretary and French interpreter for the U.S. minister to the Russian court, who was over there to try to convince the Tsarina to take America’s side, or at least to stay neutral.

In 1782, he returned to Paris, as a secretary to the commis-



John Quincy Adams was key in formulating American foreign policy based on a “community of principle” among sovereign nation-state republics. Lyndon LaRouche has pointed out, that the foreign policy precedents of Adams are the proven model which President Clinton must adopt today, in meeting the challenge of providing leadership for the establishment of a New Bretton Woods system.

sion negotiating with the British for the end of the American Revolutionary War.

We notice that the treaty (**Figure 1**), signed and negotiated by Benjamin Franklin, begins with the words, “In the Name of the most Holy and undivided Trinity”—very interesting, for an alleged “deist” like Franklin, right?

John Quincy Adams studied Plato in Paris. He was working with Benjamin Franklin, and became very close to Franklin, and also he became personally very close to Thomas Jefferson there in Paris. He remarked later, that he was struck at that time with the “moral beauty” of Plato’s dialogues; in particular, *The Laws*. And this had a profound influence on him. When John Quincy Adams was President, his wife translated Plato from French into English, in the White House.

Coming back to the United States, he graduated from Harvard College in 1787, and became a lawyer and political writer.

Washington’s policy of neutrality

U.S. President George Washington made a policy of neutrality between Britain and France, which were at war with each other. The issue was whether we should continue an alliance with France in the wars of the French Revolution, when that Revolution was run by agents of the British and French oligarchy who reviled and murdered those intellectuals and republicans who had supported the American Revolution. They demanded that we back their regime in its wars in Europe . . . or they would overthrow President Washington.

And, they had some foolish and opportunistic Americans joining in these schemes, including Thomas Jefferson.

So, John Quincy Adams supported President Washington in public writings, in his stand for neutrality. Because the issue was: We’ve got to develop the United States, and we must not be drawn into these wars in Europe.

In 1794, President Washington appointed John Quincy Adams, then age 26, as U.S. minister to the Netherlands. Some of Adams’s thoughts and phrases got into the Farewell Address delivered by Washington at the end of his Presidency.

Washington insisted that the Union of the states was the main defense of our liberty and independence. If you scratch any “Confederate” in the United States to this day, you’ll find that he is opposed to every important thing that George Washington stood for, that great Virginian.

He warned against external enemies who would try to poison people’s minds against the unity of the country.

He warned that the power and energy of the national government must not be weakened.

He warned against foreign powers using factions in our country to weaken and wreck the republic. Read the George Washington Farewell Address.

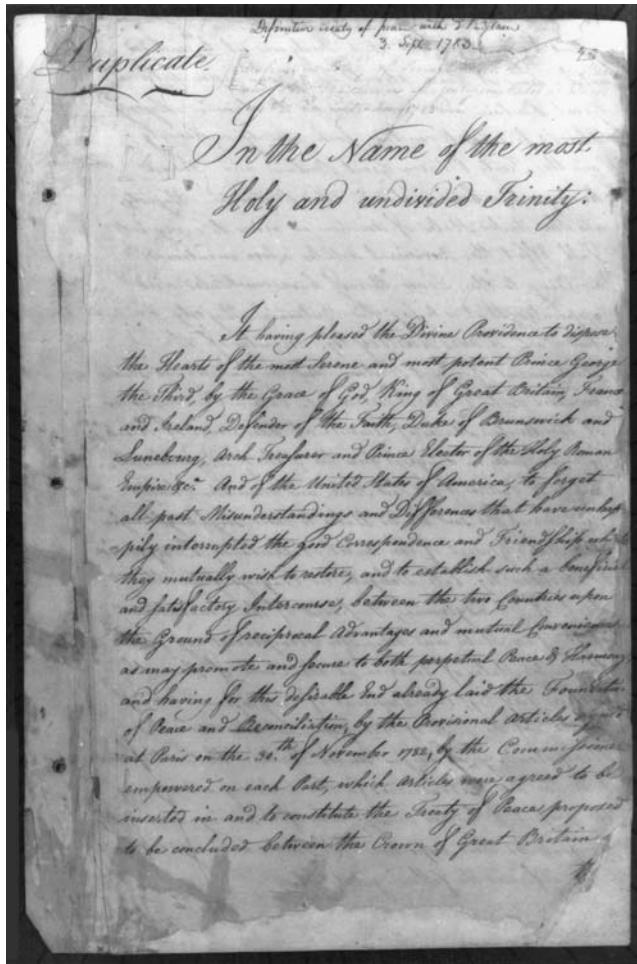
He warned against passionate attachments to, or hatreds against, any particular foreign country. Think about today’s Israel, Russia, China, Iraq, Iran—pick your prejudice.

At this time, under President Washington, John Quincy Adams was the leading U.S. intelligence officer operating in Europe; a master of languages, and becoming a master of strategy.

In 1797, the new President, his father, John Adams, sent him as the ambassador to Prussia. There he studied the Ger-

FIGURE 1

The treaty recognizing U.S. independence



man classics of that day—Schiller and Goethe and others, their poetry and plays. He was a passionate advocate of the theater, and was one of the original stockholders of the Boston Theater; he loved the stage, and drama. He promoted the German classics when he came back and lectured at Harvard. While overseas, he negotiated the 1799 treaty of commerce and friendship between the United States and Prussia.

He was in the U.S. Senate from 1803 to 1808. At this time the British were putting pressure on the United States, to try to destroy the country. They never let up. They were kidnapping seamen from our ships. They were still arming Indians, provoking war between the Indians and the American settlers. And the French, the Napoleon regime, as stooges of the British, were also attacking American ships. In the Senate, John Quincy Adams said, we have to stay neutral against these foreign attacks. But, he began to rally the Americans to stand up to the British. And the President, by then Thomas Jefferson, had adopted a foreign policy along

the lines of Washington's: to remain neutral, between the British and the French.

In 1806, while trying to steer people to stand up to the British, Sen. John Quincy Adams introduced a resolution calling for the Treasury Department to issue a plan for "internal improvements," to build canals and roads to develop the West, as a national project of the United States. That's nationalism, against the foreign enemy!

The history books say that this plan "failed"—because many writers really hate John Quincy Adams, for many reasons. But within a few weeks, another Senator made an identical resolution, and the Treasury Department was ordered to do that. They drew up a plan. Unfortunately, the government at the time was Jefferson and Treasury Secretary Albert Gallatin, and on domestic policy they were insane; it was a species of "Maoism." For example, the friends of Alexander Hamilton who were building the Erie Canal asked President Jefferson for Federal government contributions to the project, but Jefferson turned them down, saying that this canal was 100 years before its time, even though Jefferson's Treasury Department had put out a general plan for the project.

A turning point

In 1807, there was a great turning point in American history. A British warship named the *Leopard* fired its cannons into an American warship on our coast, the *Chesapeake*, whose officers did not think we were at war; they boarded the ship and kidnapped American sailors from it. They said, we have the right, because "these look like British people to us, you know? We can't tell white people apart; they speak English." In fact, one of the kidnapped sailors was black.

John Quincy Adams at this point was breaking with his political party. Now, what's the party? The Federalist party had *not* been run by Alexander Hamilton. Hamilton, who was dead by this time, had broken with these so-called Federalists himself. The Federalist party was run by Boston; by the slave-ship-runners, who later became opium traders. It was run by people loyal to the British. That party was formed in reaction to another party set up with British as well as French influence, the so-called Jeffersonian party. But the patriots, everybody in our country who was a significant mover, broke with the so-called Federalist party. And so did John Quincy Adams; because we had to stand up to the British.

These so-called Federalists from New England, Timothy Pickering and others, applauded the British for carrying out these attacks on our ships. These are the ancestors of McGeorge Bundy and his set.

So, keeping Hamilton's economics of nationalism, the economics of building the country, but breaking with the party that falsely claimed to be identified with Hamilton, John Quincy Adams went to President Jefferson and said: My fellow party members in Massachusetts are committing treason. Working with the British governor of Nova Scotia, they are trying to foment secession of the northern states.

Adams was then kicked out of the party and had to resign as Senator; so, he was out of politics.

In 1809, the next President, James Madison, appointed John Quincy Adams as United States minister to Russia. Recall that he had been there at age 14 as a translator and secretary. While U.S. ambassador there, he proposed to industrialize Russia through a deal with the Tsar to have Robert Fulton build steamboats in Russia, and get them operating on all the Russian rivers to integrate that nation and make it into a modern country. (Two years earlier, Fulton's new steamboat had been introduced onto New York's Hudson River. Earlier, Hamilton had subsidized Fulton to go to France, where he had worked on designing a submarine to destroy the British Navy.)

The Adams-Fulton Russia steamboat deal fell through because of the imminent war between the United States and Britain. But, Adams's actions would later lead to the building of Russia's railroads.

We went to war with Britain in 1812. They burned our capital city. John Quincy Adams was the head of the United States delegation at Ghent, Netherlands, to negotiate the end of that war. Then, he took over as U.S. ambassador to Britain. Rising in the service of his country abroad, looking at the global scene, he became the most powerful mind in respect to what was facing us in the world and how to deal with it.

You can see how the British faction inside America reflected the British view of Adams. This is what James Gallatin, son of Albert Gallatin, wrote about Adams in James Gallatin's *Diary*, May 17, 1815:

"Mr. Adams is really a thorn; he is so absolutely 'Yankee' and of a common type. Why he is Minister here I cannot understand. He is totally unfitted for the post. He bursts out at times, upsetting everybody and everything. . . . I can see the contempt on the faces of the English delegates; they are so courteous and civil. . . ."

Later, this James Gallatin, during the Civil War, was head of Associated Banks of New York. With his close ties to British and French bankers, he tried to dictate to President Lincoln: "You're not getting any money from Wall Street unless you do as we say." He was kicked out by Lincoln.

Industrial power

In middle age, John Quincy Adams was reviving the tradition of the nationalist founders after the interlude of Jefferson and Madison. He was Secretary of State from 1817 to 1825, the greatest Secretary of State we've had. He refused to be drawn into the wars of Europe, such as for Greek Independence, or for South American liberation from Spain. The question in these contests was, whether the United States would be thrown around by British geopolitics; not *win* a war; not establish the power of our republicanism in the world. The basic principle was, first, the United States must build up its industry, its scientific power. This would be vital, in his view, first of all to overthrow Negro slavery here. And the

model of the United States deliberately developing its industrial power, will show other countries how to overthrow the colonial-style labor degradations around the world. If you don't have that industrial power, you can't do it!

At this time, Spain was the nominal owner of Florida. We had gotten title to the center of the continent in the Louisiana Purchase, up the middle from Texas northward, but there was no defined border between the Spanish territories to the south, and our territory in this area. This was before Mexico had been fully confirmed as an independent nation. So, Spanish territory included Florida, the Gulf coast, and a lot of the middle of the country.

Indian raids were being run from inside the United States, directed by British soldiers on the scene. We were not in any official war with England. We had fought two wars with them, but were then "at peace." Gen. Andrew Jackson went on a mission into Spanish Florida and captured two British scoundrels, who were running this "Indian" terrorism.

This is a big lesson, now, for President Clinton and people around the world. When we signed a peace treaty with England, a British Colonel Nichols, operating in this Spanish territory, signed *another* treaty with the Indians inside America, an offensive and defensive treaty to fight the Americans! When Adams complained to the British, they said, "Oh, we don't countenance that, that's not official." But when this Nichols would return to London, bringing Indian chiefs with him, they would give him rewards and decorations, and one of these so-called Indian prophets, a British stooge, the Prophet Francis, went back to Florida in a British officer's redcoat uniform.

Adams found the papers of the two Brits whom General Jackson had executed, papers showing that they were part of this Nichols operation. He sent a blistering letter to the Spanish. He was the only member of President Monroe's cabinet to stand up in defense of this attack that we had carried out against British terrorism. And, he rallied the government to stand up for it. He told the Spanish, don't allow yourselves to be used by the British, who are trying to massacre Americans and burn down our country, using your territory. That's the issue, it's a problem of the British.

The result was that Adams negotiated a treaty: Spain ceded Florida to us and, for the first time, the United States was defined as stretching out to the Pacific Ocean. This was the "Adams-Onis Treaty" of 1819 (**Figure 2**).

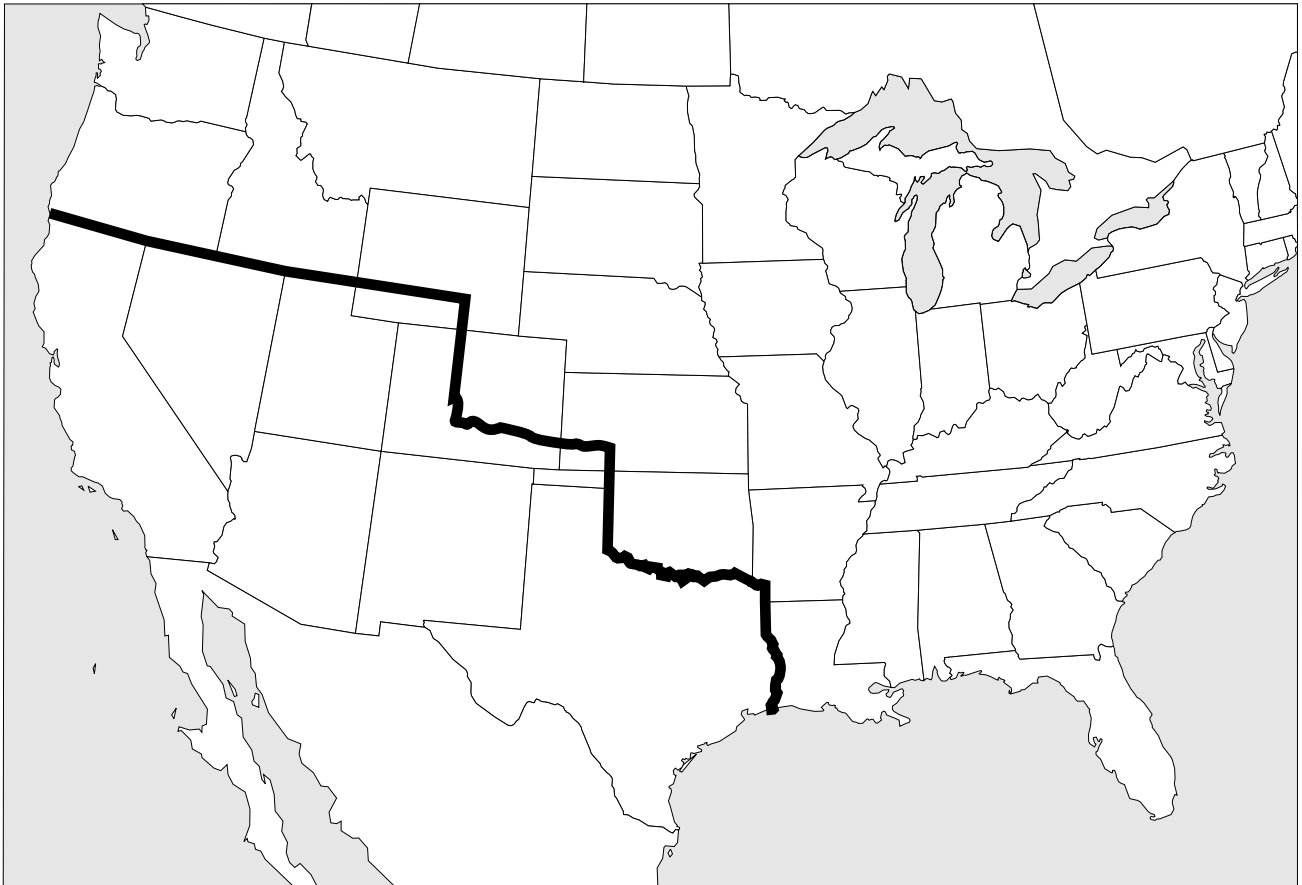
A new anti-imperialist doctrine

Secretary of State Adams and his ally, Speaker of the House Henry Clay, were now preparing the American people for a new anti-imperialist doctrine, and for the recognition of the newly independent nations to our south.

On July 4, 1821, John Quincy Adams gave a shocking speech, very famous at the time, which is only available in rare-book rooms today. A fierce attack on the British Empire, it celebrated America's nationhood as a victory over British

FIGURE 2

The U.S. border with the Spanish Empire, 1819



Secretary of State John Quincy Adams's "Adams-Onis" Treaty, 1819, extended the border of the United States to the Pacific.

oppression, and a model for other nations. He read the Declaration of Independence in the House of Representatives chamber, and he said of the Revolution:

“In a conflict [of] seven years, the history of the war by which you maintained that Declaration, became the history of the civilized world. . . . It was the first solemn declaration by a nation of the only *legitimate* foundation of civil government. It was the cornerstone of a new fabric, destined to cover the surface of the globe. It demolished at a stroke, the lawfulness of all governments founded upon conquest. It swept away all the rubbish of accumulated centuries of servitude. From the day of this Declaration, the people of North America were no longer the fragment of a distant empire, imploring justice and mercy from an inexorable master in another hemisphere. [Dr. Mahathir, you have a friend here—AHC]. . . . They were a *nation*, asserting as of right, and maintaining by war, its own existence. A nation was born in a day. . . . It stands, and must for ever stand, alone, a beacon on the summit of the mountain, to which all the inhabitants of the earth may

turn their eyes for a genial and saving light . . . a light of salvation and redemption to the oppressed.”

This anti-British speech was declared “tasteless” by the Boston Brahmins. In the accompanying discussion in this period, Adams said that the British Empire, such as in India, must ultimately fall, and that the United States itself must never have colonies.

This rallied Americans for the issuance of the President’s message, of which Adams was the principal author. This message to Congress, which became known as the “Monroe Doctrine,” was written out by President Monroe in his Loudoun County, Virginia home 175 years ago this year.

President Monroe’s message said that there was not going to be any new colonization of the Western Hemisphere. We will abstain from wars of the European powers, except when our rights are invaded. We’re not going to get trapped in some kind of British geopolitics in that way. And, there must be no European interference with, or control over, the independent states of the Western Hemisphere. The principle would in-

clude, that you can't loan somebody money, and then when they can't pay for some reason, you have the right to run their country. No. You don't have control like that, because these are independent states. That's what the Monroe Doctrine is about.

Under the Monroe Doctrine, a de facto government is for us the legitimate government. Peace and friendship with all states; no vendettas, no demonizing, no sanctions against 100 countries.

Adams was the rock of resistance to the British. Monroe, even after issuing the Doctrine, confided to Adams, maybe we should just tell the British that the attitude taken in the message was essentially founded on the proposition made by British Prime Minister George Canning to us. John Quincy Adams said no, this has nothing to do with the British. This is our independent statement of policy, whether we are able to enforce this militarily or not — because we were quite weak.

British Prime Minister Canning had refused America's request — Adams's request — to immediately recognize the states of Ibero-America, of South America. Yet, Canning took credit for the independence of the South American countries, and for the Monroe Doctrine! He said in 1826: "I called the new world into existence to redress the balance of the old."

In the 1940s, Walter Lippmann wrote a lie, that the British and the United States had a secret agreement, that the Monroe Doctrine was joint policy.

Franklin D. Roosevelt corrected Lippmann, and said that there was no treaty, that there was no unwritten agreement, in his speech of Dec. 29, 1940.

So, here is John Quincy Adams being groomed for the Presidency, which his office was used for at that time. (Obviously, today, you wouldn't want to do that with Madeleine Albright.) As one of his last acts as Secretary of State, he brought the Marquis de Lafayette back to America, to be on tour and, recalling the Revolution Lafayette had aided, to help organize a resurgence of American nationalism. And, among the party with Lafayette, Friedrich List was brought in to work on a nationalist offensive that they put together.

John Quincy Adams was President of the United States from 1825 to 1829. His Presidency was a brilliant success. He was operating under terrible conditions of political warfare and sabotage, which continue to the present day. But read any history book, read any encyclopedia article, read anything about this period — his Presidency was a "failure," they claim. Why?

The government's duty to foster progress

In his first Annual Message to Congress, President John Quincy Adams spoke of the government's powers and duties to foster progress. He did not wait upon public opinion, he led it:

"The great object of . . . civil government is the improvement of the condition of those who are parties to the social

compact, and no government . . . can accomplish [its] lawful ends . . . [but] as it improves the conditions of those over whom it is established. Roads and canals, by multiplying and facilitating the communications and intercourse between distant regions and multitudes of men, are among the most important means of improvement. . . ."

He said that people and nations in Europe are beginning to take up this "internal improvement," to conquer nature with infrastructure building. And, "while foreign nations less blessed with . . . freedom . . . than ourselves are advancing with gigantic strides in the career of public improvement, were we to slumber in indolence or fold up our arms and proclaim to the world that we are palsied by the will of our constituents, would it not be to cast away the bounties of Providence and doom ourselves to perpetual inferiority?"

In groundbreaking ceremonies for the Chesapeake and Ohio Canal, Adams said: "At the creation of man, male and female, the Lord of the universe, their Maker, blessed them, and said unto them, be fruitful, and multiply, and replenish the earth, and subdue it. To subdue the earth was, therefore, one of the first duties assigned to man at his creation; and now, in his fallen condition, it remains among the most excellent of his occupations. To subdue the earth is pre-eminently the purpose of this undertaking. . . . [We pray for] this joint effort of our great community, . . . that He would make it one of His chosen instruments for the preservation, prosperity, and perpetuity of our Union."

How the United States was industrialized

Now, let us now see how the United States was industrialized, by John Quincy Adams and his allies.

As Graham Lowry has shown [in an accompanying presentation to the conference], we had a continual effort along the lines of an American System, of deliberate use of whatever powers we had to develop the country. National powers, the powers of the nationalists operating every way they could. But we now had in place a number of weapons, and a leadership at this point, allowing us to bring off this miracle, of transforming the United States from an essentially backward, agrarian country, into a modern industrialized nation.

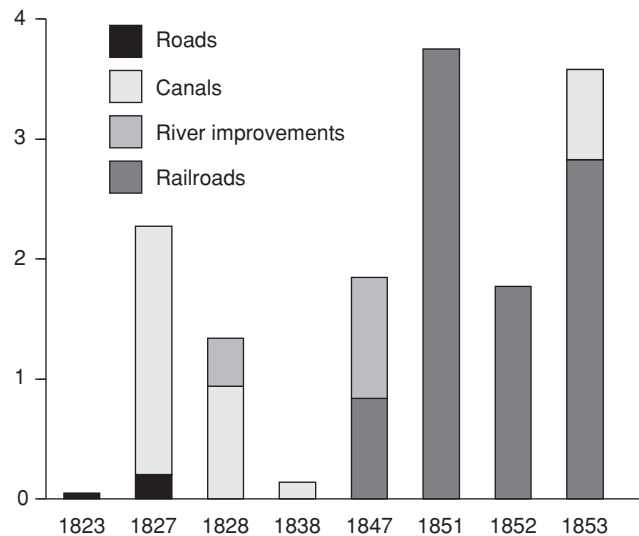
First of all, President John Quincy Adams assigned the United States Army to begin developing the railroads of the country. We had no trains, no railroads, no tracks, no nothing: There wasn't such a thing. He assigned the Army engineers of West Point to make the surveys, the plans, and the designs for railroads. Eventually, 60 railroads were planned in that way.

The Baltimore and Ohio Railroad, chartered in 1827, was the first of these to which Adams assigned Army engineers. One of the men on this job was the officer George Washington Whistler, who later went to Russia. These were mostly privately owned companies, *financed by government*. They got money from state governments, from city governments, and Federal land grants also, later on.

FIGURE 3

U.S. land grants for transportation

(millions of acres)



Adams's protégés, William Seward and Edward Everett, became governors of New York and Massachusetts, respectively, and built the great railroads there, using state funds and U.S. Army engineers.

(Think about the pitiful whining of Newt Gingrich, that we cannot build anything in America, we can't do anything, because our tradition is not to have government get involved in enterprises! Think this over, clearly.)

The Bank of the United States at this time was led by the very close personal friend of John Quincy Adams, the Greek scholar Nicholas Biddle, who marketed the railroad bonds that were issued. Our nation's bank marketed those bonds, in a whole complex of government-led activities, with private cooperation, to build up the country.

The Erie Canal was finished in the year John Quincy Adams became President, 1825, as a state government project. President Adams now launched a new era of canal-building.

Figure 3 shows all the land grants for transportation in this country, until 1853. Before 1823, there were none. In 1823, under President Monroe, about 100,000 acres of Federal land was donated to the states, for them to sell to settlers, and use the money from the land sale to build roads. Under President John Quincy Adams, the U.S. government suddenly in 1827 gave 2 million acres to the states, including Ohio, Indiana, and Illinois, to build canals, and a substantial amount for road-building. The next year, about another 1 million acres of land was granted.

How are you going to finance these constructions? You can sell land. The government used every method possible,

because you had a lot of free-trade crazies running around saying nothing should be done. So, you use every method you can to get this done. And, we also had substantial work for river improvements, clearing those snags in the rivers, so we could get through the Ohio and travel westward.

The system of canals

Figure 4 shows the way this thing worked. There were two great features of the canals that were built. First, follow the line of a shipment up the Hudson River, to just north of Albany, then west on the Erie Canal, out to Lake Erie. Go down Lake Erie toward three canals, one of them over from Toledo, through Indiana, all the way down to the Ohio River. Go back up that canal and trace the branch down to where Cincinnati is, on the Ohio River. Trace also the canal down from Cleveland on Lake Erie, through the heart of Ohio to Portsmouth on the Ohio River.

These canals linked up with the Erie Canal. They brought settlers to the Midwest, who built agriculture and industry. *This created New York City as a great metropolis*, with this trade that was mostly flowing into New York. It also created Chicago. Trace the shipment line out there to Lake Michigan. You have a canal built from Chicago, then only a little dump, to the Illinois River, that connected to St. Louis on the Mississippi River.

So, all of a sudden, you have a system of canals linking up a whole new vast area.

The second feature of the canals, which is crucial to understand, is that inside Pennsylvania, canals were built primarily for the purpose of getting coal out of the mines, down to Philadelphia for manufacturing, and to go by sea to Boston, New York, and other cities to build up industry; these Pennsylvania canals also helped integrate eastern Ohio into the Pennsylvania industrial machine.

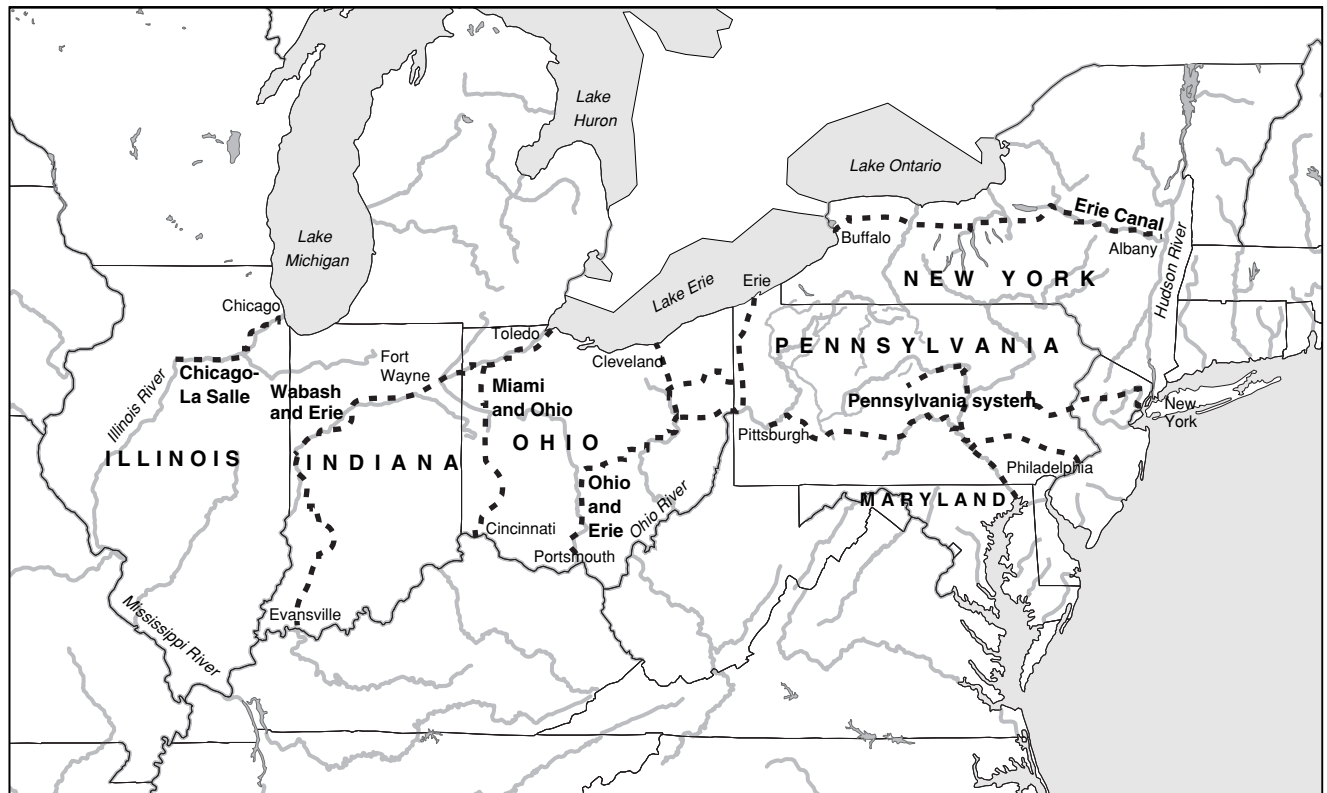
Before the Erie Canal, it cost in the range of \$90 to send one ton of something 300 miles in the U.S.A. (**Figure 5**). So, you could not live in Ohio and have a farm, because there were no roads and no canals, and you wouldn't want to have a farm if you couldn't produce more than your own family eats. If you are to produce a surplus, you have to send it somewhere. You couldn't sell a crop, if only you and a few other hermits are living within range of your shipments. In those days it cost about \$50 to send one ton from Buffalo down to the Hudson River and on to New York City.

After the Erie Canal was built, from the 1830s to the 1850s, it cost only \$5 to send that same ton 300 miles. So, you could have farms. They could send their crops to the huge market in the east, they got good prices, and they could also get machines transported in cheaply. After the railroads were built, by the mid-1850s, it cost \$3 to send one ton 300 miles. This was a revolution.

We now have settlers west of the mountain barrier, becoming a substantial proportion of the new population of the

FIGURE 4

Principal canals built by the nationalists



United States. We have the west tied to the north and the east, and not to the south. They don't have to send their output southward down the Mississippi River to get it to the outside world. So, they are not tied to what became the Confederacy, not tied to the slaveowners. They're not tied to the power that was used as a sledgehammer against the development of the country, namely, the slave power. This is crucial.

Protectionism helps the iron industry

Next we come to the heart of the issue, as to how we industrialized the United States. Before the 1820s, we were producing less iron than we had been in the colonial period! We were smashed by the British, and we did not really recover that capacity until we did things on an entirely different scale. The nationalists—Henry Clay leading Congress, and then with the Presidency under John Quincy Adams—passed protective tariffs. The first really good tariff was in 1824, and then a huge one in 1828 (see **Figure 6**). This is a tax against foreign imports, to favor our manufacturing, so people could make a profit and pay a decent wage.

At the same time, anthracite coal production was suddenly started up in Pennsylvania. None had been produced before this point. What happened? We built these canals at state

expense, and it was now only 1¢ a ton to move that coal. So, they poured it out, into factories. They started building iron forges, protected by the government from foreign competition. And, we thus started building iron mills. We didn't do it before that.

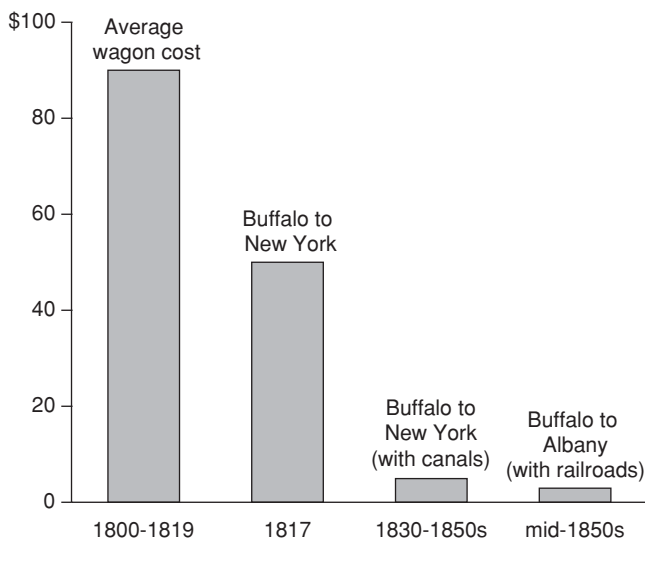
In the early 1830s, the free traders got control and they lowered the tariff. What happened to iron production? It stagnated, then fell. In 1842, Henry Clay, in the Senate, restores the higher tariff, and iron production shoots up, because we have protection for our industry again. Then, the free traders get control, they lower the tariff, and you see iron stagnating and falling and fluctuating, never developing again.

Until, Abraham Lincoln comes in during the 1860s and raises tariffs through the roof! You want to buy British steel? You'll have to mortgage your children. That's how we finally got steel mills built.

This group, of Adams, Mathew Carey, and Nicholas Biddle, had a political partner named Friedrich List. He went to Europe in 1830, and started the nation of Germany. It was along the same principles, that is, by setting up a tariff unity of the German principalities, and shutting out British free trade, partially shutting out British products. List started the development of railroads in Germany. He was a former German politi-

FIGURE 5

Cost to ship one ton 300 miles



cal leader and economist, he came here and worked on strategy with our nationalists, then went back as an American agent to be the master organizer in creating Germany as a nation.

George Washington Whistler, the Army engineer whom John Quincy Adams had assigned to build America's first railroad, went to Russia and built Russia's first railroad, from St. Petersburg to Moscow.

There were supposedly "failures" of John Quincy Adams. He was going to have a conference in Panama, with all the states of South America and Mexico. But the British-led southern secessionists then agitating against Adams sabotaged this hemispheric conference. Yet, this initiative laid the groundwork for what came in later with James Blaine (Secretary of State), and with Franklin Roosevelt; this idea of the absolute friendship and partiality of the United States for the republics to the south.

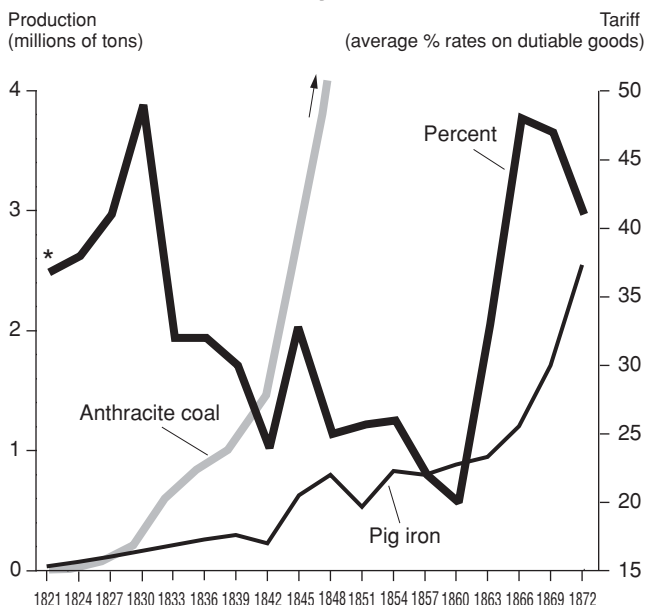
Adams proposed that the government would build an astronomical observatory. This was laughed at. But his work in these areas, including creating the Smithsonian Institution, helped set up the government base for science in America. John Kennedy, whose program got us to the moon, focussed quite a bit on the integrity and pioneering spirit of John Quincy Adams.

In January 1826, Adams introduced a bill to create a U.S. naval academy. It was passed by the Senate, defeated in the House. In February 1827, he introduced a bill for a naval expedition to explore the South Seas and Antarctica; it passed the House, and failed in the Senate. But these things he originated were successfully pushed through not long after, by his faction.

Defeated for re-election to the Presidency in 1828, he

FIGURE 6

Protectionism and canal-building created America's iron industry



* Tariff of 1822.

Source: Fred J. Guetter and Albert E. McKinley, *Statistical Tables Relating to the Economic Growth of the United States*, Philadelphia, 1924, McKinley Publishing Company.

went into Congress.

John Quincy Adams was depicted in a recent movie, *Amistad*. And, he fought the slave power. In particular, he risked everything to fight a gag order, beginning in 1838, that forbade any discussion by Congressmen of slavery or its abolition. He was in Congress for 18 years after he was President. His leadership laid the ground for Lincoln's fight, and for the victory of the United States as a great nation.

Former President Adams, and future President Lincoln, worked together in 1848 as members of the House of Representatives, to expose the fraud of the U.S. war against Mexico. The fraud was the dirty deal the slavery-spreading James K. Polk administration made with the British Empire. Polk gave the British half of the Pacific northwest coast—what is now British Columbia, in exchange for British backing for an aggressive war against Mexico. As President, John Quincy Adams had tried to buy Texas from Mexico. And, we might have been able to buy California. Adams was the greatest promoter of America's westward expansion to complete the continental republic, especially at the expense of empires. But, to take land by force from a neighbor republic, is simply to attack our own side in the world republic-versus-empire battle. Adams and Lincoln knew that the war against Mexico would lead toward civil war in the United States. In the end, Lincoln was elected President to settle the question.

Schroeder wins, as Germany faces global economic crisis

by Rainer Apel

For Germany, the result of the national elections on Sept. 27 marks an abrupt change: The fact that incumbent Chancellor Helmut Kohl and his governing Christian Democrats were defeated by the opposition Social Democrats by a margin of almost 6%, means the end of a 16-year era of monetarism in Germany. The election of Gerhard Schroeder brings to an end four successive terms of Kohl (first elected in October 1982), which were characterized by deregulation, increasing austerity and build-down of social security, the advance of globalization and downsizing, and, most dramatically, the steep rise in national unemployment, to almost 5 million last winter.

The acceleration of this process since the autumn of 1996 produced a reaction among Kohl's longtime voter base, which can be described as "anything else, but no more Kohl." It has been visible in numerous opinion polls, which unmistakably indicated that two-thirds of the electorate thought that way, and this is what made Kohl and his Christian Democratic Union (CDU) lose the elections. For 16 years, after he replaced Social Democratic Party (SPD) Chancellor Helmut Schmidt through a no-confidence vote in September 1982, Kohl has always been able to defeat the various SPD challengers, for the simple reason that a majority of voters thought that, despite all his flaws, the opposition leaders would be worse. In a discussion with this author last autumn, a senior Christian Democrat frankly admitted, "We are still in power only because the people think the others are much worse."

Since autumn 1997, however, the world financial system has unravelled, and the discrepancy between the catastrophic financial and economic collapse, and the government's propaganda that "there is no crisis," has grown more and more apparent even to the most credulous voters. Since last autumn, or at least spring 1998, Kohl also lost the confidence of core sections of his own voter base. This is particularly the case

among retired citizens, who have to bear most of the increased costs of deregulated health care. Therefore, it comes as no surprise (except for the CDU campaign strategists), for example, that among retired women, Kohl's party lost 45% of its former vote. Nationwide, the CDU lost 6.4%, but in many districts, notably in Germany's deindustrialized and impoverished eastern states, the Chancellor's party lost 10, 15, and even 20%, which in those districts, cut the CDU vote by one-third to one-half, compared to the last elections in 1994, and led to a landslide victory of the Social Democrats. The voters had simply had it. Kohl drew the obvious conclusions from the election debacle, and announced his resignation as chairman of the CDU on the evening of Election Day.

The shock of the defeat also triggered the rapid decomposition of the cabinet. Already, by the afternoon of Sept. 27, before the final vote counts were in, Finance Minister Theo Waigel called Kohl to tell him he would resign as chairman of his own Christian Social Union—the autonomous Bavarian state section of the CDU. Waigel also informed the media on Sept. 28, that he would not attend the autumn sessions of the Group of Seven finance ministers, and of the International Monetary Fund (IMF), in Washington, beginning on Oct. 3. The impression that this Kohl-Waigel cabinet is going under more rapidly than the *Titanic*, was also underlined by the announcement by Schroeder on Sept. 29, that he would embark upon his first trip abroad as incoming Chancellor, the next day—to Paris, to meet with the French government.

Refusal to face economic reality

There are many reasons given by the experts here for Kohl's defeat. However, even the media that interview or quote these experts omit the crucial fact that Kohl ran an election campaign based on virtual reality, which at no point,



Incoming German Chancellor Gerhard Schröder, who is as unprepared to deal with the global financial collapse as was his predecessor, Helmut Kohl. His campaign slogan reads, "The new center."

not even during the most dramatic ups and downs on the international stock markets, made even the slightest reference to the global reality of the economic depression. With some rare exceptions, the Social Democrats and Schröder took the same approach, and so did the other parties. The one exception in this election campaign, which addressed the global financial collapse bluntly, was the party of the LaRouche movement, the Civil Rights Movement Solidarity (BüSo), with its lead candidate, Helga Zepp-LaRouche. Only here, could voters get the latest updates on the global collapse, and about alternatives to that process. Many voters, particularly those who agreed with the BüSo, but voted for another party, maybe for Schröder, will recall this aspect of blunt truth in the election campaign, when the new Chancellor is forced to show his true colors in the next round of grave turbulence on the world financial markets.

The fact is, that Schröder is as unprepared for the job as his predecessor. He did have enough time to prepare himself—at least since the autumn of 1997, when the SPD nominated him for Chancellor candidate. And, there are currents inside the party that were open to debate on having strict anti-monetarist capital market regulations. By SPD standards, the Bavarian state section of the party presented a good programmatic outline in January 1998, which even contained aspects of a policy for a return to national banking. But, Schröder and his campaign staff turned that proposal down, opting for a pro-monetarist mix of this and that—which is the policy with which the Social Democrats went into the campaign in the late spring of 1998.

Listen to LaRouche

It is true what all those hard-core neo-liberals and monetarists who have been terrified by the spectacular defeat of their favorite, the Kohl government, are now warning that the new government will mark a shift toward dirigism. Some measures that will hit the financial markets hard, will certainly be taken by the new government. But, the new government will not act so because of any coherent policy, but because of the emergency situation that is being created by the ongoing global collapse. Without a well-thought-out concept in hand, governments are being forced to act, and many will act in panic, because they have all disregarded the clear signs of the global crisis. The Schröder government will be forced to act, as the Kohl government, on the other hand, has refused to act, because it did not want to do anything at all. There is, therefore, only one way for Schröder and his government to prevail in the coming weeks and months: Listen to the well-founded proposals made by competent experts, notably Lyndon LaRouche.

If Schröder does what Kohl has done, namely, not to listen to LaRouche, he will be overtaken by the same events that brought down Kohl, and he will not be able to stay in office even a half-term. Unemployment will continue to rise, more banks and industrial firms will default, there will be more unrest in the population, and there will be labor strikes against his policy and his SPD-led government. Labor strikes may turn even more violent against Schröder than they have been against Kohl, because labor expects the Social Democrats to “deliver more” than the neo-liberal Christian Demo-

crats who have been voted out.

Against this dramatic background, it is almost irrelevant whether the new Schroeder government will be a coalition of the SPD with the ecologist Green party, or a Grand Coalition with the Christian Democrats. Neither of these two alternatives would last long, under the combined pressures of the outside economic reality and increasing domestic social tensions, and the internal faction fights inside the political parties. There is, for example, a strong current of labor/industry-minded Social Democrats who are fundamentally opposed to any coalition with the anti-industrialist Greens. And, there are Social Democrats who support such "red-green" coalitions on a municipal and regional level, but vehemently oppose them on the level of national government. Inconsequential as this latter current may consider this to be, it poses obstacles for Schroeder, should he opt for a coalition with the Greens, preliminary talks for which began on Oct. 2. A majority of the SPD may opt for the Greens, but they will have a continual war of attrition inside the party with the opposing currents. This alone can paralyze much of the government's work, as it is doing in those municipal and regional "red-green" coalitions that already exist.

More factions

Inside the Greens, there are opposing factions as well: the radical ecologists and the pragmatic "realists," who do not disagree in principle, but in terms of timing, tactics, and priorities. For example, on nuclear energy policy, radicals demand an instant withdrawal from nuclear technology, while the "realists" would slow that down, in order not to provoke the ecology-minded Social Democrats, who want a slow exit. On defense and foreign policy, radicals want the abolition of the conscript Armed Forces and of the intelligence agencies, to be replaced by German contingents of Green Helmets for future United Nations task forces against pollution and global warming. The "realists" among the Greens see that as a longer-term perspective, and would keep the army draft for the time being. These and other questions, such as the legalization of drugs, which the Greens call for in general, have led to repeated, serious frictions inside the party, and they will continue to do so in the near future, especially if the Greens are a coalition partner in a new government.

Inside the Christian Democrats, there are factions as well: those who want to see a red-green coalition take power and run into paralysis during the coming global financial turbulence, so that a CDU come-back, possibly through a no-confidence vote against Schroeder, can be orchestrated; and, those who would prefer to enter a Grand Coalition with the SPD right away, for the sake of the nation.

The main problem with all these factions is that none of them are in correspondence with the world economic realities; usually, none of their moves is related to an appropriate assessment of any outside reality. The Grand Coalition current certainly comes closest to that requirement, but even there,

among the better politicians, there is profound unpreparedness for the type of challenges that are posed by a global meltdown process. Most of these Grand Coalition "realists" still cannot imagine a world without the IMF, even if it were a "reformed" Fund. All thinking about measures to cope with the crisis stops right where the IMF begins. At least, and in stark contrast to the nominal election results, there are visibly more Germans in favor of a Grand Coalition, than for a red-green government. A Grand Coalition would have broader support among the population, and could achieve more in cooperation with the population.

The LaRouche movement and its BüSo party organization in Germany, which did not get any of its candidates elected into the new Parliament this time, will continue to campaign for a New Bretton Woods system, based on the abolition of whatever monetarist structures remain after the global collapse of the system. The role of the BüSo is now even more important than ever before, because the frictions and conflicts that will emerge in the German political system over the near future, will call for a focus of principled, sound concepts for alternatives to the crisis. It is rather certain that the next national elections will not take place at the end of the scheduled, full four-year term, but much earlier than that. In the next elections, the number of voters who are deeply disappointed and disillusioned with government policies, will be much bigger.

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Israel's Netanyahu pushing new war

by Joseph Brewda

In his trip to the United States in the last week of September, Israeli Prime Minister Benjamin Netanyahu proved to be preparing for a bloody showdown with the Palestinians, to be followed by a new Middle East war. In a deliberately provocative address to the UN General Assembly on Sept. 24, Netanyahu threatened Palestinian Authority President Yasser Arafat with war, if he were to even utter his intent to declare a Palestinian state upon the formally mandated completion of the Oslo peace accords on May 4, 1999.

Such a statement by Arafat, Netanyahu growled, "would constitute a fundamental violation of the Oslo Accords" that would "inevitably prompt unilateral response on our part." He added that a Palestinian state would necessarily be an intolerable threat to Israel, because it would become a "base for hostile forces." The "unilateral response" Netanyahu has considered, the Israeli press reports, is the formal annexation of Palestinian lands not yet under the control of the Palestinian Authority, and what would be a very bloody reentry of the Israeli Army into cities managed by the Palestinian Authority.

In the aftermath of Netanyahu's outbursts, Arafat did not declare his intent to form such a state, in his own address to the General Assembly on Sept. 28, although for weeks it had been widely expected that he would do so on that occasion. Moreover, on Sept. 27, meeting with Netanyahu for the first time in over a year, together with U.S. Secretary of State Madeleine Albright, Arafat abruptly agreed to a new formula for the Oslo-mandated, second Israeli withdrawal from the West Bank. That withdrawal has already been delayed for one year. According to the proposal, Israel would withdraw from 13% of the West Bank—in which 3% of the 13% would be made into an Israeli-run "nature park."

As a result, the Palestinian Authority would go into the Oslo-mandated "final status talks" next spring with only 40% of the former Israeli Occupied Territories under its control—and not the 90% envisioned by Arafat and the late Israeli Prime Minister Gen. Yitzhak Rabin at the time the accords were signed in September 1993. In fact, it was because of Rabin's commitment to create a Palestinian state and to give most of the Occupied Territories to the Palestinians, that a section of the Israeli establishment had him killed in 1995, paving the way for Netanyahu to come to the Prime Minister's office the following year.

Netanyahu also refused to deny Israeli media reports during his U.S. visit, that he was planning to name Infrastructure Minister Gen. Ariel Sharon, the most bloodthirsty of his inner circle, as Foreign Minister (a post Netanyahu currently also holds). "I admire Ariel Sharon very much," he coyly told Israeli television. "He is one of the most talented and experienced people that Israel ever had."

Commenting on these humiliating developments, one well-placed Washington Mideast analyst warned that Arafat now faces the worst threat of assassination in recent years—not least because the mood on the Palestinian streets has returned to that of the 1980s "Intifada," the rock-throwing resistance to Israeli troops, as a result of Netanyahu's two years of sabotage of the Oslo Accords. Another high-ranking analyst formerly in the U.S. State Department, added that Netanyahu plans a new war with Syria in the aftermath of his planned showdown with the Palestinians, which he wants to undertake following what he hopes will be the near-term ouster of President Bill Clinton through the Israeli-orchestrated Monica Lewinsky affair.

Worry about the strategic implications of Netanyahu's madness, however, is shared by some circles in Israel. The Israeli daily *Ha'aretz* on Sept. 29 charged Netanyahu with "killing the Oslo agreement by uprooting the momentum of reconciliation and the peace between the two peoples in an absolute way, by putting them on a track of hostility and hatred." Similarly, *Ma'ariv*, the semi-official mouthpiece for Israeli military intelligence, warned Netanyahu that "Israel's only chance is between a Palestinian state established with an agreement, and a state formed amidst the storm of a violent uprising."

Other provocations

Meanwhile, Netanyahu has escalated on other fronts, to pave the way for the upcoming Palestinian showdown and war. Most seriously, he has now come out supporting the Sharon-managed "Temple Mount" crazies who demand the demolition of Islam's holiest shrine in Jerusalem, the Al Aqsa Mosque, in order to rebuild Solomon's Temple on the site. The same groups provided the gunman who killed Rabin.

Speaking at an extraordinary meeting of 2,000 of the Temple Mount Faithful in Jerusalem on Sept. 15, which was officially greeted by a representative from the Prime Minister's office, Temple Mount leader Gershon Solomon proclaimed, "It is our duty to evict the Gentiles from Jerusalem so that the holy city becomes purely Jewish." He called for the audience to "rise to the Temple Mount and tear down the Al Aqsa Mosque and the Church of the Holy Sepulcher. We do not want to hear any calls to prayer nor any church bells to toll for non-Jewish prayers in the land of the Jews." According to literature released to the press later that week, the group plans to move the "cornerstone" for the planned rebuilt Temple, to the mosque as early as Oct. 7.

The FARC narco-terrorists are about to be handed half of Colombia

Colombia's new President, Andrés Pastrana, has announced that by Nov. 7, at the latest, his government intends to demilitarize five municipalities in the heart of the country, to place them in the hands of the narco-terrorist Revolutionary Armed Forces of Colombia (FARC). This demilitarization—or “*despeje*” as it is called in Spanish—is the FARC's central demand for beginning “peace negotiations” with the Pastrana government.

Although various forces in Colombia and in the United States have expressed reservations and concern over this strategy, the official position held by both the Pastrana government and the U.S. State Department, is that the FARC are guerrillas who operate on the basis of ideology, and are not *organically* linked to the drug trade. During a recent visit to Washington, Maximiliano Londoño, president of the Ibero-American Solidarity Movement (MSIA) in Colombia, and a frequent contributor to this magazine, held a number of private meetings with government officials who told him, one after the other, that “the FARC and the drug trade overlap only by 7 to 10%.”

As Londoño has written:

“The common axiomatic flaw of both the U.S. State Department and the current Pastrana government in Colombia, is expressed in their refusal to recognize the existence of *narco-terrorism*. When the governments of Washington and Bogotá insist—in the face of undeniable evidence—that the FARC and National Liberation Army (ELN) terrorists have no organic ties to the drug trade, and that only 7-10% of their activities overlap with the drug trade, they not only deny reality but also commit a major strategic blunder. The solution to the crisis in Colombia must begin by recognizing that the mortal enemy we face is the Third Cartel, or the narco-terrorist cartel, whose armed wing is the FARC-ELN.

“Therefore, the idea that one must ‘negotiate with the guerrillas,’ granting them ‘political status’ while ceding them territory, supposedly in the hope that they will help to reduce the drug trade in their areas of influence, is equivalent to trying to appease Hitler into ‘contributing to lasting peace in Europe,’ as the foolish Neville Chamberlain insisted.”

Upon his return to Bogotá, Londoño interviewed Gen. Harold Bedoya (ret.), to get a detailed report on the strategic-military significance of the planned demilitarization. There are few Colombians better equipped to give such an analytical

report. A distinguished soldier, with more than 40 years of service in almost all regions of Colombia, General Bedoya was commander of the country's Armed Forces in 1997, when then-President Ernesto Samper fired him, given Bedoya's vociferous opposition to Samper's open policy of favoring the drug trade.

General Bedoya granted Londoño this interview on Sept. 21.

EIR: This week, President Andrés Pastrana is going to travel to Washington to lobby the U.S. Congress over the supposed virtues of the military and police evacuation of the municipalities of La Uribe, Vista Hermosa, Macarena, Mesetas, and San Vicente del Caguán, located in the Departments of Meta and Caquetá. How do you view the demilitarization of these five municipalities?

Gen. Bedoya: Today is Sept. 21.

The news from [the UN General Assembly in] New York is that President Clinton has declared war against international terrorists, and is calling on the entire world to unite to eliminate these criminal organizations. So the first thing I see is that the FARC is an international terrorist organization, just like the ELN, according to the State Department, the Congress, and the government of the United States. This is very important. How are they going to go about declaring war against international terrorism, of which criminal organizations such as the FARC and ELN are a part? Because, if we are talking about a demilitarization so that an international terrorist organization can take over—not just five municipalities (this is the great lie being sold to the world), but half the country, not 50,000 square kilometers, but 500,000 square kilometers—the situation becomes very delicate. Because the problem is no longer a Colombian problem, but an international one. If we are going to discuss the significance of those municipalities, nationally and internationally, we have to take note of what each one represents for the narco-terrorists' geopolitical interests.



EIR: Why do you say that 500,000 square kilometers is go-

ing to be handed over, if the government emphasizes that the evacuated area will not exceed 50,000 square kilometers, with the additional proviso that the demilitarization will only be temporary and will take effect in municipalities where there is supposedly no drug production?

Gen. Bedoya: Each one of the municipalities has to be studied specifically [Figures 1 and 2]. What does each one represent? What is the municipality of Vista Hermosa, for example?

Vista Hermosa is a zone that has more drug-trafficking laboratories and airstrips than any other part of the country. Vista Hermosa is connected to almost the entire Ariari region through the Güéjar River, and is linked with Guaviare Department by the Guayabero River. Vista Hermosa has the big coca-processing complexes. Less than a month ago, the National Army discovered and destroyed a laboratory there. Furthermore, there is a lot of coca grown in that region. The Guaviare crops are in effect processed in laboratories that are located within Vista Hermosa municipality. The Carpa region, for example, is where coca paste was used as currency. Puerto Colombia is within the area of Vista Hermosa, and has its own airstrips. It is the buying center for coca paste for the entire Guayabero region.

Vista Hermosa involves the Department of Meta, of which it is part. Vista Hermosa has a long “highway,” which extends from La Macarena to the Ariari region, which is called the Güéjar River. This is the “highway” of [FARC chieftain “Sureshot”] “Tirofijo.” Guaviare Department is intimately linked to Vaupés Department. I would remind you that the recent FARC attack in the region of Miraflores was carried out by terrorist organizations the FARC has in Vaupés Department, which travelled down the Vaupés River. We are talking about the fact that all the coca produced in Vaupés is taken to Miraflores, where it is processed. Miraflores is the distribution point for the inputs and supplies of the coca plantations.

So, in reality, Vista Hermosa municipality connects the Departments of Vaupés, Guaviare, and Meta, and is also linked to Vichada Department. The Güéjar River is a tributary of the Ariari River which, together with the Guayabero, is in turn a tributary of the Guaviare, which in turn empties into the Orinoco River [on the northeastern border with Venezuela]. And Vichada is another place where narcotics are produced. The populations of the region are located along the banks of these great rivers.

La Uribe municipality is also linked to this river system through the Duda and Guayabero Rivers. Now, add to this the fact that, from three of the targeted municipalities—La Uribe, San Vicente del Caguán, and Mesetas—the FARC has access to the entire basin of the Caquetá, Putumayo, and Apaporis Rivers, which are the great river routes of the Amazonas region. The Sunciyá River empties into the Caguán River, which empties into the Caquetá River.

Don’t forget that the FARC already controls Cartagena del Chairá, a municipality which was given to Tirofijo by the

previous government, supposedly to guarantee the FARC’s release of the kidnapped soldiers two years ago. Also right nearby is the Yarí River. Remember that the very first, large cocaine laboratories that were destroyed in Colombia were from the Yarí Valley, when Rodrigo Lara Bonilla was Justice Minister. Also near La Macarena and Vista Hermosa is the Apaporis River. This river runs near the Chiribiquete Mountains, one of the zones where many cocaine laboratories have been destroyed. The attacks that the FARC narco-terrorists are carrying out in this region are staged by mobilizing through the river basins that include the Vaupés, the Inirida, and their tributaries.

Operation Conquest which the Army carried out four years ago, was focussed on taking control of these rivers, to block the transportation of coca, cocaine precursor chemicals, and the transport of weapons and terrorists along the country’s waterways. The operation was so successful that the FARC had to invent protest mobilizations of the coca-growers, to politically block the successful Operation Conquest. And the coca-growers’ mobilizations served as a distraction to enable them to attack Las Delicias military base, which in turn was used to achieve the military demilitarization of the Cartagena del Chairá region. If the previous government had not yielded to the FARC’s pressures, we would have completely destabilized them with Operation Conquest.

So, what is being surrendered with these five municipalities is the infrastructure that controls half the country: the river communication channels and the geographic corridors of mobilization, through which they have access to 500,000 square kilometers.

EIR: Do you know this area personally, or have you been told this?

Gen. Bedoya: I know it. I lived there, I have walked the zone, and I have navigated it. I was there for two years. It was during the period in which the coca crops in the entire region were nearly eliminated. In 1988, President [Virgilio] Barco launched a national plan to eradicate coca crops. Throughout Guaviare, throughout Vaupés, and part of Vichada, coca cultivation was nearly eradicated at that time. Unfortunately, the state did not provide the resources nor the funds, and the Gaviria government came into power and that program was moved to a back burner, and the problem returned.

But let’s return to the importance of the municipalities the government plans to hand over to the narco-terrorists. La Macarena extends into the Yarí plains, toward Guaviare. I would remind you that the largest laboratory the Army ever destroyed, Tranquilandia, was discovered in the Chiribiquete Mountains area. La Macarena is where all the coca paste from Bolivia, Peru, and the Colombian Amazonas comes, by means of the rivers and clandestine airstrips. The Rodríguez Orejuela brothers and the FARC have huge cocaine laboratories and landing strips in La Macarena.

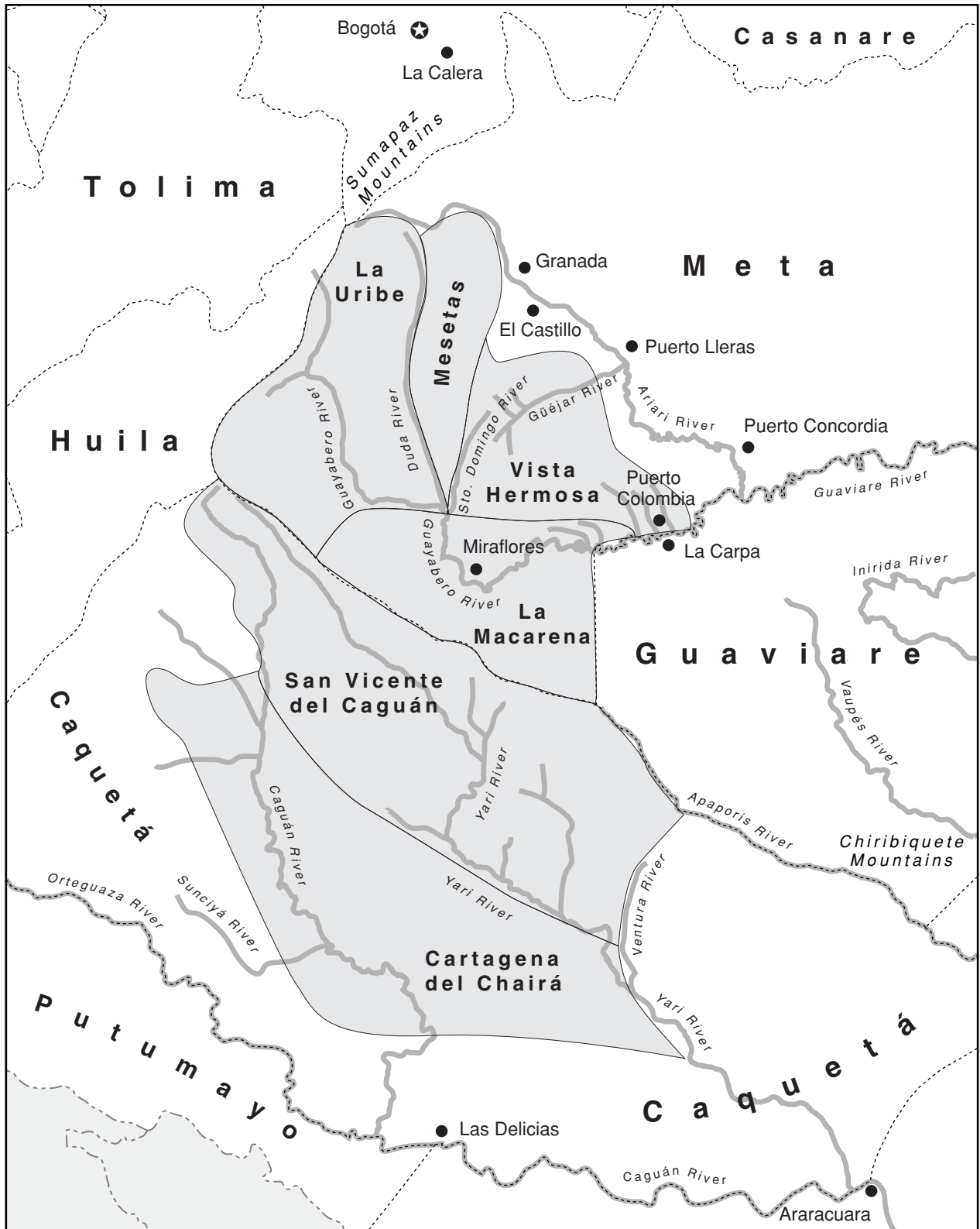
The regions of Putumayo and Caquetá are perfectly linked

FIGURE 1

Colombia: FARC territorial control



FIGURE 2
The FARC's 'Coca Republic'



through the rivers. The entire area is intimately interconnected through communications channels of sorts, i.e., the river basins: the Caguán, the Yará, the Guayabero, the Ortegua, the Sunciyá, the Putumayo, etc. And logically, all of these lead into the Department of Amazonas. One of the most important sites is Araracuara, which is the gateway to the Department of Amazonas.

What is going to happen if we don't pay attention to these southern regions of the country, which are completely unprotected? At this moment, there are not even troops in Vaupés, for example.

Countries like Brazil, like Peru, like Venezuela, and like Ecuador, are going to be exposed to the actions of these terrorist organizations, as they already have been. Imagine what happens when the five municipalities are evacuated, and the FARC imposes the law of the drug trade, the law of the jungle, throughout this territory. Logically, the entire region is lost.

EIR: And why is the FARC asking for La Uribe and Mesetas?

Gen. Bedoya: These two municipalities, as we have seen, are linked by river to Vista Hermosa, Macarena, San Vicente del Caguán, and from there, are linked to the whole Departments of Meta, Amazonas, Putumayo, Arauca, Guaviare, Vaupés, Vichada, Casanare, Caquetá. But they are also on the Eastern Mountain Range. La Uribe, like Mesetas, is close to Sumapaz. Keep in mind that Sumapaz is the water supply for the future of the nation's capital, Bogotá, and from it Bogotá can be easily attacked. La Uribe lies practically in a direct line to the capital as well. Remember that in 1992-94, Tirofijo penetrated this area up to La Calera. They were practically the same organizations that had come down from Sumapaz, and they carried out their attacks on La Calera. That is, geographically, the region of Sumapaz is entirely linked with La Uribe and Mesetas, and it is practically on top of Cundinamarca Department [whose capital is Bogotá].

Through these five municipalities, they will also take over the region of Guainía. These are jungle regions which are at the mercy of the drug trade, and, logically, they are very interested in having the Army abandon the five municipalities, so that they can take possession of these territories.

EIR: What then is the FARC's intent in controlling this whole region?

Gen. Bedoya: Since President Pastrana already granted them political status, by holding talks with the head of the largest narco-terrorist organization in the world, which is what Tirofijo is; now they are going to hand them territory. An organization of this sort, which has only political status but no territory, is only halfway to its goal; so, now, we must give them territory, so they can become an independent republic, which is being handed practically the richest region

of Colombia, where the great wealth of the Orinoco and Amazon River basins are located, and where the majority of Colombia's nature parks, its southern jungles, and all of its oil are located. That is what this region represents, which is up on the Eastern Mountain Range and at the gates of Bogotá.

So, with this recognition which is being bestowed upon them as a belligerent force, they are going to begin to take over everything. They are going to start with five municipalities, but they will project themselves over half of Colombia, just as we can now say that they are already projected over Caquetá, over Putumayo, over Vaupés, over Guaviare and Amazonas. These areas are tied to the drug trade.

Now, we cannot forget that this has been Tirofijo's lifelong dream; Tirofijo has long dreamed of heading an independent republic. In 1988 and 1989, he was the master of five or six municipalities which they had seized by force, and in which the Communist Party, narco-terrorist organizations, and the Patriotic Union itself, which they sponsored, had moved in. They had moved into Vista Hermosa, La Macarena, La Uribe, and Mesetas, and they were practically in Caguán. That is, they had taken these territories by force.

In 1989, they lost the elections, and then these municipalities were once again back in the hands of the political parties. The Conservative Party won in La Macarena, and the Liberal Party won in the rest of the municipalities mentioned. There, the Communists and related terrorist organizations lost politically. That was a whole battle which this region waged, so that this would be a democratic territory.

The great capital of Tirofijo's territories was Granada. Now we see that he wants to establish the Caguán region as his great capital. It is easier for him to be in the Caguán region, because from there he is grabbing Caquetá, he is taking over Meta, he is taking control of Huila, and thus he is pretty much swallowing up the whole of the country. They are going to give him a political gift, by handing him this region, because he is going to seed it with terrorists.

The honest people who live in the region will have to leave. Already Villavicencio, Florencia, Neiva, Cali, Medellín, and Bogotá are the recipients of the exodus of this whole population, which is not the 100,000 Colombians they say it is. No! There are going to be millions of displaced Colombians who are going to move to the capitals, because the state abandoned them. From one day to the next, the state appears to be handing territories over to organizations which have committed every kind of crime against the population.

In Vista Hermosa, all the liberals and the conservatives who waged the battle against Tirofijo in 1989 are going to leave, because they know what kind of person he is. The same thing is going to happen in Mesetas, in La Uribe, and in San Vicente del Caguán itself, where the national Army is located, having consolidated its positions there to bring

peace to the region. So, if the plan is to pull the Army out, we are simply going to leave the region unprotected, and hand it over to the narco-terrorists without a fight.

EIR: The government insists that this is only a temporary pull-out, which is being done to bring about national brotherhood. And those who argue as you do, are labelled radicals.

Gen. Bedoya: What I am warning about, is reality. This region is perhaps the richest which Colombia has, and it's most important geographically and strategically.

EIR: In fact, we are talking about half the country, right?

Gen. Bedoya: Not only that, but we are surrendering all the areas around our borders: the border with Venezuela, Brazil, Ecuador, and Peru. These border areas are going to be a flank which we are going to leave completely abandoned, weakened, at the mercy of the narco-terrorist organizations, which we already know operate in the region.

Now, they tell us that coca and the opium poppy is not grown in these five municipalities. That's a solemn lie. Go to Vista Hermosa, cross the Güéjar River, and you will see the amount of coca planted. The same thing is taking place throughout La Macarena region, where there are airstrips, there are processing laboratories. This is the key point, not the destruction of the crops per se. Fumigation, of course, is important, but what is fundamental, is to destroy the cocaine-processing laboratories which are there in the jungle. They just destroyed a laboratory in the Caguán; whose was it? It was Tirofijo's, as was the one which was in Vista Hermosa.

EIR: Why does the government keep saying that the demilitarization of the five municipalities will not affect the crop eradication programs?

Gen. Bedoya: It will affect them. Although there are areas where coca is grown, but where, currently, there are no eradication programs—obviously it will not affect the eradication programs there, because there aren't any. With this half-truth, they are passing disinformation to U.S. Congressmen. Besides, the problem is not only one of eradicating the crops; the problem is the laboratories, the cocaine complexes, the landing strips, the inputs entering the region, the transportation of the drugs by river. The problem is the terrorism which exists in the region. Crop cultivation does not produce cocaine without laboratories. Tirofijo has his airstrips in the Uribe and Duda River region.

EIR: Do you think that, in the United States, they believe these stories told by the Pastrana government?

Gen. Bedoya: I do not know if they believe them or not, but we Colombians cannot swallow them. Reality has shown that the drug-traffickers have taken over the area, and they want to consolidate themselves there. And the government

fell into the trap, because when the soldiers were kidnapped [at Las Delicias], they cleared pretty much the whole Caguán region. A whole leading political class in Caquetá was assassinated, starting with the leader of the House of Representatives, in his day, Dr. Rodrigo Turbay; and they assassinated the region's major politicians.

The same thing has happened in the Department of Meta. In the last elections, the people in the Department of Meta could not vote, because they began to assassinate them, in order to force them to vote for the FARC's candidates, and they enforced, through violence and intimidation, that no one could vote for candidates who were against this narco-corruption.

We are repeating the history of 1903, nearly 100 years ago, when we lost Panama, or rather, we handed Panama over, simply because we left this department unprotected; because sovereignty was not exercised with authority; because the state, instead of making its presence felt, weakened its military forces. It must be remembered that the Colombian Army in Panama was not even being sent enough to buy its food. The little army that was there was dying of hunger. That is why Teddy Roosevelt's imperialist blow succeeded, and that is why we lost Panama. And despite the fact that the President at that time, Marroquín, wished to correct the errors of misrule and abandonment, Panama was lost; and, saddest of all, that surrender was legalized. We gave it legitimacy, by receiving the miserable sum of \$25 million.

This time we are not talking about Panama, but about eight Panamas. Panama, in fact, is smaller than any one of these departments. May God grant that the state not end up repeating the dark and irreparable history of 100 years ago, on account of an irresponsible government, and not end up handing over to the narco-terrorists what does not belong to the government, but to all Colombians.

EIR: What can be done to avoid that?

Gen. Bedoya: We Colombians have to wake up to the gravity of what could happen. The danger is to remain indifferent to the dismembering of national territory; the danger is to believe in the fraud and lies of Tirofijo, an individual who is now treated as if he were the Patriarch Jonah, who embraces all the personalities and journalists who wish to greet him. What is at stake is the Fatherland. The Fatherland does not belong to any government, which is why the national Constitution clearly establishes that the defense of sovereignty, the protection of territorial integrity, is the responsibility of the Armed Forces. Even if they have invented a law which permits dialogues to be carried out concerning national territory, that law is unconstitutional from the standpoint of the integrity of the national territory. If we Colombians don't watch out, in less than four years we will no longer have a complete nation, but two countries, or perhaps four countries.

Thus, the reality is that the Fatherland is in danger, and this cannot be looked at as if from Olympus, believing the siren songs of Tirofijo and “Gabino” [another terrorist leader], who are presented today as if they were Bolívar and Santander, the new “heroes” who will bring peace to Colombia. Of course, it will be a final peace: the peace of the grave.

EIR: What measures would you take to resolve this problem, were you President of Colombia?

Gen. Bedoya: The first thing which has to be done is to strengthen the state, strengthen the Armed Forces, enforce the Constitution and the laws of the Republic, control these territories, and if a dialogue is desired, let a specific point be determined, as has always been done ever since these dialogues with other groups began; but at no time weaken national territorial integrity and sovereignty, nor abandon the community of all these regions to their own misfortune. Because the defense of the lives, the honor, and the possessions of Colombians is not discretionary. It is not optional for the incumbent government; it is an obligation, a constitutional mandate which must be fulfilled by the Armed Forces of Colombia, which have this great responsibility, a responsibility which they cannot delegate. No government can abandon its citizens who live in this half of Colombia to their fate.

EIR: But the government insists that the demilitarization is a temporary measure.

Gen. Bedoya: Well, we also withdrew from Panama temporarily. That’s how we gave up Panama, and with it, not only did we give up territory, we gave up the Panama Canal as well.

EIR: What other measures should be applied?

Gen. Bedoya: Enforce the law.

EIR: And how would the military aspect operate?

Gen. Bedoya: This is not simply a military matter. It’s a matter of state; it’s a policy, a political decision that must be made to reestablish the rule of law — law and order — throughout our national territory. There are many very clear examples of Presidents who made decisions: President Guillermo León Valencia, Dr. Julio César Turbay; and then there are terrible examples, such as Marroquín, who lost Panama. I hope Dr. Pastrana doesn’t follow Marroquín’s example.

EIR: We’ve been told that we Colombians have been killing each other in fratricidal warfare for 50 years, and that’s why we find ourselves in these circumstances today. Is this true?

Gen. Bedoya: That is a solemn lie. The point is that there have been governments which governed, and those that have misgoverned. We’ve had Presidents who have made the political decision to confront violence when it became necessary to do so. In the 1960s, we had Guillermo León Valencia; in

the 1980s, Julio César Turbay. But, we’ve also had those who misgoverned, who destroyed authority. From 1982 to the present, we’ve had total misgovernment, during which there were events such as the [November 1985] taking of the Justice Palace, and the rampant growth of drug trafficking, which is also the consequence of an absence of authority. We saw this in the previous government, which granted impunity to virtually all the drug traffickers.

In this country, we neither punish nor extradite those who should be extradited; and now we are preparing to grant impunity once again. I’m referring to absolving Tirofijo and all his followers, and then finishing off what remains of the Armed Forces, in a Congress which doesn’t pass laws coherent with our national reality. This is a Congress which has been kidnapped. Every day senators and congressmen are kidnapped, and then they return with messages, and with the desire to legislate on behalf of the terrorists and drug traffickers.

EIR: What is your view of the current situation of the Armed Forces?

Gen. Bedoya: The Armed Forces have a very important responsibility conferred on them, not by the government, but by the Constitution. This is what they must obey, what the Constitution of the Republic mandates, which is very clear. Equally clear is the criminal code which states that carving up our territory constitutes a crime of treason against the Fatherland. I hope that no one in this country will have to be tried for treason — with the exception of the previous government, which will have to answer for committing treason when it handed over the Caguán region two years ago. The Samper government will have to answer to the people, to society, and to the courts, which hopefully will try these types of Presidents.

EIR: What kind of aid or cooperation do you think the United States could offer us?

Gen. Bedoya: President Clinton has already announced that he will declare war on international terrorism. Well, here we have the FARC and the ELN, who are international terrorists, as the United States itself has stated. So, while carefully respecting Colombian sovereignty, the United States should begin by doing what it promised it would do.

Otherwise, Colombia needs help in a number of ways. First, by creating an alliance, an association for development; offering capital, technology, marketing, and infrastructure in all those areas affected by the drug trade. There must be a consolidation of the alliance with us in the war on the drug trade, by training personnel, providing equipment to destroy the laboratories in the cocaine complexes; also providing the aerial equipment to allow us to stop the planes that transport coca or coca paste; and supporting our Army. Unfortunately, the previous government didn’t buy all of the 12 Blackhawk helicopters which the U.S. Congress authorized. The govern-

ment only bought seven. The helicopters which the previous government purchased for \$3 to \$4 million apiece, aren't worth more than \$1 million apiece internationally. If the Army doesn't have resources, it will be very difficult for it to do much.

Look at the problem we have, when the Army only has seven Blackhawk helicopters. The first thing that should be done, is to buy the other five, so we have air support. We need a communications satellite. In general, the Armed Forces have to be strengthened. Forget about those congressmen who want to do away with the universal military draft, when we all know that what has to be done as a priority, is to revive the statutes regarding professional soldiers. This has lain dormant in the Congress for more than two years, sleeping the sleep of the dead, and leaving our soldiers, especially our professional soldiers, completely unprotected. Soldiers in Colombia, and particularly professional soldiers, do not receive adequate resources.

The country doesn't have enough soldiers. In a country which should have at least 1% of its population under arms, as any country in peacetime does, Colombia has no more than 120,000 soldiers. It should have 360,000 soldiers. Now they say they want all soldiers to be professionals; yet we know that, because of the violence, and in an economic system which cannot finance professional soldiers, no regulation for the training of the professional soldier has even been defined. There is no way for military service to be exclusively voluntary.

I am sounding the alarm for Colombians, so that we don't lose our Fatherland. The country doesn't belong to the government which happens to be in office. The previous President dedicated himself to destroying the country, and like the Congress, cozied up to the drug traffickers. And, if the current President doesn't wake up, he'll go down the same road, or a worse one.

EIR: Some have proposed bringing in foreign troops or UN Blue Helmets.

Gen. Bedoya: No, no, no, no. What we need is for the country to make the political decision, that will let our soldiers carry out their duty. Our soldiers are attacked, and stigmatized by the people who think that they alone speak on behalf of human rights—by the non-governmental organizations [NGOs], both foreign and domestic. Here, soldiers who do their duty are persecuted by the offices of the Attorney General and the Prosecutor General. The same is true for officers and non-commissioned officers. The Armed Forces need to have their own system of military justice, so they can do their duty. Everything else is a total lie, and is treason to the Fatherland.

EIR: On another occasion, I heard you say that the Department of Vichada is more or less the size of Vietnam. Can you

develop that comparison for us, as it might be useful for the United States?

Gen. Bedoya: Vichada is a Department, one of the 30-odd we have now, located in the east. I have an interesting anecdote about this: Once, Gen. Wesley Clarke, when he was head of the U.S. Southern Command, visited Vichada. He was here in January and February of 1997. I was head of the Army, and we went to Vichada, where there is a U.S. radar station. We toured the area, and then he asked me, "General, how large is Vichada?" I answered that it was 100,000 square kilometers. He asked, "How many soldiers are here in Vichada?" I told him that at the base, we had one 1H helicopter and an infantry battalion. He told me, "Look, General, Vichada is more or less the same size as Vietnam. There we had 2,000 helicopters and five divisions. You are heroes for trying to control this territory with the few troops you have here. You need help."

After that conversation, the U.S. Congress authorized the sale of the Blackhawk helicopters; but in the end, because of the previous government's politicking and deal-making, only seven were purchased. We are just now beginning to recover somewhat, to wage the war that has to be waged against the terrorist and drug-trafficking organizations. Vietnam, with 113,000 square kilometers, had a population fighting for its territory, but here, we're dealing with bandits who want to conquer territory for the drug trade.

EIR: In other words, the territory that would be under narco-terrorist control, would be the equivalent of five Vietnams.

Gen. Bedoya: Yes, five Vietnams and eight Panamas.

EIR: What message do you have for the American people and government?

Gen. Bedoya: The American people have to understand that Colombia is being threatened by international terrorism and the drug trade. It is well known that there are two terrorist organizations, the FARC and the ELN, here in Colombia. The State Department has them on its list of terrorist organizations. The drug trade has taken Colombia as its theater of operations. The laboratories are here, but there are other countries involved as well.

If we're going to take on this international mafia, the whole world will have to commit itself, and support us with economic and technical resources, to defeat these terrorist mafias, to whom no concessions can be made.

If all these countries unite to build an alliance, which would simultaneously fight against the drug trade and pool resources to develop the whole region, in two years Colombia can solve its problem. We only need two years—but it requires a firm political decision and international support, without making any kind of concessions to these criminal organizations, such as offering them our national territory on a silver platter.

International Intelligence

Italy faces government crisis over budget

The left-wing Communist Refoundation Party (PRC) has announced that it will vote against the government's proposed budget, which was presented on Sept. 26, threatening to leave Romano Prodi's government without a majority in the Parliament. It is possible that a minority faction within the PRC will split and decide to support the budget, but their votes are not enough to save the government.

The government's "moderate" budget consists of 14,700 billion liras in cuts, softened with small benefits for poorer layers. In order to remain within the Maastricht Treaty's criteria for entry into the European Monetary Union, the government is proposing the ridiculous amount of 5,500 billion liras for investment. Despite the PRC's attack on the austerity budget, it offers no credible alternative.

Furthermore, Banking Supervisor Paolo Savona pointed out, in a commentary in the Sept. 26 *Corriere della Sera*, that the international financial crisis will play havoc with the budget. He suggests that the "stabilization" targets aimed at by the proposed budget must be revised "in light of the international developments, which will determine choices in the immediate future, and which members of Parliament tend to shut out of the room (and out of their attention)." In spite of his criticism, he views passage of the budget as preferable to rejection, because the latter would expose Italy to a reaction from the financial markets.

French 'new Bretton Woods' is a fig-leaf for IMF

The conservative government of President Jacques Chirac and Socialist Prime Minister Lionel Jospin have cooked up another phony "new Bretton Woods" proposal, in a 12-point memorandum to the Group of Seven. The proposal was officially presented to the European Union finance ministers meeting in Vienna on Sept. 26-27. Finance Minister Dominique Strauss-Kahn told the weekly *Nouvel Observateur*, in its Sept. 24-30 issue,

"Let's avoid millennial catch phrases. The existence of global markets does not necessarily mean there must be a global crisis," he said.

The aim of the French proposal in Vienna is to "succeed in federating Europeans before trying to convince the rest of the world, notably the United States. Our ambition, as Lionel Jospin defined it in your magazine, is to promote a 'new Bretton Woods.' The memorandum which I propose to my colleagues is simple: Give the IMF [International Monetary Fund] a truly political authority; ensure the transparency of the financial system; create periods of transition for emerging countries to open up to capital markets; [and] reaffirm the role of Europe, and especially of the euro."

He continued, that criticism of the IMF is "not always from the right standpoint. At any rate, I prefer an international regulatory institution to the law of a single country." Strauss-Kahn then attacked the Clinton initiative of Sept. 14: "We must put into place a true IMF government by transforming . . . the present Interim Committee into a true council, where industrialized countries can hold dialogue with emerging countries, and where the more important orientations and involvement of the IMF are decided. We know that we will have to discuss this proposal with the United States which would rather create a new institution bringing together 22 countries—the reason it's named G-22—within which it could continue to exert its own leadership on the world economy."

Blair tells UNGA: Britain will take political helm

In his Sept. 22 address to the UN General Assembly, British Prime Minister Tony Blair ticked off a number of political crisis spots (all of which Britain fired up, and then sabotaged U.S. peacemaking efforts), and asserted Britain's prerogative to deal with them. Blair said he would ask UN Secretary General Kofi Annan to help peacekeeping, by "peace building": meaning that the International Monetary Fund and World Bank should be brought more directly into peace efforts. He cited Africa's Great Lakes region

and the Middle East as areas where such "peace building" is necessary.

In both the Balkans and the Middle East, the IMF has sabotaged economic development, which is the key ingredient for peace.

After thanking the world community for its support of Britain's role in Northern Ireland, Blair pontificated, "Now it is time for the Middle East," and "we are ready to bring this about." On Kosova, he said that Britain had presented a Security Council resolution for a cease-fire, and warned that Serbian President Slobodan Milosevic "would ignore it at his peril."

Blair also waxed sanctimonious on drugs and terrorism, saying that "too many countries provide sanctuary for drug money" and that you have to "hit them where it hurts." Terrorists, he ranted, should have no hiding place, and no facilities to raise funds, boasting about Britain's new law, which makes it illegal to plan terrorist attacks from British soil—as if a dozen countries hadn't been complaining about British safe-havens for terrorists and their fundraisers for years.

U.S. smoothing strained relations with Malaysia?

In confirmation hearings before the Senate Foreign Relations Committee on Sept. 25, U.S. Ambassador-designate to Malaysia B. Lynn Pascoe tried to smooth over the impact of a statement read by State Department spokesman Jamie Rubin on the detention of former Finance Minister Anwar Ibrahim and supporters. Pascoe said that the United States counts Malaysia as a voice of moderation and tolerance in the Islamic world. Referring to "dramatic events" recently, including imposition of capital controls, the sacking and subsequent arrest of Anwar Ibrahim, Pascoe said, "The United States cannot dictate to Malaysia the economic or political approaches it should adopt. We do, however, have a deep interest in the well-being of the people." He emphasized that one of his greatest challenges as ambassador would be to work with Malaysia and its people to restore the country's prosperity.

The State Department's Sept. 25 statement was at variance with its earlier stance that Anwar's arrest was "a domestic matter."

CAMBODIA'S HUNSEN was the target of an assassination attempt on his way to opening the new Parliament on Sept. 24, when a rocket passed within 10 yards of his vehicle. Four people, including two children, were killed. Three other rockets were found nearby, suggesting that a booby trap had been laid.

EGYPT has begun reconciliation efforts between the Sudanese government and the opposition National Democratic Alliance. NDA head Mohammed Othman El-Merghani arrived in Cairo on Sept. 22, to discuss with Egyptian officials the details of formal meetings held by Sudanese Foreign Minister Mustafa Othman Ismael in Cairo. Ismael confirmed Sudan's readiness to accept Egyptian mediation.

SOUTH AFRICAN troops, called into the neighboring kingdom of Lesotho to restore peace, found more than 500 tons of weapons, apparently of Bulgarian origin, *EIR* was told on Sept. 28. The source said that such a large cache could not be for Lesotho's use. South Africa is now investigating where the weapons were destined.

INDONESIA'S former President Suharto met on Sept. 25 with Attorney General Andi Ghalib, turning over to him two unsigned letters of authorization, the first a special authorization for the AG to transfer any money President Suharto might hold overseas to the Indonesian government. The second letter authorizes banks holding funds belonging to President Suharto in Indonesia to open their records to the investigative team looking into his family's wealth.

BRITAIN AND IRAN came to an agreement to exchange ambassadors, during talks between Foreign Ministers Robin Cook and Kamal Kharazmi, at the UN General Assembly, according to the Sept. 25 London *Financial Times*. Formal relations were broken in 1989, after Ayatollah Khomeini issued a *fatwa* against Salman Rushdie.

Foreign Minister Datuk Seri Abdullah Ahmad Badawi responded to Rubin's statement by stating, "All Malaysians are given protection under the laws established in accordance with the Malaysian Constitution, and the Internal Security Act is one of the laws duly enacted by the Parliament." He pointed out that since Anwar was fired on Sept. 2, he had held public rallies criticizing the government and Dr. Mahathir, all of which were illegal.

India, Pakistan leaders issue statement at UN

"A new chapter in Indo-Pakistani cooperation is being opened," said Indian Prime Minister A.B. Vajpayee in New York on Sept. 24, after his meeting with Pakistani Prime Minister Nawaz Sharif, during the UN General Assembly. Vajpayee said that a "conscious effort" would now be made to encourage trade and commercial ties between the two countries. While the joint statement announced that both countries' foreign secretaries will now begin talks in Islamabad on Oct. 15, to focus on Kashmir and peace and security, Vajpayee also stressed that any move that India might take regarding the Comprehensive Test Ban Treaty (CTBT) will be done "independently," and is not linked to any Pakistani decision.

Flanked by the trio who spearheaded India's foreign policy—Deputy Chairman of the Planning Commission Jaswant Singh, Principal Secretary Brajesh Mishra, and Principal Secretary and Foreign Secretary K. Raghunath—Vajpayee described some of the concrete steps which will now be pursued, including:

- Indian purchase of energy and electricity from Pakistan; details are being worked out.
- Direct bus service between New Delhi and Lahore as well as a road-and-rail link between Munabao, in Rajasthan, to Khopra.
- Reestablishing a "hot line" between the two Prime Ministers.
- Propaganda against each other's governments will be checked and the government media will handle these issues with more prudence.

- Border firing is to cease immediately.

Vajpayee said issues such as non-deployment of missiles and related defense issues would be discussed at the Oct. 15 foreign secretaries meeting in Islamabad.

The remaining six subjects—the undefined border at Siachen Glacier, Wullar Barrage, Sir Creek; terrorism; drug trafficking; economic and commercial cooperation; and cultural exchanges—would be taken up in separate meetings.

EIR embarrasses Soros's lackeys in Argentina

EIR's Argentina correspondents twice embarrassed the sycophants of speculator George Soros in two days. The first event was on Sept. 23, at a press conference given by Prince Philip's Transparency International announcing its new world ranking of countries according to their level of corruption. Amidst the uproar created by the fact that TI now ranks Argentina 61st on the list of the 85 "most transparent" countries, *EIR* began agitating among those present, prompting one reporter to ask who was financing Transparency's anti-corruption campaigns. Transparency's representative, Christian Gruenberg, blurted out, "George Soros!" Soros has spent the last three years buying up large chunks of Argentina, as part of his international speculative operations.

The next day, Buenos Aires Gov. Eduardo Duhalde met with the press during a conference on drug trafficking and addiction, which his office co-sponsored. *EIR* asked the Governor—who is also a Presidential candidate—to comment on a two-page *New York Times* ad calling for the legalization of drugs, which Soros had purchased on June 8, to coincide with the UN General Assembly special session on the war on drugs. Duhalde said he was unaware of the ad, but sharply attacked legalization, saying it would be like legitimizing crime, and that it would be devastating.

One of the signers on Soros's ad was Graciela Fernández Meijide, a Presidential candidate who supports the pro-narco-terrorist São Paulo Forum, as well as Transparency's low ranking of Argentina on its "corruption index."

Fight to save the Presidency is rapidly gaining ground

by Debra Hanania Freeman

On Sept. 18, when Newt Gingrich's minions in the House of Representatives voted to release the videotape of President Clinton's grand jury testimony, along with 3,000 pages of raw grand jury transcripts and other material, they boasted that the broadcast would deliver "the knock-out punch" in what has become a \$40 million effort to illegally overturn the results of the 1996 Presidential election. They were quickly joined by the lunatic fringe of the "Religious Right," who similarly promised that once the American people had the opportunity to view President Clinton's testimony, they would turn against him.

Constitutional law experts across the United States expressed shock at the gross illegality of the move. European commentators were almost uniform in describing the action as an attempted coup d'état against the President and the U.S. Constitution, one that reeked of "McCarthyism."

Gingrich ignored it all. He ordered House Republicans to plunge ahead, in what was, at best, a reckless and dangerous drive to use sexual blackmail to discredit and defeat an opponent they could not defeat politically. In the ensuing two weeks, it is quite apparent that Gingrich's plan has not only failed, but has backfired miserably.

One ardent fan of Gingrich was recently heard lamenting, "I just don't understand why Newt rushed into this the way he did. The stakes are so high. He should have been more careful; more thoughtful. I just don't understand it. His timing has never been so bad."

Indeed, Gingrich's "timing" was a disaster. On Sept. 18, while Rep. Henry Hyde's (R-Ill.) House Judiciary Committee was ramming through their decision to authorize what has since been described as "a pornographic garbage dump on the American people," a press conference was being held a few blocks away, at the Congressional Black Caucus Legislative

Weekend. Pennsylvania Legislative Black Caucus Chairman Harold James and a group of other African-American elected officials, were releasing the names of more than 600 notables from 46 states, who had joined in a newly formed group, "Americans to Save the Presidency" (see text of resolution, *EIR*, Sept. 18, p. 66).

They described how the initiators of the ad hoc committee had come together on Sept. 6, at a conference hosted by the Schiller Institute, in response to reports of new attempts by traitors in the Democratic Party to pressure the President to resign. They told the gathered press that the response to their strongly worded statement, which denounces attacks on President Clinton, particularly under circumstances of a global financial meltdown, as being "the moral equivalent of treason," had been overwhelming. They talked about public demonstrations and rallies, coupled with a national effort to hold 100 town meetings to support the President, and deliver a ringing mandate for him to provide not only national, but international leadership to address the financial and related crises.

By the afternoon of Sept. 18, Rep. Alcee Hastings (D-Fla.), in a dramatic presentation on the floor of the House of Representatives, invoked House Rule 9, reserved for matters of grave concern to national security, to offer a resolution to impeach independent counsel Kenneth Starr on grounds that he had knowingly acted to undermine the ability of the Congress, the President, and the courts, to carry out their duties under the U.S. Constitution (see text, *EIR*, Oct. 2, p. 72).

Over the course of the weekend, Jewish leaders across the United States, many of whom were clearly not Clinton supporters, pleaded with Gingrich and Congressional Republicans to reconsider the timing of the release, as it was scheduled to occur on Rosh Hashanah, one of the holiest days of Judaism.



Citizens rally in defense of President Clinton and the Presidency at the Pennsylvania state capitol in Harrisburg on Sept. 28. At the podium addressing the event is Schiller Institute representative Phil Valenti.



Clinton catches the oligarchy off guard

But Gingrich, and the financial establishment that controls him, had no flexibility in their timing. The week before, on Sept. 14, in a speech to the New York Council on Foreign Relations, President Clinton pushed aside the unprecedented assault on his Presidency to discuss what he called “the biggest financial challenge facing the world in a half-century.” Picking up on a theme most commonly associated with American statesman Lyndon LaRouche, the President said that “the United States has an absolutely inescapable obligation to lead,” and announced that he had instructed his Treasury Secretary, Robert Rubin, to organize a global summit, to occur in Washington within the next 30 days, to fashion a new financial architecture.

The speech caught the President’s enemies completely off guard. It was the kind of move that the entire assault on the Presidency was aimed at preventing. On Sept. 21, President Clinton was to return to New York to address the United Nations General Assembly. Even though the financial crisis was not the stated subject of Clinton’s address, his enemies

were not going to take the chance. Indeed, their estimate was that, even if Clinton talked about something else, they couldn’t risk the American public seeing their President acting “Presidential.” Gingrich’s timing wasn’t off. He knew exactly what he was doing. The broadcast of Clinton’s grand jury testimony was timed to coincide with his UN address. And, Gingrich did succeed in preventing the American people from seeing a live broadcast of the President’s speech. When the assembled leaders of the world rose to their feet in an unprecedented and historic gesture, to give William Jefferson Clinton, the President of the United States, a sustained and emotional standing ovation, U.S. television networks were playing direct feed tape of the President’s grand jury testimony, from Judiciary Committee Chairman Hyde’s office.

It didn’t work. The American people were furious. There were reports that hundreds of thousands of Americans joined in a spontaneous boycott. Radio and television stations across the nation played interviews with Americans saying basically the same thing, “I told my Congressman that I didn’t elect him so he could authorize the broadcast of irrelevant pornog-

raphy. I couldn't stop them from running the tape, but that sure as hell doesn't mean I have to watch it."

Among those who did watch the broadcast, the overwhelming majority of them were ecstatic. The responses started to flow in. "The President did real good." "He didn't take any of Ken Starr's crap." "The President really exposed Starr and his boys for the scum they are." Not only did the broadcast fail to deliver Gingrich's promised "knock-out punch," but within hours of the broadcast, the President's approval ratings rose eight percentage points, giving him the highest recorded popular support of *any* President in U.S. history.

Town meetings across the country

During the last week of September, as the nation headed toward the end of the fiscal year, and the biggest financial and economic upheaval of the modern period, more than 50 town meetings, attended by thousands of Americans, have been held in response to the call by Lyndon LaRouche to defend the U.S. Presidency, at a time when it is under attack by enemies, both foreign and domestic, who wish to paralyze President Clinton, to stop him from exercising that "inescapable obligation to lead."

Over the past week, citizens have attended meetings in Los Angeles, Sacramento, San Jose, Palo Alto, and Orange County, California; in Montgomery and Birmingham, Alabama; in Buffalo and New York City; in Washington, D.C. and its Maryland and Virginia suburbs; in Austin, Houston, and Dallas, Texas; in New Orleans, Denver, Topeka, Portland, Pittsburgh, Detroit, Milwaukee, Phoenix, Reno, Albuquerque, and smaller cities in North and South Dakota, Michigan, Virginia, Illinois, Wisconsin, Indiana, Massachusetts, and Wyoming, among others. More than two dozen student forums have also taken place.

Audiences have heard speakers from the LaRouche movement document the origins of the assault on the Presidency and the efforts to save the Presidency. The 1994 LaRouche pamphlet, "Stop the Assault on the Presidency," which has already circulated in hundreds of thousands of copies, has been reissued. The new version also includes the transcript of a 55-minute television program, produced by the LaRouche movement, and released in March of this year. LaRouche puts the Starr operations against President Clinton in the context of the global financial crisis, and the British financial oligarchy's attempts to prevent the President from acting in the tradition of Franklin Roosevelt, and specifically, from following the policy approach LaRouche himself has outlined. In addition to LaRouche activists, the town meetings have been addressed by current and former elected officials, Democratic Party leaders, and labor, religious, and civil rights leaders.

Wherever President Clinton has made public appearances, LaRouche supporters have unfurled what has become a famous banner, "Save the Presidency — Jail 'Porno' Starr,"

and have rallied support.

On Sept. 28, State Rep. Harold James of Pennsylvania, one of the initiators of "Americans to Save the Presidency," led the first Democratic Party-sponsored rally to support President Clinton, in Pennsylvania's Capitol Rotunda in Harrisburg. The event came just two days after the Pennsylvania Democratic State Committee unanimously declared "continuing support for and confidence in President William Jefferson Clinton."

The Pennsylvania demonstration was particularly significant because it was in Pennsylvania that House Minority Leader Richard Gephardt (D-Mo.) shocked good Democrats everywhere by declaring that he considered the President's behavior to be "reprehensible." His remark set off a round of traitorous actions by "Third Way New Democrats" that threatened to become a stampede.

But, Gephardt, along with most of the other turncoat Democrats, has rapidly reversed course in the face of popular support for the President.

On Sept. 27, Clinton strategist James Carville, undoubtedly the clearest-thinking member of the President's political team, took to the airwaves to announce that he was opening a second front in the battle. Carville said that there was massive evidence that each and every shot fired against President Clinton was being directed by Newt Gingrich, and that it was time to rip away Gingrich's mask of "impartiality and fairness."

Clinton gets on with the nation's business

Meanwhile, President Clinton continues his fight to remain focussed on his responsibilities as President. On Sept. 23, the collapse of a New York-based hedge fund, Long Term Capital Management, brought the world financial system to the edge of the abyss. Even so, members of the Group of Seven, under the chairmanship of Britain's Prime Minister Tony Blair, are resisting Clinton's call for a global summit, for fear that a sovereign U.S. Presidency, with a President who might listen to LaRouche, could wipe out their power in the midst of the financial upheaval.

But, on Sept. 29, they may have been outflanked. President Clinton and Treasury Secretary Robert Rubin, in an event that holds tremendous and historic potential, announced "a new era in U.S.-China relations," following several unannounced meetings with China's Foreign Minister. President Clinton took the occasion to announce that America and China would work in a partnership to address the financial crisis. It is an action which is long overdue.

The fight to save the Presidency rages on. Close to 100 more town meetings are already scheduled. With each day, the number of signers on the "Americans to Save the Presidency" resolution grows. Ads in support of the Presidency are appearing in newspapers across the nation. And, the first mass demonstration to save the Presidency is scheduled for Oct. 17, at Lafayette Square, across the street from the White House.

The truth about perjury

by Edward Spannaus

Since the public release of President Clinton's grand jury testimony, there has been no end to the prattling of pompous legal "experts" on television and in the press, warning that the very foundations of our legal system will crumble if the President is not prosecuted or impeached for perjury. Take, for example, that overnight TV sensation, Prof. Jonathan Turley, who instructs us that "perjury runs to the very heart the legal system. If we cannot enforce that value, it's going to be hard for us to enforce many other laws."

Turley is correct, but not at all in the way he intended. Perjury *does* run to the heart of the legal system. For all the debate over how prevalent perjury is in civil cases (especially divorce cases, where it is almost universal), our esteemed commentators are maintaining their silence on the dirty secret which every prosecutor and defense lawyer knows: the thoroughgoing pervasiveness of perjury by *government* officials in the *criminal* justice system.

'Testilying'

"The magnitude of police perjury in this country is not to be believed. . . . It is incomprehensible," a spokesman for the National Association of Criminal Defense Lawyers recently told *EIR*.

"That police in criminal cases regularly commit perjury is well known to criminal lawyers, judges and others familiar with the criminal justice system," stated a 1991 article in the *New England Law Review*. The problem is not limited to local police; it is well-known that the same pattern holds true for FBI agents and other Federal law-enforcement officers.

In some police precincts in New York City, that practice is so common that it is referred to as "testilying." In 1994, a report was issued by the "Mollen Commission," which was appointed two years earlier to investigate corruption in the New York Police Department; that report documented several forms of what it called police "falsification": testimonial perjury (testifying falsely under oath at a grand jury or trial), documentary perjury (swearing falsely under oath in an affidavit or criminal complaint), and falsification of police records (such as an arrest report). The normal pattern is that police officers manufacture tales to justify arrests and searches, put those falsifications in police reports, and then later feel they have to stick to their story when they testify on the witness stand.

The Mollen Commission report found that police falsification is widely tolerated by supervisors and prosecutors.

"We are not aware of a single instance in which a supervisor or commander has been sanctioned for permitting perjury or falsification on their watch," said the report. Likewise, the report said that several former and current prosecutors had acknowledged that perjury and falsification are ignored by prosecutors.

A treatise on criminal law practice noted that the same tends to be true of Federal prosecutors, who depend on agents to bring them cases, and, that if the prosecutors are not perceived as "team players," they will not get good cases from the agents.

Lying in the LaRouche case

The Federal prosecution of *EIR* founder Lyndon LaRouche and his associates is exemplary of the problem. Indeed, after Justice Department prosecutors filed their reply to the appeal brief filed by LaRouche and his co-defendants at the U.S. Court of Appeals in Richmond, the defendants filed an extraordinary "Table of Misstatements of Fact," citing well over 100 knowingly false or misleading statements in the government's reply brief. (That document was then widely circulated in a 1989 pamphlet entitled: "The LaRouche Railroad: Prosecutors Tell 148 Lies.")

Those lies were used to justify the conviction and imprisonment of seven innocent people. Earlier in the LaRouche case, there was presented an absolute open-and-shut case of perjury by the FBI's case agent in Boston, FBI Special Agent Richard Egan. Egan's perjury was used to justify the pre-trial detention of three associates of LaRouche—Jeffrey and Michele Steinberg, and Paul Goldstein.

At a detention hearing on Oct. 9, 1986, at which the government was arguing that the Steinbergs should be held in jail without bond because they were "a danger to the community" on grounds of obstruction of justice, Egan was asked about the government's contention that no documents had been produced to a Federal grand jury in Boston in response to various grand jury subpoenas. Egan testified under oath that there was not "one record" produced to the grand jury, and that there was not "one compliance" with the subpoena (see *EIR*, Jan. 30, 1987, p. 66).

But, at another hearing in December, Egan was forced to back down when he was confronted with grand jury minutes and other evidence showing that hundreds of thousands of pages of documents had in fact been handed over. Prosecutor John Markham then jumped up to say that the government would stipulate that "a wealth of material" had been produced by the defendants to the grand jury; Egan then admitted that "boxes and boxes and cartons and cartons" had been provided. When pressed, Egan sheepishly acknowledged, "I was wrong, I was mistaken." (Since Egan had been present when all that material was produced to the grand jury, he wasn't mistaken: he was *lying*, and lying under oath.) But, on the basis of this official FBI perjury, the Steinbergs spent over three months in jail, and others were also detained for a shorter time.

GOP tax cut bill passed by House

On Sept. 25 and 26, the House passed the GOP tax cut bill, which had been marked up by the Ways and Means Committee the previous week. It came out of the committee as two bills: One, which passed by a vote of 240-188, would set aside 90% of the projected budget surplus for Social Security, and the other, which passed 229-195, would provide \$80 billion in tax cuts over the next five years.

Democrats tried to change the surplus set aside to 100%, and to put the tax cuts on hold until there is an operating budget surplus that does not include the Social Security trust fund.

The debate was highly partisan and ideological, and the fact that it took place only weeks before an election was not lost on Democrats. Ways and Means Committee Chairman Bill Archer (R-Tex.) repeated the usual GOP mantras about politicians and government spending. "The best way to stop the politicians from spending the taxpayers' money," he said, "is to take it away from them before they can waste it."

Democrats pointed out that the budget figures include the Social Security trust fund, an accounting trick used since the 1960s, and one that some Democrats, such as Sen. Ernest Hollings (S.C.), have been trying to eliminate. They accused Republicans of raiding the Social Security trust fund to pay for their tax cuts. Rep. Charles Rangel (D-N.Y.) said that the politicians that Archer referred to "have to be those who have the majority. They are the ones that have their fingers in the cookie jar," and "the taxpayers put in the cookies for the Social Security trust fund."

More to the point, is whether the projected budget surplus actually exists, or, even if there is a surplus for

fiscal year 1998, what will happen in 1999 and beyond. Rep. Ron Kind (D-Wisc.) warned that the projected budget surpluses may never materialize because of the international economic crisis, a crisis which the GOP leadership has so far refused to address.

President Clinton has announced that he will veto the bill, but it remains to be seen how the Senate will handle it. Senate Majority Leader Trent Lott (R-Miss.) has hinted that the bill may be included in an omnibus spending measure that would wrap up the appropriations process. Minority Leader Tom Daschle (D-S.D.) suggested on Sept. 29 that if the bill comes to the floor, Democrats may not filibuster it, because it has no chance of becoming law anyway.

Bankruptcy 'reform' clears Senate chamber

On Sept. 23, the Senate passed the bankruptcy reform bill by a vote of 97-1. The bill changes bankruptcy procedures based on the assumption that the skyrocketing rates of personal bankruptcy filings over the last few years has been the result of "abuse of the system," and not of the economic crisis. The bill makes Chapter 7 bankruptcy more difficult, by giving a bankruptcy judge more authority to convert a Chapter 7 filing (liquidation) to Chapter 12 or 13 (adjustment of debt).

The Clinton administration prefers the Senate version over the House version passed in June, because it has better consumer protections against unscrupulous creditors.

However, the most significant vote on the bill came on an amendment introduced by Edward M. Kennedy (D-Mass.), to increase the minimum wage

to \$6.15 an hour by the year 2000. It was tabled by a vote of 55-44. Typical of GOP arguments was Don Nickles (R-Okla.), who, while acknowledging the difficulty of making a living on \$5.15 an hour, ridiculed the notion that the government should make it illegal to work for less than \$6.15 an hour. To do so, he said, is like saying, "If your job doesn't pay this much, we would rather have you unemployed."

Richard Durbin (R-Ill.) replied, "It is a sad day when we have reached the point when the U.S. Congress is so unresponsive to the reality of workers in America, so insensitive to what is really going on among workers in businesses across the United States."

Just before the vote, Minority Leader Tom Daschle (D-S.D.) said that Republicans who otherwise might support a minimum wage increase, were told by their leadership not to vote for it this time.

Administration defends its North Korea policy

Ambassador Charles Kartman, the Clinton administration's special envoy on Korea, along with Ambassador to South Korea Stephen Bosworth and Deputy Assistant Secretary of Defense for Asia and the Pacific Kurt Campbell, appeared before the House International Relations Committee on Sept. 24 to defend the administration's policy toward North Korea. Before they could start, however, they were subjected to a tirade from committee chairman Ben Gilman (R-N.Y.), who declared that U.S. policy has only benefited North Korea. U.S. generosity in supplying food aid and heavy fuel oil, he said, "has led North Korea to believe that there is no cost to continuing its nuclear program, the proliferation

of weapons, incursions into the South, the firing of missiles, the abuse of human rights, starving its own people to feed the party and its military, the trafficking of narcotics and the counterfeiting of American dollars." He added that the administration should rethink U.S. policy, because it "presents us with a false choice, support the agreed framework or go to war." Gilman's offered alternatives excluded any engagement with North Korea.

Lee Hamilton (D-Ind.), the ranking minority member on the committee, warned that without the 1994 framework agreement, there is no strategy for preventing North Korea from resuming the production of nuclear weapons materials. "If we fail to live up to our commitments," he said, "the North Koreans will have no incentive to live up to their commitments." This would mean that "the North would throw out the international inspectors, who for the past four years have been monitoring North Korea's principal nuclear facilities."

Confrontation looms on appropriations bills

The Senate passed the conference reports on the Defense and Energy and Water Development appropriations bills on Sept. 29, the day before the end of the 1998 fiscal year. They are only the third and fourth of the 13 spending bills to be readied for President Clinton's signature. The Legislative Branch bill was passed a few days before. Two other bills, the Treasury, Postal Service bill and the Agriculture bill, are both held up in conference over disagreements between the House and the Senate on abortion language that the House inserted into both bills, and which the administra-

tion objects to.

President Clinton blasted the GOP for the slow pace just before he departed for a three-day campaign trip on Sept. 25. He told reporters that the Continuing Resolution to keep the government open through Oct. 9, which he had signed just a few moments before, "is a regrettable sign that the Republican majority in Congress has failed to address the urgent priorities of the American people. . . . By failing to meet its most basic governing responsibility, the Republican majority in Congress has its priorities wrong: partisanship over progress, politics over people."

Republicans reacted angrily to the President's remarks. Senate Majority Leader Trent Lott (R-Miss.) told reporters, "He can't come out here and take potshots at us, that are not even accurate, and then say, 'Oh, and by the way, we got to work together.'" House Republican Conference Chairman John Boehner (Ohio) said, "When the President attacks us for not doing the people's business, the fact is we have been doing the people's business, and we've been doing it all year." He complained that "legislating is hard work, and we could accomplish a great deal more if the President of the United States would engage himself in the legislative process."

Fast-track authority defeated in the House

Legislation that would have given the President fast-track trade negotiating authority was defeated in the House by a vote of 180-243 on Sept. 25. Last November, the bill had been pulled from the floor because not enough Democrats could be mustered to support it. Now, even though nothing had

changed to increase Democratic support, the GOP leadership brought the bill up anyway.

Republicans maintained that further opening-up of overseas markets is the key to overcoming the global economic crisis. Ways and Means Committee Chairman Bill Archer (R-Tex.) said, "There are only a few things that we in America can do to increase our ability to be a bulwark against decaying economies around the world and prevent their ultimately enveloping us," and that is to "demonstrate a clear commitment to resist the suggestiveness of protectionism, protectionism which could drag the whole world into depression."

Many Democrats supported for fast track in principle, but they could not support this bill because the GOP brought it up as a pre-election gimmick, knowing they would lose the vote. Bob Matsui (D-Calif.) said, "When the Republican leadership decided to bring fast track up in the waning days of Congress, there was little attempt to disguise the motivations, the political motivations, behind it." He said, "The sensible and rational thing to do, if we want to pass it, would be to make changes to add additional support, but that simply has not happened."

At the conclusion of the debate, Speaker Newt Gingrich (R-Ga.) came to the floor to try to set up Democrats to take the blame for the international economic crisis. "It is sad to see," he said, "the partisan politics of the unions and the Democratic Party. . . . But if this goes down and we end up in a steep worldwide recession, some of us will have had the comfort of knowing we cast the right vote, we sent the right signal, and we tried to sustain what has worked for 50 years and not let the world slide back to what failed in the Great Depression."

National News

Dem Leadership Council releases 'Blueprint'

The Democratic Leadership Council held a press conference on Sept. 23 to inaugurate their new publication called *Blueprint: Ideas for a New Century*, a "New Democrat" concoction modeled on British Prime Minister Tony Blair's Third Way. Sen. Joseph Lieberman (D-Conn.) described the purpose of the *Blueprint*: "to take us to a third way, to go beyond divisions and to a ground of common aspiration." DLC President Al From explained that the *Blueprint* "is part of a larger DLC strategy to make sure that our politics continue to prevail." He added that the *Blueprint* is important also for the "Third Way political movement now sweeping the world," and cited Blair's international efforts.

Included in the maiden issue is a report on a poll by an associate of disgraced former Clinton campaign adviser Dick Morris, pollster Mark Penn, which putatively shows the political identity of voters shifting to the right over the last two or three decades. Republicans are more conservative and Democrats are more centrist than in the past, with the implication being that the leadership of the Democratic Party also has to shift in order to win elections.

U.S. to continue work in ITER fusion program

U.S. Energy Secretary Bill Richardson issued a statement on Sept. 22 that extends U.S. participation in the International Thermonuclear Experimental Reactor (ITER) fusion program. The agreement that supports fusion cooperation through ITER expired earlier this year, and there has been opposition from the leadership of the House to continuing the cooperative effort. The 11-year-old program brings together scientists and engineers from the United States, Europe, Japan, and Russia for work on science and engineering problems in fusion.

Secretary Richardson said in his state-

ment, "We have made significant advances in physics research, engineering design, and technology development. Supporting the ITER agreement is the best way for the United States and our international partners to continue to benefit from these past accomplishments and collaborations." He also said that he had conferred with Rep. Joseph McDade (R-Pa.), chairman of the House Appropriations Subcommittee on Energy and Water Development, before releasing the agreement. "We both strongly support international fusion collaboration and would like to see the U.S. and our partners complete the testing on the component prototypes," he said.

Congressional opposition resides largely in the projected multibillion-dollar price of building a fusion reactor based on a tokamak geometry. But, the advancements that have been made, and the international working relationships among scientists, are crucial capabilities to preserve for any future fusion effort.

Carville aims his big guns at Newt Gingrich

James Carville, the colorful manager of President Clinton's 1988 campaign, told host Tim Russert NBC's "Meet the Press" on Sept. 27, "You know, Mr. Russert, I declared war on Ken Starr, and today let me say, I'm opening a new front. Corporal 'Cue Ball' Carville will be rolling into battle against Newt Gingrich, because Newt Gingrich—this entire thing has been under the orchestration, supervision, and direction of Newt Gingrich and Ken Starr. Newt Gingrich, talking about a liar, he is a sanctioned, certified, adjudicated, and confessed liar. He's also a sanctioned, adjudicated, and confessed tax cheat. And you know what's amazing is that all of Mr. Gingrich's testimony is sealed. Now, they couldn't do that to the President. . . . In my war on Newt Gingrich, I'm going to tell the public that."

Carville expanded: "The most crowded place in Washington is Newt Gingrich's hip pocket, because it's got every member of the Republican Caucus in it. They are scared to death. . . . He came out and unilaterally said,

'I am the person that decides that there's not going to be any deal.' Well, I've got news, Newt Gingrich, I'm meeting with people all over Washington this week, and we're going to mount an attack to tell the truth about what's behind this."

He continued, "I'm going to defend the President, and I made that decision and I'm going to defend him hard. He is my friend, he is a dear friend of mine. He did something that was—he did a bad thing. I understand that. There's not any proportionality. You got Gingrich, you got DeLay, you've got Starr trampling on everybody's Constitutional rights. They're trying to overturn the election. . . . I'm not going to let Newt Gingrich try to rail my man out of office. . . ."

Carville, who also announced that he is writing a book in which he is "not going to back off one inch," told Russert, "I'm not going to let the Democratic Party get trampled over. I'm not going to let the President get trampled over. I'm going to stay in there and fight. . . . What has happened here and what Gingrich and Starr have done to this country—and violation of fundamental fairness takes place, like I say—is unbelievable. Now, you got 100 of the most prestigious people in the world coming over here, and you got people coming to this President's support. And you got—Nelson Mandela has more moral authority in his toenail than Newt Gingrich has in his whole body."

AFL-CIO mobilizes effort to save Social Security

Using an argument heretofore exclusively documented by this news service, the AFL-CIO on Sept. 22 announced a "broad grassroots educational campaign to strengthen Social Security," and to prevent it from being chiseled away by Republicans who want to spend the projected budget surplus, which only exists because of the Social Security trust fund. Regarding the GOP Congressional leadership's "90-10 Tax Relief Plan," the AFL-CIO said that "according to the Congressional Budget Office, there are no budget surpluses without Social Security over the five-year period in which Republicans want to spend \$80 billion tax cuts.

THE U.S. CONSULATE in Hamburg, Germany was put under tight security, in anticipation of a terrorist attack from networks associated with Osama bin Laden, AP reported on Sept. 26. The alert came after German authorities arrested Mamdouh Mahmoud Salim, a Sudanese associate of bin Laden wanted by the United States for terrorist plotting.

VIRGINIA'S Coffeewood prison is set to explode because of overcrowding, according to the *Richmond Times-Dispatch* on Sept. 27. "Coffeewood is like packing a box marked 'firecrackers only' with dynamite/TNT," said one correctional officer. The prison has twice the number of inmates it was designed for, and one-third of them are classified as maximum security. But the state has leased 3,290 of its new maximum security cells to other states.

JIMMY CARTER called for an investigation into whether the Al-Shifa plant in Sudan that was bombed by the United States, was producing chemical weapons materials. "If the evidence shows that the Sudanese are guilty, they should be condemned. . . . Otherwise, we should admit our error and make amends to those who have suffered loss or injury," Carter said.

ABUSIVE PROSECUTORS need to be reined in with something like the McDade-Murtha bill, wrote Paul Craig Roberts in the *Washington Times* on Sept. 24. "Mr. Clinton's obstinacy in the face of law has unleashed prosecutors who were already off the reservation," and they will not stop unless they face indictment for their abusive practices.

THE RACIALLY motivated Federal re-trial of a former Houston City Councilman and former Ports Commissioner, both Hispanics, opened on Sept. 16. The first one ended in mistrial when the defense learned that the FBI stingman was a convicted thief, a drug dealer, and had been fired from the Drug Enforcement Administration.

'Clearly, without Social Security, there is no surplus to finance Republican tax giveaways,' said ALF-CIO President John J. Sweeney. 'It's a totally irresponsible proposal designed to appeal to America's voters during an election year — it spends a surplus that does not exist and it undermines Social Security. . . .

" 'Social Security is critical to America's working families, and is the one leg of the retirement income stool that actually works for the majority of working men and women. The other two legs — pensions and savings — are already shaky.' "

The labor federation launched an ad campaign in 20 congressional districts, asking members of Congress to vote against the GOP's plan.

Texans' right to sue HMOs upheld by court

The nation's first state law that makes health maintenance organizations (HMOs) liable for negligent treatment decisions was upheld by U.S. Judge Vanessa D. Gilmore in Texas on Sept. 18. Judge Gilmore's 64-page decision sought to resolve the thorny issue of how or whether the Texas law infringes on HMOs that claim protection from state regulations under the Employee Retirement Income Security Act. ERISA was enacted in 1974 to assure uniform protection nationwide of employer-provided benefit plans, by preempting state laws relating to employee plans. ERISA-protected health maintenance organizations cover about 60% of the 11 million Texans who are enrolled in HMOs.

The Texas law imposes a duty on HMOs to provide a standard of care when making medical decisions, and holds them liable for damages caused by a failure to exercise that duty. The law also permits patients to appeal their HMO's decision to deny care in an Independent Review process administered by the Texas Department of Insurance. Judge Gilmore's decision upheld the right to sue HMOs, arguing that it defines a standard of care for medical treatment and addresses the quality of care an HMO provides (a perspective upheld by other Federal decisions); the law, she ruled, does not place new regula-

tions on employer plans, and therefore does not violate the Federal ERISA statute. The state's largest HMO, Aetna, is expected to appeal the ruling.

She also threw out the law's Independent Review provision because, she wrote, it places new state mandates and "burdens" on the HMOs that are what Congress sought to prevent with ERISA. HMOs had hoped to retain the Independent Review provision as an alternative to liability suits, as did the state, which enacted it. The Texas Attorney General and Aetna have already agreed to petition the court to stay this aspect of the decision to allow patient appeals to continue.

Moderate GOPers hope to weaken Elmer Gantrys

Moderate Republican spokesmen are appealing to the Constitution and due process in order to undercut the Armageddonists and Elmer Gantrys who make up much of Kenneth Starr's political lynch mob (in league with the "New Democrats," who are stabbing their President in the back). Most visible among these moderates has been Rep. Lindsay Graham (S.C.), who appeared on NBC's "Meet The Press" on Sept. 20. He specified that since all the material that Starr released to Congress amounts to grand jury hearings, not actual evidence, unless there is cross-examination and a fair hearing, no impeachment process should move forward.

Former Republican Presidential candidate Robert Dole was called by President Clinton on Sept. 18 and asked for his advice on the Starr witch-hunt. Dole, who serves on the Presidentially appointed International Commission for Missing Persons in the Balkans, told Clinton that he was proud to serve the President, and that the United States must be unified in the face of Serbian dictator Slobodan Milosevic's genocidal actions. Dole has called for immediate action against Serbian aggression in Kosova.

Sources have told *EIR* that moderate Republicans see this situation as an opportunity to reduce the power of the Christian Right/Temple Mount Armageddonists. They add that Starr's key witness, Linda Tripp, might be investigated for her criminal activity.

Editorial

Never again!

In a presentation in late September, Schiller Institute founder Helga Zepp-LaRouche put her finger on a crucial aspect of the newly publicized brutal genocide being carried out in the Balkans by Serbian dictator Slobodan Milosevic: All this can only happen because the U.S. President is being paralyzed through this outrageous assault, she said.

EIR's sources in Central Europe confirm this evaluation totally. Milosevic, a former banker who was puffed up into his Greater Serbian ambitions by British support in the early 1990s, has been emboldened by the British-instigated assault on the U.S. Presidency, to carry out his moves into Kosova province. Milosevic knows very well that it was only President Clinton's determination that forced through the military action which stopped, albeit inadequately, the war in Bosnia-Herzegovina. If Clinton is preoccupied, he figured, we can make our move.

Anyone who reads a newspaper, has seen the hideous results of the Yugoslav army's "crackdown" in Kosova. Women and children with their throats slit, images captured in living color on the front of the *New York Times*. And yet, there is still haggling going on as to whether there will be a NATO intervention, threatened for several months now, to try to prevent further such atrocities.

How low can the morality of the world's leadership go?

We can hear the objections now. It's an internal conflict about which we can do nothing, some will say. It's not the business of the United States, other will sagely opine. It's horrible, but that's what it's like over there, the more sensitive will say.

We have heard such objections before, most recently in the case of Central Africa, when the Rwandan and Ugandan invasion of Congo-Zaire was leading to a Hitler-like massacre of civilians, so-called "ethnic cleansing." The international community chose to do nothing about that slaughter, which continues to devastate the region.

Perhaps it was difficult for many to identify who was the enemy in the Central African genocide, but in the Balkan cockpit, there is no room for being confused. The "urbane" Milosevic is very publicly at the top of the chain of command which has carried out the killings in Bosnia and Kosova. And, while it is true that Milosevic is a tool in the larger, deadly British geopolitical game, there is no question but that knocking him down (or out) would immediately bring a halt to the genocide.

That is why the LaRouche movement, and this magazine, have campaigned for NATO air strikes against Serbian military capability, in order to stop the killing.

But once that's done, the West must avoid the grave mistakes made in the course of the Dayton Accords on Bosnia. There are two classes of such mistakes. The first, lies in the leniency which was shown to the war criminals themselves, especially Radovan Karadzic and Gen. Ratko Mladic. The second, is the denial of the necessary economic assistance and conditions, under which the nation of Bosnia, and the other nations in the region, can be reconstructed in peace.

Despite the unspeakable devastation in which Bosnia was left after the war, the International Monetary Fund and World Bank insisted that the nation take on unpayable and unjust debts, and refused to provide the long-term, low-interest credits for substantial infrastructure projects which were desperately needed. Bosnia was basically left to subsist on charitable handouts, rather than given the means with which it could pull its population together in a reconstruction effort.

It is only the process of mutual cooperation around a higher purpose—in this case, building a future for the population of the region—which can inspire people to rise above the horrors of the past, and finally bury the hate which has dominated their lives. In that respect, the imposition of IMF and World Bank conditions may well be considered just as genocidal for the Balkans as have been Milosevic's thugs, by killing hope for the future.

Right now, let's focus on the task. Never again!

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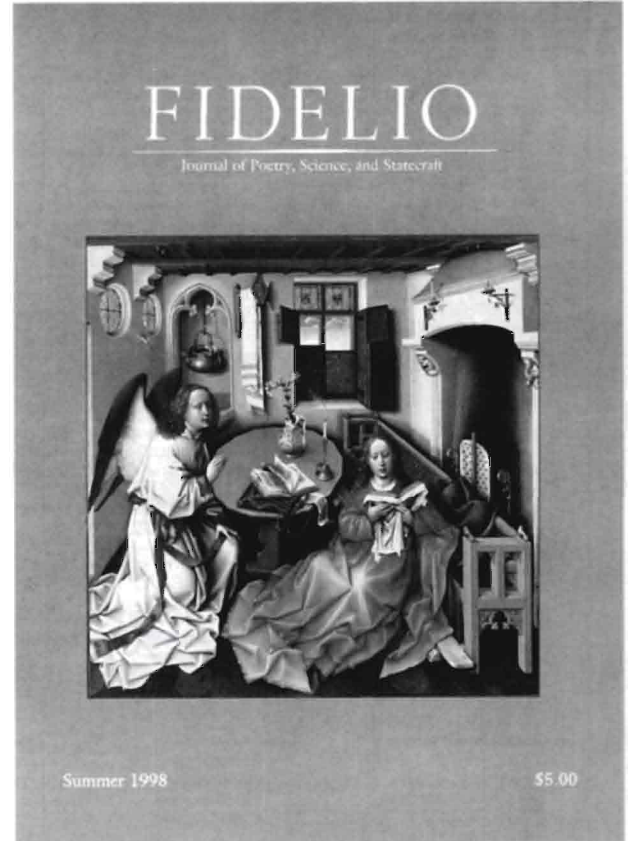
Feature articles, Summer 1998

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.

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