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Balkans Reconstruction Demands New Monetary System

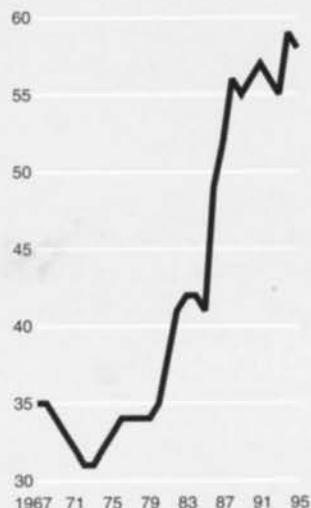
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The Truth About The Real Economy

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(billions \$)



LaRouche: Call Them
'The Baby Doomers'



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From the Associate Editor

One of our subscribers aptly summed up the current situation on the world financial markets as what pilots call “a graveyard spiral.” It seems that, under certain crisis conditions, “you become disoriented and are flying vertically downward, but you think you are still horizontal. You’re already dead, but you don’t know it yet.”

That is true today, not only of the high-flyers on the speculative markets who have not pulled their money out yet, but also of those Anglo-American financier oligarchs who are propelling the world toward war—in the Mideast, the Balkans, in Asia, in Ibero-America.

The escalation of violence in the Mideast is a direct result of the failure of President Clinton, at the Camp David talks, to place Lyndon LaRouche’s economic reconstruction policies—especially the crucial issue of water development—at the top of the agenda. That was the *one thing* that could have prevented the current graveyard spiral of violence and counterviolence. Instead, the negotiations ended up focussing on the one thing that was *certain* to blow apart the peace process: the real estate of Jerusalem, and specifically, the Al-Aqsa Mosque/Temple Mount. (See *International*.)

In this issue, we feature a report on the Balkans: what must be done to ensure that the current shift in the political geometry of Yugoslavia does not resume the trajectory of a graveyard spiral. In 1999, *EIR* and the LaRouche movement circulated proposals (reprinted here) for the economic reconstruction of the war-ravaged Balkan countries—proposals which were absolutely essential to secure the peace. Those proposals were overridden at that time, by the British and U.S. governments, and by the International Monetary Fund/World Bank. Now there is one more chance: probably the last.

In next week’s issue, we will publish “Benchmarking: Faking as an Art of Self-Deception,” by Lyndon LaRouche, with documentary backup from *EIR*’s Economics Staff. In underlining the importance of this article, LaRouche notes that “the most elementary, and often fatal form of managerial incompetence is ritual blind faith in the supposed special authority of currently accepted standards of financial accounting practice.” The correction of this fatal error is crucial to achieving the kind of global economic reconstruction that we so urgently require.

Susan Welsh

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LaRouche in Italy: How To Survive the Financial Crash

by Claudio Celani

Former U.S. Democratic Presidential candidate Lyndon LaRouche addressed the onrushing global financial crisis, and its solution, at a well-attended public event in Ascoli Piceno, Italy on Oct. 7. The conference, devoted to “Development and Job Creation in the Region, in the Context of Globalization,” took place in the Sala Gialla of the Chamber of Commerce in this Adriatic town of 60,000, and was sponsored by the Kiwanis International Europe Club.

The top elite from the region were present, from public officials to officials in industrial, business, labor, and agricultural enterprises. The proceedings were filmed by regional/local television, and at least two major newspapers featured substantial coverage in their regional editions.

Economist LaRouche is well known among the Italian national elite, and has visited the country a number of times in recent years. His last public appearance there was on June 23 of this year, when he was hosted at the Italian Parliament, to speak on the New Bretton Woods system which he has proposed to replace the bankrupt world financial system. Numerous Italian Deputies and Senators have put forward resolutions on behalf of LaRouche’s monetary reorganization plans both nationally and internationally, in the European Parliament.

The visit to Ascoli by LaRouche and his wife, Helga-Zepp LaRouche was organized by Francesco Caprioli, chairman of the retailers’ association Confesercenti for the Marche region, and a friend of the LaRouches.

The central issue discussed by the LaRouches with leading institutional figures of Ascoli and the Piceno province, as well as media representatives and the public, was how to defend the local economy, in the context of the ongoing meltdown of the international financial and monetary system.

LaRouche, who had a knowledge beforehand of the composition of the economy of the Piceno province (known as the “shoe capital” of the world), indicated that in the coming crisis, what others would indicate as “backward” aspects, actually constitutes a point of *strength* of the local economy.

In comparison with both the highly industrialized North and the depressed Mezzogiorno (southern Italy), the province of Ascoli Piceno has developed a unique industrial structure, which puts together the high quality of craftsmanship (*artigiani*, artisans) with the productivity of modern mass-scale modes of production. This is the typical character of the “shoe district,” an area covering both the provinces of Ascoli Piceno and its neighboring city Macerata. In the Piceno province, the district is concentrated around the municipality of Fermo, in the northern part of the province, based on small and medium-sized firms. The combined Ascoli and Macerata shoe district produces, according to 1997 figures, 110 million high-quality pair of shoes per year, amounting to one-fourth of Italy’s production. Most Americans do not know it, but they wear Piceno-made shoes even when they carry English names (the most famous brand is Tod’s).

Other regional economic activities include agriculture, fishing and fish-processing, and electronics. In general, these activities are incorporated in medium-sized, small, and very small firms.

Contrary to larger urban and developed areas, where employment is based on large-scale corporations, financial and other services, an area like Piceno province will be less vulnerable to the financial meltdown, and has a higher probability of surviving the depression. This is the message that LaRouche communicated to the “Ascolani,” telling them not to fear the oncoming collapse, but to be optimistic in their



Left to right: Helga Zepp-LaRouche; Andrea Antonini, minister of culture of Ascoli; Lyndon LaRouche; and Claudio Celani, at the Piazza del capitani in Ascoli Piceno. Inset: The Piazza del Popolo in Ascoli Piceno, with a view of the Church of St. Francis.



capacity to join forces with those internationally who are working for a New Bretton Woods financial system, and to use their best advantages to survive the crash, and eventually promote a global recovery.

LaRouche's visit, which had been announced by the local newspapers, started on Oct. 7, with a conference hosted by the Chamber of Commerce of the Province of Ascoli Piceno, with the participation of all institutional and community leaders. LaRouche was introduced by Enio Gibellieri, chairman of the Chamber of Commerce, and was preceded by short speeches by the Mayor of Ascoli Piceno, Eng. Piero Celani; the representative of the Provincial government, Mrs. Paola Armellini, who is in charge of the Development Department; and Prof. Gianluca Gregori, a teacher of economics at Ancona University. These dignitaries had prepared a series of questions for LaRouche, and engaged him in a high-level discussion.

After the conference, which occupied the whole morning, and the ensuing banquet, the visit proceeded with a convivial meeting in the evening, hosted by the Ascoli section of the International Kiwanis Club.

The next day, Sunday, after touring the city in the morning, the LaRouches were hosted by a group of local political cadres, together with Dep. Gianluigi Scaltritti, a member of the National Parliament from Forza Italia, the largest opposition party.

The last day of the LaRouches' stay in Ascoli, was dedicated to a visit to the shoe district. In the town of Montegranaro, Mr. and Mrs. LaRouche were hosted by the municipality and visited a testing laboratory, as well as the school for shoe manufacturers. LaRouche, who grew up in the shoe industry (his grandfather and his father were shoe producers, and he himself worked as a consultant to the shoe sector until 1965), took special pleasure in visiting the almost fully automated, experimental machines, as well as the older tools, with which young trainees, starting at age 14, learn how to make shoes, both in the old and in the modern way. When they leave school, at age 18, the students have mastered every stage of the production process, and are able to make high-quality shoes from the design, down to the last detail of production. The school is incorporated as one department of the local technical high school. After graduation, students can choose whether they will enter the labor market (where they easily find a job) or university. Among the remarkable features of the school, which is supported by the local industry as well as the National Association of Machine Producers (which supplies the equipment for free), is the fact that the teachers are often retirees: former business leaders or artisans who decide that their productive life has not ended with the retirement years, and who dedicate them to training the younger generation.

The town of Montegranaro, which is the historical starting

point of the Piceno shoe district, today contributes 27% of Italian shoe exports. With 12,000 inhabitants, Montegranaro has fully 6,500 employees in the shoe industry, who produce and market 150,000 pairs of shoes per day. Mayor Luigi Bassi, who received the LaRouches at the end of their visit, reported how the shoe industry started to develop at artisan level at the end of the 19th Century, when the people of Montegranaro, who lived as share-cropping peasants (*mezzadria*) until as recently as 1950 (when the national land reform was implemented), started to develop their skills as shoemakers, to find an additional source of income to survive. In order to do this, they had to sharpen their brains — and they succeeded.

In the evening, the LaRouches' visit was crowned by a public meeting held in the City Hall at the magnificent Palazzo dei Capitani, a Renaissance building in the famous Piazza del Popolo of Ascoli Piceno, a central square called, for its suggestive beauty, the "living room of Ascoli." The meeting was chaired by Andrea Antonini, the Minister for Culture in the city government.

A New Dark Age, or a Renaissance

Throughout all the meetings, Lyndon LaRouche's intervention was extremely well received. Although not a few in the audiences were shocked at hearing an assessment of the international economic situation so dramatically different

from the fairy tales they have been reading in the press, they took extremely seriously the call for "learning the nature of the problem," as LaRouche put it. "In a city in which the memory of the past is so present today, in its monuments," said LaRouche, "including the famous wars between Ascoli and Rome in 89-91 B.C., that is not difficult." LaRouche discussed examples of past dark ages and collapses of civilizations, and of subsequent recoveries, including the 15th-Century Italian Renaissance, to indicate the source from which the lessons of the past must be drawn, in order to know how to act in the present, when the collapse of the international financial system, the ensuing depression, and oligarchical policies threaten to throw the world into another Dark Age.

"The present financial and monetary system is bankrupt. It could disintegrate tomorrow, next week, or next month; we do not know exactly when," LaRouche said. In that condition, the wrong reaction is to succumb to panic. "What I saw in this region," LaRouche said, gives me confidence that the people of this area have the potentiality to survive the threat, because they "are closer to reality than other populations in Italy or in the rest of the world."

The 'New Economy' Is a Fraud

The most devastating blows of the coming financial collapse, said LaRouche, in terms of destruction of employment

Italian Press Reports LaRouche's Warnings

The following article by Vittorio Bellagamba appeared in the daily Il Resto del Carlino on Oct. 8, under the headline "Economist Lyndon LaRouche Speaks: A Crisis Will Shake Up the World."

ASCOLI—Forecasts in dark shades were painted yesterday by economist Lyndon H. LaRouche, speaking in the meeting which took place yesterday in the Sala Gialla [Yellow Hall] of the Chamber of Commerce of Ascoli Piceno.

"We are entering into a characteristic phase of a very great crisis"—said the U.S. economist and candidate in the coming Presidential election—"that will inevitably involve the most advanced economic systems."

He harshly criticized the methods used by government agencies who issue economic statistics in the U.S.A. According to LaRouche's movement in America, there exists a notable lack of reliability in the statistics issued by the

government, which was recently confirmed also by the German central bank. In fact, the buzz about the New Economy results from a strategy which, on the one side, is a desire to make people believe that all is well, and, on the other, to draw liquidity into the markets.

All this characterizes a speculative bubble which could burst very soon, "perhaps within a few days or weeks," as LaRouche said. It is a worrisome situation that seems to leave very little room for optimism. However, according to the same U.S. economist, the system of the small and very small businesses, characterized by the high incidence of artisan enterprises, and by a still well-organized agricultural sector, could represent a valid response to a negative conjunctural phase which involves the whole world. "The other subject matter of real economics," LaRouche said, "is that the agricultural activity that characterizes this region, will prove to be a very positive factor for overcoming periods of crisis." The Adriatic model of development therefore could become the best "antidote" also, for emerging from periods of severe crisis like that foreseen by LaRouche. The American economist is not new to forecasts that have been confirmed by reality. Suffice it to say that LaRouche, in 1988, forecast as imminent the collapse of the Soviet economy, which was then borne out.



Lyndon LaRouche (third from left) and Helga Zepp-LaRouche (left) inspect experimental machines at the Montegrano school for shoe engineers, in Ascoli Piceno. The machines handle the complete cycle of shoe production, which replaces the work of five people.

and of economic activities, will hit large corporations (especially those which have practiced outsourcing), banks, and financial services. The entire sector called the “New Economy” will be swept away. Some computer-producing firms will survive, because the economy needs computers, but most of them will go bankrupt. Smaller firms, more closely integrated with the areas in which they are located, will be hurt, but they will survive. If they produce useful things, they will always find a market for their product.

Answering questions raised from Mayor Celani and Professor Gregori at the Chamber of Commerce conference, LaRouche addressed the myth of the “New Economy,” which he even objected to calling by that name. Professor Gregori had suggested that, besides the manifest speculative element in the “New Economy,” the technology as such is relevant to increase productivity and should not be discarded *a priori*. “What you refer to,” LaRouche answered, “are advances in technology of accounting and communication methods. It is of course useful, and should be applied, but it is nothing new in principle and should not even be called ‘new economy.’ The risk in introducing those new technologies, which is what traditionally occurs in such cases, is that the personnel in the firm are not trained well enough to deal with the new technologies, or are not able to repair them in case of breakdown. This risk could jeopardize the entire production of the firm, if you do not expect it. Therefore, people should be trained in it. That is all.”

Thanking LaRouche for his explanation, Eng. Cinzia Fe-

lici, representing the local university, reported that, in compiling a project on the New Economy, they had come to a similar conclusion, that the idea of an economic revolution because of the “New Economy” should be rejected.

Infrastructure and Productivity

LaRouche encouraged local administrators, both political and business leaders, to set the priority on protecting employment from the effects of the world financial collapse. Community associations must come together and promote employment projects, in useful projects, like infrastructure, which promote the general increase of productivity.

Piceno province is relatively well off in terms of employment (6% unemployment, against an official national average of more than 10%) and income, but it has a deficit of infrastructure of 20-30% below the national average. This means, for instance, there is no railway or even a direct highway connection to the west, through the Appennines, nor an airport. There is also no direct, modern transportation route connecting the southern part of the province, Ascoli, to the shoe district around Fermo in the northern part. The only highway connection is along the coast, while the direct route, through the Piceno hills, is still the old one, which is too slow.

Since all this infrastructure must be built, the question was raised: How could we finance it? This led LaRouche to explain the concept of national banking, after the model set up by Alexander Hamilton after the American Revolution. In one case, at the City Hall meeting, this provoked a lively

debate with Prof. Giacinto Auriti, a teacher at the nearby Teramo University, who has legally challenged the Italian central bank on the issue of sovereignty over state money. Although he agreed that the central banking system is an oligarchical system (“it is run by merchant bankers after the model of the Venetian *fondi*”), LaRouche stressed that the key is not “property” over money, but the question of how the money is used. Credit issued by the state must be used to promote useful sorts of consumption, both material and intellectual, to promote the general increase of productivity in the population, LaRouche said.

The general issue behind the question of productivity, LaRouche said, must be learned from universal history and the history of Italy. “Despite the fact that Italy, thanks to the great tradition in hydrodynamics started by Riemann, Betti, and Beltrami, was leading the world in the related aspects in aeronautics and space technologies in the 1930s, Mussolini entered the war with only 35 modern combat aircraft.” Mussolini would cover for this situation by continually moving the same 35 planes through the various military airports. The rest of the air fleet was composed of old, World War I biplanes. Italy was the first in the world to develop a jet engine, but in order to equip its planes during World War II, it had to have engines delivered from Germany. Why?

The reason is that, until about 1950-60, Italy had great

scientists, but never developed the general population so that they could assimilate and apply the benefits of scientific and technological development in a general increase of productivity. In promoting a recovery after the crash, LaRouche said, we therefore have to go back to those principles of economic policy successfully implemented in the 1950-60 decade in rebuilding Italy. One example is the way the Cassa del Mezzogiorno, a development agency for southern Italy, worked during that period, similarly to the way the Tennessee Valley Authority functioned under U.S. President Franklin D. Roosevelt.

The reason it worked, was because, on the one hand, you had an elite of scientists and engineers who could produce the technology; on the other hand, you had a population who enjoyed the benefits of freedom and of education, especially Classical education, which enabled them to assimilate the ideas of scientific progress, and transform them in the form of applied technology. This is the secret of productivity: Promote fully the greatest resource you have, which is the creative powers of your population. Therefore, the question of economic productivity becomes immediately a question of culture. Great art, like the dramas of Friedrich Schiller, Shakespeare, and Giuseppe Verdi, has an indispensable role, LaRouche said, in fostering associations among individuals and preparing them to assimilate scientific progress.

The Energy Price Crisis

Naturally, a great issue of concern for LaRouche’s listeners was the oil price question. “Should we declare war on OPEC?” asked Chamber of Commerce chairman Gibellieri provocatively, “Or, is there another way to bring down oil prices?” A similar question was raised by students at the meeting in the Palazzo dei Capitani, with emphasis on possible development of alternative energy sources.

This gave LaRouche the opportunity to explain the nature of oil price inflation, for which, he said, OPEC is not to blame. The nature of oil price increases has to do with the way the oil market has changed after the 1970s, LaRouche said, and with the phenomenon of asset-price inflation spilling over the real economy. “By the time an oil tanker has sailed and reached its destination, maybe going around the world,” LaRouche said, that oil delivery has changed its property title 15 to 20 times. This is due to the oil futures market in London and New York. There, speculation invents a new commodity, which is “paper oil,” and pumps its price up. In addition, as a result of the process of mergers and acquisitions, the oil cartel is pushing the prices up in order to meet financial obligations deriving from these mergers and acquisitions. And finally, the United States government is pushing oil prices up, to keep the value of the dollar high, in order to finance the unmanageable current account deficit.

In this situation, governments must simply adopt policies which are familiar to Italy since the era of Enrico Mattei, the founder of the Italian national oil industry in the postwar

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period. What you have to do, LaRouche said, is to establish long-term agreements between oil-producing and oil-consuming nations, on a 20-25 years basis, to exchange oil for technology. In this regard, LaRouche praised the recent initiative taken by European Union Commission President Romano Prodi (“a man I do not praise often”) and German Chancellor Gerhard Schröder, who started to negotiate a deal exactly in this direction with Russia. LaRouche compared the EU-Schröder initiative to the famous deals between Germany and Russia at the 1921 Rapallo conference.

The other question concerns alternative sources. Although there is no energy source that can fully replace oil in the medium term, nuclear energy is the safest alternative that one could promote now. The decisive factor is energy flux-density, LaRouche explained, which makes nuclear energy productive and rejects such sources as solar energy. The only problem with nuclear energy, is that you do not want stupid or incompetent people to handle it; but you solve that with education. Otherwise, oil can be made cleaner and more productive, if we refine the product at the source of extraction, LaRouche said. In the case of Ascoli, a port facility to receive refined product and a new power station to process it would be ideal, in order to have a surplus energy potential. Every region should have a potential of energy production surplus.

If governments establish such state-to-state energy agreements, they will outflank and neutralize the futures market speculators. Of course, they must also streamline refining and deliveries, setting priorities. The experience in doing this will be useful for the next job, once the financial collapse has struck: the bankruptcy reorganization of the financial system. Then, long-term development agreements must be established to launch infrastructure projects connecting western Europe to the rest of the Eurasian land-mass, the Middle East, and North Africa. This will bring the real recovery. Mrs. LaRouche was asked to explain the LaRouches’ role in organizing worldwide support for the project called “the New Silk Road” or Eurasian Land-Bridge, which she did, recounting the evolution of the idea, starting from LaRouche’s Paris-Berlin-Vienna “Productive Triangle” proposal of 1989.

Again and again, in meeting local administrators and business leaders, LaRouche stressed that the key in times of crisis is to mobilize the population to support development initiatives. In order to achieve this, he said, you must tell people the truth! You have to stop lying or telling fairy tales. “If you tell the truth, you will win the confidence of people. If you then are *right*, they will follow you.”

Discussing economic issues led the audience to grapple with the underlying cultural and moral questions. The problem today is that civilization is collapsing because of its own culture, LaRouche said. If you look at the mass entertainment media, you see that we are replicating the *panem et circenses* (bread and circuses) policy of the late Roman Empire, which

brought doom upon that civilization. An aspect of this, as Mrs. LaRouche was invited to discuss at the Kiwanis Club meeting, is the proliferation of the so-called “New Violence.” The New Violence is not only the youth violence induced by addiction to Nintendo sorts of computer games, or the police violence resulting from training in similar sorts of computer simulations, but as part of the New Violence, you can see the increasing promotion of the death penalty in the United States. Against this barbarism, Mrs. LaRouche said, there is only one remedy: Return to Classical forms of education.

The intense three days of meetings and discussions left a deep impact on the city, and a very positive impression on the LaRouches. Two national newspapers, *Il Messaggero* and *Il Resto del Carlino*, published favorable articles on the trip, while the local news program of the national TV network Raitre broadcast several times a report on the conference at the Chamber of Commerce. Lyndon and Helga LaRouche received artistic gifts from the Chamber of Commerce, the Ascoli municipality, and the Kiwanis Club, as well as a beautiful pair of hand-made shoes from the Mayor of Montegrano.

U.S. Strategic Reserve Oil Flows to Europe

by Edward Spannaus

On Sept. 22, Energy Secretary Bill Richardson announced the intention to release 30 million barrels of oil from the U.S. Strategic Petroleum Reserve (SPR), saying that it was called for to provide Americans with home heating oil, when inventories are low, and prices are high. But, like pouring water into a bucket with a hole in it, U.S. Reserve oil is now going into the U.S. oil system—to designated private companies, while at the same time, Northeastern-based refineries are *shipping home heating oil from the U.S. over to Europe!* The companies involved are counting on mega-profits.

What’s really scandalous about this, is the fact that all along the line, it was knowable in advance what would happen. Secretary Richardson, and those in the “industry,” know that heating oil has been going for many months from the Northeastern states to Europe, because there the price has been higher for this product (called gasoil, and used for either heating or diesel fuel). And also, because most national security constraints on the U.S. energy industry (natural gas, as well as oil, and also electricity) have been successively removed in recent decades of increasing deregulation, globalization, and cartelization.

The fact that U.S. heating oil is going to Europe was conspicuously ignored in the Administration’s release order

in September. There were no constraints placed on the destination of the final product, because, as they say, the United States is committed to the “free market.”

In fact, when Venezuela, which has excess refinery capacity as well as being a crude oil exporter, offered in September to provide several million barrels of heating oil to the Eastern States, Richardson refused the offer, saying that the United States is committed to the “free market.”

On Oct. 5, when a reporter confronted Mark Mazur, the acting director of the Energy Information Administration (EIA) of the Department of Energy, about how much New England heating oil is going abroad, he could not say. He replied to a session of the “2000 Winter Fuels Conference” of state energy officials, that “U.S. refiners are producing fairly large quantities of heating oil. So, there’s a question as to where those additional production amounts are going.” Mazur suggested that perhaps there are quantities of heating oil being exported, “that we’re not picking up in the data.” He said that the EIA will pick up that data “with a lag,” but at this point “we can’t separate out” how much is being held and how much is being exported “to figure out exactly what’s going on.”

Thus, the Clinton Administration’s Sept. 22 SPR gesture itself, and also those who have made grandiloquent speeches either applauding or condemning it (the Al Gore and George W. Bush show, respectively), are all acting in line with the blatant fraud that the “markets” are free, and “supply and demand” determines prices.

As Richard Freeman showed in our last issue (Oct. 13), oil prices are not set by Saudi Arabia or by Saddam Hussein, but by oil speculators on the London and New York energy-futures exchanges. Oil prices have skyrocketed, even as the Organization of Petroleum Exporting Countries (OPEC) has increased production, because of derivatives speculation. Prices for natural gas—produced entirely in North America, and not by distant sheikhs—are likewise set through speculation and cartelization.

The Scam and the Scandal

On Oct. 4, the Energy Department accepted bids from 11 companies for the 30 million barrels of crude oil to be released (actually, swapped in exchange for a larger amount to be replaced a year from now). Three of the companies are unknown entities, without any refining capacity, which are seen as simply front-men for the major oil companies. Two are one-man operations. One of those, Lance Stroud, works out of a tiny office in central Harlem in New York City, and has never traded oil before. But, he acknowledged that he is in negotiations with BP Amoco, and he says he expects a letter of credit to be issued by BNP Paribas in France—hardly a source of credit available to your typical Harlem businessman.

Another successful bidder was the well-known oil refinery, Wall Street’s Morgan Stanley Dean Witter.

This kind of line-up was to be expected. Although rumors had been circulating for weeks, it was confirmed in the September issue of the *Oil Market Report*, published by the Paris-based International Energy Agency, that German and Swiss consumers have been stocking up on heating oil before winter arrives, driving up gasoil prices in Northwest Europe, and that “heating oil was exported from the U.S. Northeast to Europe, rather than vice versa.” The report noted that heating oil stocks in the Central Atlantic States “now stand at only about half of last year’s level.”

It now turns out that fully two-thirds of the oil being released from the U.S. Strategic Petroleum Reserve is likely to be exported to Europe, rather than refined and made available as heating oil or other fuels for U.S. consumers. This was announced by the EIA on Oct. 6, according to the *Washington Post*, which said that only about 10 million of the 30 million barrels of crude being released from the SPR will be available for U.S. consumers, with the rest expected to be sold on foreign markets.

Congress Takes Notice

On Oct. 10, a bipartisan group of five Congressmen from Northeast states called on President Clinton to issue an Executive Order banning the export of heating oil. “Some companies are taking advantage of this situation to pump up their profits,” Rep. Bernard Sanders (I-Vt.) wrote in a letter to his Congressional colleagues. Sanders was joined in the letter, and in another letter to President Clinton, by Reps. Sherwood Boehlert (R-N.Y.), John McHugh (R-N.Y.), John Baldacci (D-Me.), and Sam Gejdenson (D-Conn.).

Sen. Frank Murkowski (R-Ak.) is seeking a Congressional probe of the SPR release, asking “whether providing this oil to a bunch of speculators” meets the purpose of delivering heating oil to the fuel-starved Northeast.

The knives are out against any such probe, and against any intervention by Congress or the Administration.

Already on Sept. 28, a phalanx of top executives from the largest energy speculation and production companies personally went to Capitol Hill, to warn lawmakers not to dare intervene in any way in the energy “markets.” Steve Strongin, Managing Director of Goldman Sachs (one of the largest players in energy futures), ended his oral testimony to the House Commerce Committee’s Subcommittee on Energy and Power saying, “The wonder and unfortunate reality of modern capital markets is that the market allocates capital to where it is most useful, measured by the market’s willingness to pay for the product. If you shield the consumer from those costs [by limited price rises, or helping with supplies], you will likely destroy the incentives to create the product. And, without question, if you prevent shareholders from receiving those profits, either through additional regulation or taxation, you will further undermine the market’s willingness to invest and thus will create even tighter capacity constraints for the future.”

Financial System Crisis Unfolding: Telecoms, Nasdaq Lead the Way

by William Engdahl

What began in September as a “mild correction” to the hyper-inflated U.S. technology and telecom stocks, on the over-the-counter Nasdaq market, by Oct. 12 had become the most severe financial eruption since the August 1998 Russian government bond default brought the world financial system to within a hair’s breadth of total meltdown.

However, today, unlike in 1998, multiple crises are intersecting. From stocks, to currency speculation, to debt pyramids of all kinds, the bubbles are at the bursting point, after decades of build-up. Referring to the stock markets, the German daily *Die Welt*’s Oct. 10 headline used the phrase, “October Horror Month.” Even these expressions leave out the biggest source of hyper-instability—the trillions of dollars of derivatives bets and obligations, ready to blow the financial system to smithereens.

All this takes place amidst the worst oil price shock in 25 years, combined with a political vacuum in the leading nation, the United States. With U.S. elections roughly two weeks away, prospects are remote that the kind of resolute action needed on a government-to-government level, of the type needed to avert what Lyndon LaRouche has repeatedly warned could turn into the worst debacle in at least the past two centuries, is in the offing.

During the first two weeks in October, day after day, the major stock exchanges of the Organization for Economic Cooperation and Development and emerging markets saw values plunge by at least 2-3%. Still more notable, is the fact that deliberate interventions to calm the major markets over that same time period utterly failed. On Sept. 22, President Clinton announced release of 30 million barrels of crude oil from the Strategic Petroleum Reserve, to “provide heating oil” to Americans this Winter. After a brief price fall below \$30 per barrel, oil futures jumped back up the week of Oct. 9, to over \$34 per barrel, blamed at the time on the increasing likelihood of war in the Middle East and a severe cold weather front proceeding across the United States.

As of Oct. 12, with the Israeli acts of war against the Palestinians, and the air attacks on Yasser Arafat’s headquarters, the Mideast events triggered an explosive rise in oil prices to well over \$36.50 per barrel. Heating oil futures topped the level hit during the 1990 Gulf War. Speculators were set for mega-profits off selling U.S. Reserve oil to Eu-

rope (see p. 9).

On the U.S. financial markets, the Dow Jones Industrial Average fell 379 points on Oct. 12, the Nasdaq Composite plunged 120 points, and a rally ensued in the perceived safe-haven of U.S. Treasury bonds.

Not just a stock market “episode,” the singularity of the October financial horrors was indicated by the decline in the *value of the dollar* taking place, as the Nasdaq fell. European bank sources stressed that this marked “a process of Europe disengaging from the U.S. market.”

Lyndon LaRouche, commenting on this European “reflex reaction” a week earlier, stressed that key institutions in the euro zone have known that the bursting of the Wall Street speculative bubble is imminent—followed by a combined dollar and euro crisis. Publicly, the 11 euro-zone governments may continue to proclaim their “rock-solid commitment” to the euro single currency, and salute the dollar, but quietly they are “thinking the unthinkable.” They are making contingency plans for a return to national currencies, probably in a European Monetary System setting, under conditions of a global monetary-financial and economic emergency.

Following an unprecedented, coordinated Group of Seven intervention to prop up the euro just before the Danish euro referendum of Sept. 28, and a surprise interest rate hike by the European Central Bank the first week in October, the euro has continued to drop.

From Intel to Junk Bonds

While the explosion of war in the Middle East, with attendant fears of an Arab oil embargo, has brought events in global financial markets to the brink, the stage was set weeks ago. After a relative recovery of the U.S. stock levels from their lows of last April, the Nasdaq began its latest slide downward on Sept. 22, when Intel, the world’s largest maker of semiconductor chips, lost \$100 billion of its paper stock value in 24 hours. Since then, the Nasdaq has dropped 18%, and paper values of near \$500 billion have evaporated into cyberspace or beyond.

On Oct. 9, what had been a collapse of the high-tech stocks on Nasdaq became a full-blown crisis in the corporate bond markets, when reports surfaced that Morgan Stanley Dean Witter had losses of some \$1 billion on their business in under-

writing corporate high-yield or so-called “junk bonds.” On Oct. 12, the company issued a press statement denying the rumors of mega-losses.

According to reports in the *Frankfurter Allgemeine Zeitung*, the losses were triggered when a mid-sized U.S. telecom company, ICG Communications of Englewood, Colorado, with \$1.9 billion in junk bonds outstanding, was rumored insolvent. While Morgan Stanley lost “only” \$200 million on ICG bonds, the collapse of ICG signalled the collapse of the entire high-risk corporate bond market, a market which had been the prime source of capital for information technology and telecom companies.

Suddenly, not only Morgan Stanley, but other major Wall Street and European bond underwriters were found sitting on billions of dollars of bonds they could not sell, in a market where prices were plunging daily. In two days, the stock price of Morgan Stanley lost 20%, and Donaldson Lufkin Jenrette, the largest syndicator of junk bonds, was saved by a corporate takeover from the larger *Crédit Suisse First Boston*.

The Morgan Stanley losses triggered a panic selloff in both corporate bonds and stocks, especially of the banks which have huge exposure to telecoms. On Oct. 9, the U.S. credit rating agency, Moody’s Investors’ Services, reported that “the junk bond market is suffering from problems affecting the entire corporate bond market.”

The straw that broke the bond market’s back in past weeks, was the Universal Mobile Telecommunications Standard (UMTS) telecom license auctions in Europe. The explosive growth of debt in the giant international telecommunications sector has created what one observer has termed “an accident waiting to happen.” With the revelation of the \$1 billion Morgan Stanley losses, the corporate bond market has gone into what Steven Zamsky, bond strategist at Morgan Stanley, terms “a quasi-panic. You’ve got a crisis of confidence going on in the market right now.”

The Telecoms’ Debt Bomb

The telecom debt situation has become so alarming, that European government bank regulators have begun to investigate the degree of bank lending to the giant telecommunications groups, to determine if certain banks have taken undue risk and too great loan exposure in one area.

In mid-September, the issue of bank loans to telecoms was the focus of a special meeting of international financial regulators. Sir Howard Davies, chairman of the British Financial Services Authority, remarked that the level of lending by U.S. and European banks to the giant telecom companies was “a matter of great concern to regulators,” because of the extreme concentration of lending risks in one sector.

According to a Bank for International Settlements report, fully 30% of this year’s international syndicated loans were for telecom debt. In Europe, where mergers of giant state-owned and private telecoms have broken all records in recent months, the loans to telecoms were 40% of total loans.

The center of the debt problem is related to unprecedented cross-border mergers and, lately, the bidding of absurdly high sums in various European government auctions for new UMTS licenses, the so-called Third Generation Mobile access. But UMTS technology on a mass scale is at least several years off, and to get it will require an added telecom investment in Europe alone of some 160 billion euros (\$145 billion). At least 100 billion euros of that must come from bank loans or similar sources of credit. When all European governments have completed their UMTS license auctions, the amount to be paid out by telecom companies is estimated will exceed 160 billion euros.

According to a study by Capital Loanware, the banks with the largest loan exposure to telecoms are the New York Citigroup with \$23 billion, London’s HSBC with \$19 billion, Chase Manhattan with \$18 billion, BankAmerica with \$16 billion, London’s Barclays with \$13 billion, and Deutsche Bank with \$11 billion.

The largest telecom borrowers include the Anglo-German VodafoneAirTouch with \$46 billion of debt, the second-largest corporate debtor in the world. Vodafone took over the German Mannesmann last February in a deal worth \$161 billion, then made a large U.S. acquisition, and has just completed a \$2.5 billion investment in ChinaMobile.

Other large telecom debtors include British Telecom with \$43 billion debt, AT&T with \$39 billion, France Telecom with \$28 billion (and plans to spend another \$10 billion to buy Dutch Equant NV telecom), and the Dutch KPN with \$26 billion.

As a group, since July 1998, the largest international telecoms have borrowed \$390 billion from international banks. In the past year alone, European telecoms alone have added \$171 billion in new bank loans.

The huge debts incurred by these telecom companies, most of them still majority state-owned even if they are public stock companies (Deutsche Telekom, for example, is a private corporation, whose main shareholder is the German state, with 74%) are setting off a vicious cycle of consequences. High debt levels are leading the international credit rating agencies such as Standard & Poors and Moody’s to downgrade the formerly blue-chip credit ratings of the companies. That, in turn, makes it far more difficult and more expensive for the companies to raise needed capital for the further investment needed to make the UMTS gamble even potentially pay. The current estimate is that the companies have 6-12 months to significantly lower their debt if they are to qualify for future loans or stock issues.

The London *Financial Times*, in its editorial of Oct. 2, noted the irony of the situation. “Just imagine. Governments might be forced to use the receipts from their recent mobile phone license auctions to bail out the banks that lent to the winning telecommunications companies. It would be the ultimate irony if the only beneficiaries of third-generation auctions were the advisers in the auction process.”

New Eurasian Policy Alliance Emerges

by Rainer Apel

The constellation that is shaping up among Paris, Berlin, and Moscow, resembles that of the turbulent period 1977-78, when France, Germany, and the Soviet Union responded to the policy disaster of the U.S. Carter Administration, by intensifying their own relations, particularly economic ones. Construction of several thousand miles of new transcontinental pipelines for western Europe's supply of oil and gas from Soviet resources was an important aspect of relations, then, among France, Germany, and the Soviet Union. The leaders of France and West Germany, President Valéry Giscard d'Estaing and Chancellor Helmut Schmidt, respectively, decided to go ahead with plans for a European Monetary System (EMS) that would reduce dependency on monetary decisions taken in London or New York. In the Spring and Summer of 1978, Germany signed numerous economic cooperation agreements with Soviet Russia, and the EMS went into effect in February 1979. The basic outline for this perspective of transcontinental cooperation did not originate in the respective governments, however, but was formulated already in the Spring of 1975, by Lyndon LaRouche, whose political movement in Europe campaigned around it intensely for several years. In the Autumn of 1977, the elites of France and Germany finally seized on the ideas of far-reaching cooperation with the Soviets and of monetary sovereignty from the Anglo-American bankers' set.

Now, the global financial and economic system is in much worse shape than 22 years ago, and may collapse in the very near future. There is an awareness of this among elites in France, Germany, and Russia, and this is the background to the intensified diplomatic activities during the last week of September and the first weeks of October. Russian President Vladimir Putin met with the German Chancellor for four hours in Moscow on Sept. 25, received the French Foreign Minister the next day, dispatched Deputy Prime Minister Viktor Khristenko to the European Union headquarters in Brussels on Sept. 27, and had a telephone discussion with EU Commission President Romano Prodi the same day. And on Oct. 3, Putin called French President Jacques Chirac, from India, where he was signing a package of Russian-Indian cooperation agreements.

Energy Partnership

Little was made known about these Russian-European contacts, initially, and it was not until Oct. 6, that more light

was shed on the scope of these talks: Voice of Russia radio said that Putin was preparing for the EU-Russia Summit in Paris on Oct. 30, and that two cooperation agreements were being negotiated between the EU and Russia: 1) the establishment of a regular strategic dialogue on crisis spots, particularly those that were threatening Russia and Europe; and 2) a long-term strategic energy partnership.

The Russian radio commentary detailed that this dialogue would deal with "very great danger of local conflicts on the continent" and "the threat of international terrorism spreading to various regions of Europe." The commentary then stated that "Russia and the 15 member-countries of the European Union have a very great potential and can, of course, block any intention to upset stability in Europe—if agreement is reached on that score." It was also noted that, with the French takeover of the rotating EU half-year presidency in July, "the ban was lifted on technical assistance to Russia this year," indicating that the remaining European-Russian controversy over Moscow's policy in Chechnya no longer stood in the way of cooperation.

As far as the energy partnership is concerned, the commentary reported on the "Prodi Plan," the EU offer to Russia of oil-for-technology cooperation over the next 20 years: "The leadership of the European Union is now considering the possibility of opening wide its market to Russian oil, gas, and electricity. It is planned to double the import of gas under a planned 20-year agreement. There will appear opportunities for building new oil and gas pipelines and also power transmission lines." The Prodi Plan was first presented to Putin by Chancellor Gerhard Schröder, in Moscow on Sept. 25.

The timetable of EU-Russian talks until the Paris summit on Oct. 30 included a meeting between EU envoys and the Russian government on Oct. 12. On the same day, the newly created State Council of Russia was to have its first official working session, including discussion about the economic priorities in domestic and foreign affairs in the next two five-year plans. The results of the EU-Russia meeting in Moscow were scheduled to be taken up at the EU summit in Biarritz, France, on Oct. 13-14.

A reflection of this diplomatic activity was also apparent in a Moscow conference on Oct. 8, of more than 200 European and Russian industrial companies, whose representatives discussed making Russia the "energy bridge" for Eurasia. Russian speakers said that Russia was committed to increasing its oil and gas deliveries to western Europe, in return for investment to upgrade the ailing Russian pipeline grid and energy sector. Russia no longer wants to be a raw materials supplier for the West, they said, but rather a real partner for the exchange of processed materials and industrial products. This will require massive investment in Russia's transport and industry infrastructure. LaRouche's policy for the development of the Eurasian Land-Bridge is "required reading" for Eurasian leaders, since it identifies the priorities and necessary conceptual parameters for such a program.

Business Briefs

Medicine

Placebos Called Unethical in Medical Testing

Representatives of 45 countries, at a meeting in Scotland on Oct. 7, amended the Helsinki Declaration on medical ethics, to state that the use of placebos in medical studies is unethical in nearly all experiments involving diseases for which good treatments already exist. That is, the "control group" in experiments must be treated using the best already-established treatment, rather than being left untreated, as they are at present in the United States.

The American Medical Association subscribes to the Helsinki Declaration, and it is the common-law doctrine of U.S. physicians. But, the *Washington Post* implied that the United States may not go along with the change.

No experiment gives a physician the right to deny effective treatment to a patient. The Hippocratic Oath states, "All this, I do for the benefit of the patient." But, the statistical routines, such as the "double-blind" method in which neither the physician nor the patient knows which medication the patient is receiving, prescribed by the U.S. Food and Drug Administration, are now used to evaluate new drugs. Medical scientists who must now compare the results of a new drug to the best-available treatment, will find it difficult to design experiments without a change in method.

Development

South Africa's Mbeki Looks Toward Renaissance

"We must no longer be defined as exporters of raw materials and importers of manufactured goods," South African President Thabo Mbeki said, in a speech to the Ghana-South Africa Friendship Association, on Oct. 5 in Accra, Ghana. "For the consolidation of the unfolding process of the African Renaissance, it is imperative that we reclaim ownership of these natural resources for the benefit of the peoples of Africa," he said. "As

we produce manufactured goods, we need to consistently engage the developed North on the question of access to their markets for our products."

Mbeki told the Ghana-South Africa Business Chamber on the same day, that government and business should work together to meet the challenges of poverty and underdevelopment. "The reality is that we are either condemned to starve together or prosper together." Mbeki also discussed the need to reverse capital flows: "It is absurd that poor countries of the South are net exporters of capital to developed countries—countries which have surplus capital. We cannot speak of development in Africa while the situation of net exports of capital persists."

In discussing how the seeds of African renewal are, despite everything, slowly being planted, Mbeki noted that Telkom, the South African telecommunications parastatal, has announced that it has secured more than \$600 million to fund an undersea cable to link Africa with Asia and Europe. Construction was to start in mid-October. The first part of the project, is a 15,000 kilometer link between South Africa and Europe, with links to ten West and Southern Africa countries, including Nigeria, Ivory Coast, and Ghana. The second segment is a 13,000 km link to the east. Both segments of the project are expected to be completed by April 2001.

Economic Policy

Malaysian Deputy Urges Japan To Advance AMF

Malaysian Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi called on Japan to move quickly on creating the Asian Monetary Fund and other regional mechanisms, because "real reforms to the international financial architecture" have not been forthcoming, the *New Straits Times* reported on Sept. 28. Abdullah praised the successful Association of Southeast Asian Nations-Plus-3 framework between the ten ASEAN members and Japan, China, and South Korea. He was speaking in Tokyo that day, at the "ASEAN-Japan Relations Symposium."

"As we confront globalization and at-

tempts to push through reforms to the international financial system, this cooperation is all the more valuable," he said. "I think I can speak on behalf of ASEAN when I say that Japan's role in leading the push for changes is crucial, urgent, and much needed." He added that Japan's initiative for a regional funding facility, would continue to be supported by Malaysia. "In the absence of real reforms to the international financial architecture, we must support regional efforts at surveillance to ensure that the region is not caught unaware, once again, by a financial crisis."

Abdullah also attacked globalization, reiterating Malaysia's stand on the folly of adherence to market fundamentalism and how the vested interests of rich and powerful countries conditioned the rules of the globalization game and determined its agenda.

Infrastructure

South American Integration Advances

The Second International Seminar on Southern Cone Integration took place in Pôrto Alegre, Rio Grande do Sul, Brazil, on Oct. 5 and 6, the first follow-up meeting to the Aug. 31-Sept. 1 Brasilia Presidential summit, which discussed how to move forward the physical integration of South America through building infrastructure.

According to the Brazilian daily *Zero Hora*, the seminar was a meeting of the "Southern Cone Integration Route Committee," a working group of representatives from 10 of the 12 South American countries, which was set up in 1996, with the backing of Brazilian Vice President Marco Maciel and Chile's then-President Eduardo Frei. The committee has identified 14 infrastructure projects, including highways, rail, waterways, ports, airports, communications, and energy projects, and this meeting was to pick priorities, discuss their technical aspects, and begin to put together ideas for financing them. (Public discussions on financing are still limited to private financing, backed up by some monies from existing multilateral agencies.)

The intention, according to the president

of the Integration Committee, João Teitelbaum, is to, at a minimum, complete a highway corridor and a rail line uniting the north-south extremes of the continent, and a north-south and east-west waterway connection, by 2005.

Finance

Banks Tell Third World: We Don't Lend Any More

The Institute for International Finance (IIF, a creditors cartel representing 315 banks, originally called the "Ditchley Bankers Group") formally acknowledged that banks are no longer lending to developing nations, in a letter to the world's finance ministers and central bank chiefs released at the International Monetary Fund meeting in Prague in September.

Instead, the IIF letter advises "emerging markets" (in which they include Russia) to "accelerate reforms that will make their countries more attractive for long-term investors" who wish to buy up their industries. "Capital market and direct equity flows" now provide the only cash for the Third World, since banks are no longer lending, they state. "Fundamental changes in the volume and structure of private capital flows to emerging markets since the beginning of the 1990s call for new approaches by emerging market authorities to managing market access," the letter reads.

Banks no longer lend, but have evolved "into globally active financial conglomerates," while welcoming "the entrance of new players, including mutual funds, pension funds, insurance companies, and hedge funds." Due to the need to "strengthen risk management," most bank income now comes from speculation and not as interest on loans. "Non-interest income at U.S. banks increased by 160% over the past five years . . . propelled by firms efforts . . . to discourage the acquisition of assets that do not generate returns sufficiently above the risk-adjusted cost of capital. . . ."

"Net commercial bank lending to major emerging market economies is likely to account for only \$16 billion—or less than 8%—of the \$212 billion in private flows we

project for 2001. By contrast, commercial banks provided nearly two-thirds of private flows to these economies in the early 1980s. Emerging market exposure of U.S. banks, for example, dropped from 12% of total assets at the end of 1982, to about 2.5% by March 2000."

Trade

Germany, Iran Will Expand Cooperation

Germany's Economics Minister Werner Müller met with Iran's Minister of Energy Habibollah Bitaraf in Tehran on Oct. 2, to discuss expanding cooperation in the electricity sector. Bitaraf stressed the energy sector, the priority in Iran's third five-year plan.

Iran's energy consumption has been growing 8-10% per year, and production capacity is slated to increase from 27,000 megawatts to 40,000 MW, during the plan (2000-2005). He emphasized the importance of German technology in achieving this goal.

Before departing for Iran, Müller said that Germany and Iran would also discuss trade based on market-independent oil prices. Both the oil-consuming countries and the oil producers have a common interest in stable oil prices, Müller said. This does not mean that market forces should be completely eliminated in respect to crude oil, but that, as in the case of other commodities, lower and upper price limits should be imposed.

Müller headed up a 60-member delegation, representing seven German companies eager to do business with Iran. The delegation, the largest to visit Iran since the Islamic Revolution in 1979, includes three members of the Bundestag (parliament) as well. Müller said that Iranian exports to Germany had grown 40% in the month ending June 20, while Germany's imports from Iran grew 20% in the same period. He pledged to financially support German firms involved in trade with Iran, and expressed the hope that Iran would become Germany's biggest trade partner. Negotiations on German investments in Iran were also to include transport and telecommunications infrastructure, petrochemical technology, and shipbuilding.

SOUTH AFRICAN President Thabo Mbeki and Nigerian President Olusegun Obasanjo met on Sept. 30 to finalize a continental economic development plan for Africa. Components include strategies for investment, substantial reduction of foreign indebtedness, radical reform of aid programs, reshaping the international financial institutions and the global trading system, and bolstering the transfer of technology and knowledge to the continent.

IN CHINA, "legislation is desperately needed to curb HIV/AIDS from further spreading," the *China Daily* commented on Oct. 6. The number of HIV carriers living in China is estimated at 500,000 or more, and that number is expected to double within a decade. Most of the debate seems to be limited to issues of punishing those who knowingly transmit the disease, and not on creating an effective AIDS-monitoring program.

FLOODING of the Mekong River this year has displaced 6 million people in Vietnam, Laos, Cambodia, and Thailand. Two million of them are in Cambodia, nearly 20% of the population.

OPPOSITION to globalization is growing in Thailand. Bangkok Bank executive chairman Kosit Panpiemras, for example, asserted in September that Thailand is still a poor developing country, and that "we have completely lost our ability to become a leader of free-wheeling capitalism." He added, "If we did not protect ourselves well enough . . . we would get hurt again."

'SINCE THE 1970S, more than 30 diseases new to medicine have emerged," Paul Epstein, assistant director of the Center for Health and the Global Environment at Harvard Medical School, wrote on the U.S. spread of the West Nile virus, in a commentary in the Oct. 8 *Washington Post*. Partly based on worsening economic trends, Lyndon LaRouche forecast the emergence of new diseases in 1972.

Schiller Institute: Begin Balkans Reconstruction Now!

The following statement was issued in Europe on Oct. 11 by the Schiller Institute, under the headline "For a German-French-Russian Alliance for the Development of Southeast Europe."

If the hopes which everyone in Europe places in the change of government in Yugoslavia, are to be realized, an immediate correction of the policy of the last ten years is necessary. The change of course involves not only the Yugoslav domestic situation, but especially the dead-end of globalization and unbridled free trade, as well as the geopolitical strategy which has abused the Balkans time and again in the last century, as the plaything of the great powers to prevent continental European cooperation. The most recent secret negotiations between the economic advisers of President Vojislav Kostunica and the International Monetary Fund in Sofia, already throw threatening clouds over the chances of the new Yugoslav government to survive. The IMF policy of relentless debt-collection cannot rescue the world financial system in any case, but it can lead all the faster to rekindling the flames of ethnic conflict in the region. The Kostunica government will be measured by the voters on the basis of success or failure in the economic area.

The new situation has to be grasped by Europe as the golden opportunity to take an important step in the direction of a new, real-economy-oriented world financial and economic system, a "New Bretton Woods." Germany and France must jointly take a leading role, together with Russia. That would remove the grand blunder of 1989, when Europe was divided by Anglo-American manipulations in the war against Iraq and then in the Balkans. Without such a perspective, any engagement, however well meant, is doomed to failure.

A lasting peace presupposes the development of the entire region, which was cast into still deeper poverty and social misery by the war against Yugoslavia last year, as it had already been cast by the IMF's shock therapy. In addition

to Yugoslavia, also Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Slovenia, and Hungary must work together on a joint program for development of infrastructure and industry. The European Union and the international community have to provide help to that end. The following points need to be accomplished:

1. The reestablishment of and respect for the full political sovereignty of the participating states.

2. The model for the economic development of the nations of Southeast Europe should be the successful reconstruction of the Federal Republic of Germany after World War II (the Marshall Plan and the London Debt Agreement of 1953). That means concretely,

- The unpayable old debts have to be cancelled, or the countries must be permitted to pay these debts into a new regional development bank, which can then issue investment credit for the development of infrastructure and productive capacities. The German Kreditanstalt für Wiederaufbau (KfW) can be the model for this, and the KfW itself can be directly involved, as it has offered, in the establishment of such a bank.

- Immediate long-term, low-interest credit must be issued exclusively for investment (as in the Marshall Plan), and principal payments are to begin only after a recovery phase of five years.

- In view of the experience with the ruinous consequences of World Bank and IMF conditionalities in Southeast Europe, the entirety of Eastern Europe, as well as the Third World, these institutions should have no influence in the region.

- A customs union of the participating countries must be established in order to promote regional trade.

3. In addition to the reestablishment and modernization of basic materials industries, energy production, and water management, the following infrastructure projects must be begun:

- The Danube, the most important European waterway,



The Petrvaradin Bridge in Novi Sad, Yugoslavia, destroyed by NATO bombing in 1999. The Danube, the most important European waterway, must be cleared of the rubble of destroyed bridges and made navigable again.

which has been blocked for ten years, must be cleared of the rubble of destroyed bridges and made navigable again. In addition, the Drau, Save, Morava, and Vadar rivers should be developed, together with associated canal projects.

- The transportation corridors decided by the Second Pan-European Transportation Conference (March 1994) on Crete must be gotten under way and given high priority:

1. Berlin/Nuremberg-Prague-Bratislava-Budapest-Sofia-Istanbul/Saloniki;
2. Venice-Trieste/Koper-Ljubljana-Budapest; Rijeka-Zagreb-Budapest; and Ploce-Sarajevo-Osijek-Budapest;
3. Dona, including all the ports;
4. Durres-Tirana-Skopje-Sofia-Plovdiv-Burgas-Varna;
5. Alexandropolous-Dimitrovgrad-Bucharest-Kiev; and
6. Salzburg-Ljubljana-Zagreb-Belgrade-Skopje-Saloniki, extended by Graz-Maribor-Zagreb, Sopron-Budapest-Novi Sad-Belgrade-Nis-Sofia, and Veles-Bitola-Florina-Via Egnatia.

Time Is of the Essence

Ten years have been lost in war, and the wrong economic policy has been enforced from outside the region, not least because of the unfulfilled grand promises of reconstruction aid on the part of the NATO countries. If now, again, there is only talk and no action, further conflicts in the Balkans, and a confrontation with Russia, are unavoidable. That would result in the emergence of a yet-more-dangerous zone of instability and chaos, and Europe's capability to act would be paralyzed for a long time to come. Anglo-American geopoliti-

cal strategists, such as Zbigniew Brzezinski, are already rubbing their hands with glee over the, in their opinion, inevitable inability of the European countries to deal with the problem of the Balkans. Robert D. Kaplan, from the New American Foundation, terms the Balkans, extending to the Black Sea, the "natural area of expansion" for the "imperial power of the U.S.A.," which could prevent the connection of the region to the Middle East. This is supposed to be the priority of the new American government.

That cannot be in Europe's interests. Let us finally use the opportunity for a radical chance of course. In view of the effects both of the American financial warfare against the euro, as well as the oil-price speculation, this is an ideal opportunity to bring about an economic shift and to take our distance from the collapsing dollar-speculation empire.

With the resumption of the operation and development of the Yugoslavian pipeline system (from the Black Sea to the Adriatic), oil supplies of the region as well as of the rest of Europe can only profit. But, more importantly, Southeast Europe forms a natural bridge between Europe, Africa, and Asia, and so it is ideal for a joint project for continental European cooperation with Russia and China, in the context of the "New Silk Road." Only such a development and cooperation policy among the sovereign nations of Eurasia, as the former American Presidential candidate Lyndon LaRouche proposed with the "Eurasian Land-Bridge," will make it possible to overcome the dramatically escalating international strategic crisis, which is the result of the collapse of the world financial system.

Opposition To Reconstruction Is Leading to New War in the Balkans

by Alexander Hartmann

After many months of repetition of the mantra that “everything will be all right when Milosevic is gone,” the hour of truth has arrived: Will those forces prevail, who want to rebuild the devastated the Southeast Europe region, or those who in fact are interested only in preserving the status quo, i.e., a continued simmering of the many conflicts plaguing the Balkan Peninsula?

The front lines were drawn on Oct. 9, at the European Union’s foreign ministers meeting in Luxembourg. While France, Germany, and Austria pushed for quick economic assistance to reconstruct Serbia, British Foreign Secretary Robin Cook, and his Dutch colleague, insisted that Serbia should fulfill further conditions first.

Finally, it was agreed upon to lift the sanctions—an oil embargo and a flight ban—imposed on Serbia during the Kosovo conflict; to offer Serbia membership in the Stability Pact; and to provide 500 million euros in immediate assistance. Since total economic damage to the region from the Kosovo war is estimated to amount to \$30 billion, this is a mere drop in the bucket, which cannot spark an economic recovery.

But when the European governments convene their special EU meeting on Nov. 4, to decide what to do toward stability and reconstruction in former Yugoslavia and Southeast Europe, there will be a bigger question to solve than the simple amount of aid to be offered. That problem is the International Monetary Fund (IMF), the damage done by its conditionalities, and its general worldwide bankruptcy as a system. Already, IMF officials have begun to state that before credit to rebuild Yugoslavia is considered, the first priority must be the repayment of all the outstanding debts of this region, which has been devastated by war for ten years. This is precisely the same bankrupt policy which guaranteed the failure of the “Dayton Plan” for reconstruction in Bosnia after the war there, and which has kept Kosovo completely unstable since the NATO bombings last year.

To seize this last opportunity to stop the continuous fighting in the Balkans and begin reconstruction, western Europe must dispense with the IMF.

Regional Conflicts Remain Unsolved

Without a gigantic effort to rebuild all the nations between the Adriatic and the Black Sea, the region will remain

a tinderbox ready to explode any moment. Albanian politicians pronounced new Yugoslav President Vojislav Kostunica to be “no better” than his predecessor, Slobodan Milosevic. Indeed, Kostunica has made clear that he considers independence for the Serbian province of Kosovo and the Republic of Montenegro, which is part of the Yugoslav Federation, unthinkable.

In this respect, it is ominous that the President of Montenegro, Milo Djukanovic, was hospitalized on Oct. 9 after a strange car accident. His car was hit by another car on a mountain road and overturned, after his escort had supposedly cleared the road. In Montenegro, it is mooted that the “accident” was in fact an attempt on Djukanovic’s life, because he wants greater autonomy, or independence, for Montenegro. Djukanovic’s forces boycotted the Yugoslav Presidential elections on Sept. 24.

Kostunica has been a harsh critic of the Dayton agreement, too. It has to be assumed that he will also strive for greater influence in “Republica Srpska,” which is part of Bosnia-Herzegovina. Military clashes between the Yugoslav Army and Albanian separatists have continued, despite the leadership change in Belgrade.

In light of this situation, NATO defense ministers, meeting in Birmingham, U.K. on Oct. 10, agreed to keep the 66,000 troops stationed in Bosnia and Kosovo where they are, for the time being, while the Southeastern European Defense Ministerial Group agreed to form a peacekeeping corps of 3,000 soldiers.

Situation in Serbia Deteriorates

Meanwhile, Kostunica is trying to form a “non-partisan” government of technocrats, which is a coalition of all major parties, including Milosevic’s Socialist Party of Serbia (SPS), and Serbian Radical Party leader Vojislav Seselj. These maneuvers may not reflect Kostunica’s actual preferences, as he is in desperate need of increasing his power base: His own party is actually a coalition of 18 opposition groups.

According to British papers, Kostunica is considered to be a monarchist. He is said to have met the pretender to the Yugoslavian throne, “crown prince” Alexander Karadjordjevic, the heir of the last King of Yugoslavia. Karadjordjevic had organized several conferences of Milosevic’s

opponents. As an obvious gesture to Alexander, who is a close relative of the British royal family, Kostunica demanded that the Milosevic family vacate its residence, so that it can be returned to Karadjordjevic. Kostunica is not opposed to a referendum on the restoration of the monarchy, although he has been quoted saying that isn't a priority. But, this may just be an attempt to keep monarchist forces within his diverse coalition.

The differences between Kostunica and Milosevic concern economic policies, mostly. Provisionally, Miroljub Labus has been put in charge of economic and currency policies. Labus is president of the G-17, a group of opposition economists formed in 1997, which includes members from the IMF, the World Bank, and George Soros's Central European University. Labus wants Yugoslavia to apply for IMF membership as early as December, in order to get access to international credits and aid programs. Putative new central bank head Mladjan Dinkic, a 35-year-old Belgrade academician who wrote the economics program Kostunica supports, was quoted saying that he wants to combine "Polish shock therapy, Scandinavian social security systems, and Slovenia's model of gradual privatization"—certainly a recipe for continuing the economic disaster.

Chaos and Confusion in Belgrade

But, for the time being, Kostunica has not even been able to form a Yugoslav federal government. According to the Constitution, if the President is from Serbia, the Prime Minister must be selected from Montenegro. The only forces in Montenegro willing to partake in a Yugoslav government at all at this time, are Milosevic's friends. In the absence of a formal Yugoslav government, Kostunica's party has formed crisis committees to take care of day-to-day business, and to prevent Milosevic's followers from diverting government property and that of the companies controlled by them.

Even if he had a Yugoslav government, Kostunica has another, even bigger problem: Real power lies with the government of the Yugoslav state of Serbia, a mainstay of the old apparatus. It controls Serbia's 100,000-strong police force, which is equipped like an army, and the security forces. Kostunica's party is not even represented in the Serbian parliament, the election of which it had boycotted three years ago. This is why Kostunica is trying to form a transitional government of technocrats, supported by all parties, including Milosevic's Socialist Party of Serbia, which he thought was the way to get the old regime's apparatus to agree to power sharing and new elections, without risking a bloody confrontation.

These plans are now all falling apart. While on Oct. 9, Seselj seemed to agree to vote for the formation of a transition government and early Serbian elections in December, by Oct. 11 he was demanding the post of Interior Minister in the transitional government. When this was rejected, he cancelled the tentative agreement, which means the present Serbian

government cannot be changed constitutionally.

In the meantime, throughout the country, crisis committees have been mushrooming in the media, factories, banks, and other institutions, forcing Milosevic allies to resign their posts. Apparently, this process is not under Kostunica's control. In an interview, he stated that he had "just as much trouble with my friends as with my enemies." Uprooting the entire upper management within the Serbian economy would most certainly make any attempts at reconstruction futile, as compromised as many of the managers may be.

The Serbian government has pronounced these activities to be unconstitutional, and threatened to deploy the police to "restore order." Radical Democrats, including Kostunica's aide Zoran Djindjic, have vowed to "bring people back onto the streets," if there is no agreement to dissolve the Serbian parliament and form a new government soon. Thus, a rapid escalation of inner-Serbian tensions has to be expected.

Rapid Reconstruction Needed, Not IMF

The only way to bring together a coalition of sane forces within Serbia that is strong enough to maintain peace, is to formulate and pursue a program of massive economic reconstruction. This is impossible without large export credits and reconstruction credits from Western nations, making possible infrastructure rebuilding and machinery imports. Kostunica's economists in the G-17 stated that it would take Serbia 40 years to recover—to the miserable level of 1989! Until now, only 5% of the direct damage from NATO's Kosovo bombing has been repaired. Because Serbia has suffered human capital loss, too, it lacks specialists to reconstruct its industries. This means that economic losses will continue to add up. Only 10% of highway infrastructure, and only 3% of industrial facility damage, have been repaired.

If Serbia surrenders to the IMF's economic conditionalities, it will pass from Scylla to Charybdis: There is not a single nation in the world which has recovered under IMF conditionalities, and new IMF credits are usually only granted for refinancing old credits. World Bank credits usually turn out to be Trojan Horse gifts, too: Most of the money goes to Western "consultants" and non-governmental organizations (NGOs). Of \$15 billion promised to Bosnia, for example, only \$1.5 billion has actually materialized over five years. After subtracting what has been spent for consultants, NGOs, and old debts, there was not much left.

Under these circumstances, regional conflicts could hardly be contained, and would flare up again soon, and probably in a more dramatic way than before. This may please those forces internationally, who think they will profit from chaos in the region. Those who think otherwise, must act now, to prevent this from happening. The Schiller Institute, for example, led by Lyndon LaRouche's wife, Helga Zepp-LaRouche, has issued a call to Germany, France, and Russia, to form an alliance to reconstruct Southeastern Europe and enforce reconstruction politically.



No Solution for the Balkans Without a New Bretton Woods

Mr. Nanic, of Zagreb, Croatia, is the Secretary General of Croatia's Democratic Action Party (SDA), and former Chief of Staff to Bosnian President Alija Izetbegovic. He spoke with Umberto Pascali on Oct. 10.

EIR: We have seen now a series of dramatic events in Yugoslavia, that brought the ousting of Slobodan Milosevic after ten years of absolute rule; his substitution by Vojislav Kostunica; and now a series of statements from North America and western Europe, that the situation is totally changed, democracy is established. In April 28, 1999, you and Helga Zepp-LaRouche, president of the German Schiller Institute, made a call for a “new Marshall Plan for the Balkans,” in which you stressed that the only way to solve the situation is economic development, and, in fact, the establishment of a New Bretton Woods monetary system. All these issues come to mind now. How do you see the situation in relation to the plan you and Helga Zepp-LaRouche were proposing one year and a half ago?

Nanic: Let me tell you first, that the governments in the vicinity of Serbia are still very careful in estimating the real range of the change that happened in Yugoslavia. They still are waiting for first positive steps to be taken by the new Belgrade government. Secondly, we still don't know how this compromise that has been reached with—actually, brokered by—the Russians and French, what consequences it is going to have for Montenegro (which had not participated in the elections).

So, there is a possible source of instability, unless certain agreements will be reached; a possible source of instability and continuation of the process of disintegration of former Yugoslavia, which could finally end with the secession of Montenegro. However, we don't know if the secession of Montenegro is possible by peaceful means; and this could provoke further instability. We have a feeling that Milo Djukanovic [President of Montenegro] was played out by the Western governments, which supported him openly as a counter to Milosevic. And then, after Milosevic lost the elections, somehow Milo Djukanovic remained alone on the field, because his party, which is the majority party in Montenegro, had not taken participation in the federal elections which finally promoted Mr. Kostunica as the new President of the Federal Republic of Yugoslavia.

So, things are still not quite clear, and we don't know what consequences this might have for the situation in Kosovo, and the position of Kosovo in the Federation—if the Federation will still exist. The point in Mr. Kostunica's inaugural speech in the Belgrade Parliament, that Kosovo is one of his first priorities, Kosovo is a historic part of Serbia, and he will do everything he can to return Kosovo to Serbia—this will be soundly opposed by the Kosovo Albanians, as far as we can see right now. Secondly, you know that there was an invitation to the new Yugoslav government to participate in the so-called Stability Pact for Southeast Europe. Yugoslavia was also invited to take part in the so-called Zagreb Summit in November, which is the “European Union-Western Balkans” summit, an additional meeting for the Stability Pact for Southeast Europe. Some signs have already been given to the new Yugoslav government, by Bodo Hombach, who is the Coordinator of the Stability Pact, that some of the urgent projects can be implemented immediately in Yugoslavia, which have a certain economic value and importance. That is, the clearing of the Danube River, which was included in the appeal that we made last year.

But these are still only declarations, and we really don't know. The question is, what is the new Yugoslav government: a national Yugoslav government, or a nationalist Serb government? Because if it is the new nationalist Serb government, then the new disintegration of what remains of former Yugoslavia, is almost inevitable.

There are some estimates here by some university circles, that actually Vojislav Kostunica, being a Serb nationalist, is now on the mission of saving what was left of the nation of Serbia within its existing borders. So that the idea of “Greater Serbia” is dead, and the only way to preserve the Serbian nation, or Serbian nationalism, is to preserve what is left after all these adventures taken by Milosevic in the last ten years.

So, it is still very difficult to estimate. On the question of economic cooperation, the first statements by people [in the nations] around Serbia were also very positive, saying that this is a new page in the economic relations of their respective countries with Yugoslavia, and with Serbia proper.

EIR: Of course, whatever happened in Belgrade, as you were saying, was influenced by outside factors, to say the least.

Two particular forces were at work: the Russians, who have a lot of leverage there, in the close connection between the two Orthodox churches; the historical connection between the two militaries, and so forth; and another element, which was French President Jacques Chirac, when France recently became the president of the European Union in July. Then there were other influences, namely pushes from London—Blair and Robin Cook—from Madeleine Albright, of course, unchanged since the Rambouillet negotiations. And even if most observers smelled that some deal had been organized for an exit strategy for Milosevic, still, there were some days of tension, in which the most radical elements of supporters of the current speculative international system would have preferred to have a war. There was some fear over the big NATO naval mobilization, with war exercises both in the Adriatic and in Bulgaria, Romania, and so forth.

I would like to ask you to comment on this military side; and more on the question of the positive potentialities that could exist, in the sense of a potential alliance of France and continental Europe with Russia, while Russia is making a diplomatic and strategic offensive to consolidate links with India and China.

Nanic: Let me comment first on this military point that you made. I think there was a very strong faction within NATO's members—especially the Anglo-American faction, expressed in various statements by Robin Cook and Madeleine Albright, and Tony Blair, on the necessity of military intervention in Serbia—there was a very strong faction which really advocated that there be a military intervention into Serbia. What is new, when compared with 1999 and with what happened in Kosovo, is that the European powers within the European Union, somehow joined with the Russians and said, "Okay, we will not do any kind of intervention. So, let's try to broker a certain compromise"—it is a rotten compromise, let's be frank about it—"that would somehow prolong the political life of Milosevic, and, on the other hand, secure the peaceful transition of power, at least in Serbia."

I am still not quite sure what is going to happen in Montenegro. I don't know if this brokered agreement from the Russians and French includes the appeasement of Montenegro and a new Yugoslav federal arrangement between Montenegro and Serbia, or not. But there is still a possibility of creating a new crisis which would be the pretext for new military intervention.

EIR: The fact, though, that despite the pressure within NATO, there was a strong reaction on the French and Italian side, from what is known publicly, and possibly from other European NATO allies; the fact that this intervention would break any possible link between continental Europe and Russia; the fact that this kind of NATO intervention has not been possible, despite the push for it; what does this show?

Nanic: I do think there is resistance, but I don't know how

profound this whole structure is, and how profoundly they really think of restructuring the whole international financial, monetary, and political structure.

EIR: That brings us to the point that a solution for the Balkans cannot exist without the change of the whole financial system, and implementation of the proposal of Lyndon LaRouche for a New Bretton Woods, a new system.

Nanic: That's quite sure, and that was included already in 1999 when we signed this appeal, "Peace Through Reconstruction in the Balkans." What we think, is that you can see some signs, all around the world, that people are thinking—even in the strata of the political and financial establishment—they are already starting to think about new possible solutions. I am referring to what [former German Finance Minister and Social Democratic Party Chairman] Mr. Oskar Lafontaine said recently. He didn't mention New Bretton Woods, but he was referring to the old Bretton Woods, and a return to a system of fixed exchange rates, and the new credit mechanisms. So, I think that this could be used as a certain starting point; but if Yugoslavia would only be joined into what is called a Stability Pact for Southeastern Europe, with this "donation psychology," in terms of donor countries and donor money invested with conditions—that really means nothing.

This whole concept of donations is completely wrong; we are not really investing into the real power of the nation, which is the creative power of people, and that is the problem. We are expecting some money from the outside, called the "international community," and this is not happening. There was no reconstruction whatsoever which resulted in Bosnia.

So that, also, I think will be the case with Yugoslavia and the whole region, even after this change, *if* we don't really change the whole structure. So, that's why I think that any solution for Yugoslavia and the region, with all the neighboring countries, means that we have to change the whole world financial structure; and then we can do something for reconstruction of these countries; and then you can *let* these countries, using their sovereign powers, cooperate together on the mutually beneficial projects and investments for their own reconstruction and development.

But unfortunately, I don't think this is going to happen. This depends on how the Europeans will react to everything that is happening around them. I'm referring to the oil crisis, that is now taking a certain dynamic that cannot be predicted by the so-called analysts. I'm thinking about the falling of the euro against the dollar; and I'm also thinking about the possible impact of the crash of the dollar, which is going to happen very soon, definitely.

So, it really depends on the Europeans, and the change of their attitude of believing the financial speculators, instead of taking care of their own development. Unfortunately, these countries themselves, in the [Southeast European] region, are not now capable—their establishment, their political class—

they do not have courage enough to undertake certain measures in terms of what Mr. LaRouche said recently, in Germany. These countries have to somehow launch their own cooperation on the mutually beneficial projects. Unfortunately, from what I see in the region, in the respective governments and establishments, this is not possible unless some kind of incentive, some kind of impetus, comes from the [western] European countries or the United States.

EIR: Mr. LaRouche recently was invited by the municipality of Ascoli Piceno, Italy, just across the Adriatic from the Dalmatian region of Croatia. This is a city you recently visited, and you were also received by the city council of Ascoli Piceno. There was some interest in a real exchange between Italy, Bosnia, Croatia (the countries on either side of the Adriatic), an interesting hint of what could happen in unexpected places.

Nanic: Immediately after the war in Bosnia and Croatia was finally over in 1995, there was a certain initiative within what is called in Germany the *Mittelstand* sector, people who are involved in real economic sectors of production, to go in and invest smaller amounts of money into the real productive sector. But these people were somehow fooled, or played out, by the so-called international community representatives in

Bosnia and Croatia, and these necessary investments into the real economic sectors, especially the sectors devastated by the war—the productive power—were never realized.

So, there is a kind of genuine interest in this middle-sized industrial sector all around Europe, which could very easily jump in, and would be very interested in making some real economic investments. It can work on a smaller scale, but the problem is, what banking system will follow the investment and really secure and provide the necessary credit mechanism and necessary credits for such an effort? Anywhere, in Croatia, in Bosnia, in Slovenia, or especially in Yugoslavia, where the risks are higher?

So, I think that this is encouraging. For my part, I will do whatever I can to facilitate these initiatives from the Italian side. What was also very encouraging, was that people from Italy were interested in supporting also the productive sector of Croatia. They are open to any kind of mutually beneficial cooperation. It was not people coming into Croatia, which is devastated by the war, or into Bosnia, which is even more devastated, and saying, “Okay, now we will buy all this for a small amount of money, and turn it into a storehouse”—basically to finish destroying what was remaining after the war. These people are interested in real economic development.

In This Section

When the NATO bombing of Serbia and Kosovo ended in May 1999, President Clinton had just spoken in San Francisco of a possible “exit strategy” from that war, which was described by many as a “Marshall Plan for the Balkans.” Immediately, Lyndon LaRouche and *EIR* published the requirements of reconstruction of that devastated region; but made clear, that that urgent need was an opportunity for a complete break with the bankrupt and collapsing International Monetary Fund (IMF) system. That requirement is far more urgent today, as the collapsing Wall Street-London bubble-economy is leading the world into war.

We reprint here the key elements of that economic forecast of May 1999: articles by *EIR*’s expert on the



The Ostruznica railway bridge in Belgrade, destroyed by NATO bombing in May 1999.

physical economies of Europe, Lothar Komp; and a large part of Lyndon LaRouche’s “Balkan Peace and World Economy: The Case for a New Marshall Plan.”

The Requirements of a 'Marshall Plan' For Balkan Economic Reconstruction

by Lothar Komp

This article is excerpted from EIR, May 28, 1999.

Ten weeks of uninterrupted bombing have turned Yugoslavia into an industrial wasteland. The living standard of the population has fallen to the level that prevailed at the turn of the century. The complete collapse of Danube traffic for Hungary, Bulgaria, and Romania is gripping the entire region. The situation of some million Kosovo refugees in Albania and Macedonia is even more dramatic. The temporary refugee camps are completely inadequate for the Winter season.

In view of the catastrophic economic conditions in the two countries, steps must be taken to assure that it is possible for the Kosovars to return home before Winter sets in. The first snowfalls begin in October, at the latest. On the other hand, almost all of the homes in Kosovo have been destroyed, and these must be rebuilt in a crash program. The race against time has already begun. The NATO countries must prove now, how important they think the fate of the refugees really is.

The various proposals from different circles for a "Balkan Marshall Plan," with sums of \$30, \$60, or even \$89 billions, are laudable, but they all miss one decisive point: They are all based on the illusion that what is at stake is to overcome a local, or at most regional emergency, while the rest of the world is assumed to be basking in economic stability, with the storms on the international financial markets supposedly brought under control. The reality is starkly different. There is an advancing process of collapse of the world financial system and the devastation of entire national economies in Asia, Ibero-America, and eastern Europe, which resulted from that collapse. . . .

It's the same picture everywhere. A grand design is indispensable: a radical reform of the bankrupt, unsalvageable world financial system, by writing off the speculative financial titles, and returning to a system of fixed exchange rates; then, the creation of new, national credit mechanisms, with which immense investments in infrastructure, industrial plant, and technology projects can be financed in order to reconstruct the world economy. Under such conditions — and only under such conditions — a "Marshall Plan" for the Bal-

kans and southeastern Europe will cost nothing, from the standpoint of physical economy, and it will instead become an important element of a highly profitable undertaking.

What Is Immediately Required

Without delay, major efforts must be undertaken to make Kosovo livable once again. In the relatively short time remaining until Winter sets in, this can only be done effectively, and without cutting corners on quality, if the best available technologies worldwide — quality construction firms, engineers, and military specialists — are mobilized. Infrastructure and industrial plants must be reconstructed all over Yugoslavia. The most urgent problem-areas are obvious:

The Danube must be made navigable again: Without this economic artery, which, since the completion of the Rhine-Main-Danube canal, has connected the North Sea with the Black Sea, any idea of a rapid reconstruction is illusory. Austrian, Hungarian, and Greek firms are standing ready to clear away the wreckage of destroyed bridges in Novi Sad, Bogojevo, Smederevo, and elsewhere in Serbia. According to reports from German shipping experts, the clearing work could take three to four months. But the shipping channels must be cleared in a shorter time, by working on the different segments of the Danube all at once.

Other transport infrastructure: Roads, railways, and especially bridges over the Danube, must be given priority.

Housing construction, with the priority placed on Kosovo: Rapid reconstruction of homes must be promoted through making emergency loans available to the returning population. That will create the foundation, at the same time, for the creation of small and medium-sized industries, especially in the construction and construction-materials industry. The majority of the new homes must be completed by September.

Removal of land-mines in Kosovo: Unless the approximately 1 million land-mines are cleared away, agriculture will be unthinkable. Only the immediate and massive deployment of the most modern technological equipment can ensure that this task is completed in the necessary time.

Reconstruction of industrial plants: German large-scale

FIGURE 1

Balkan Countries: Existing and Proposed Waterways



firms are specialized in construction of turn-key steel plants, chemical plants, fertilizer plants, cement plants, and power plants, and they are currently suffering under a dramatic shrinkage of orders as a consequence of the crisis in Asia. Unless new factories, and thus new jobs, emerge quickly in Yugoslavia, there will be a new wave of refugees—hundreds of thousands of Serbs, who cannot earn a living in Yugoslavia.

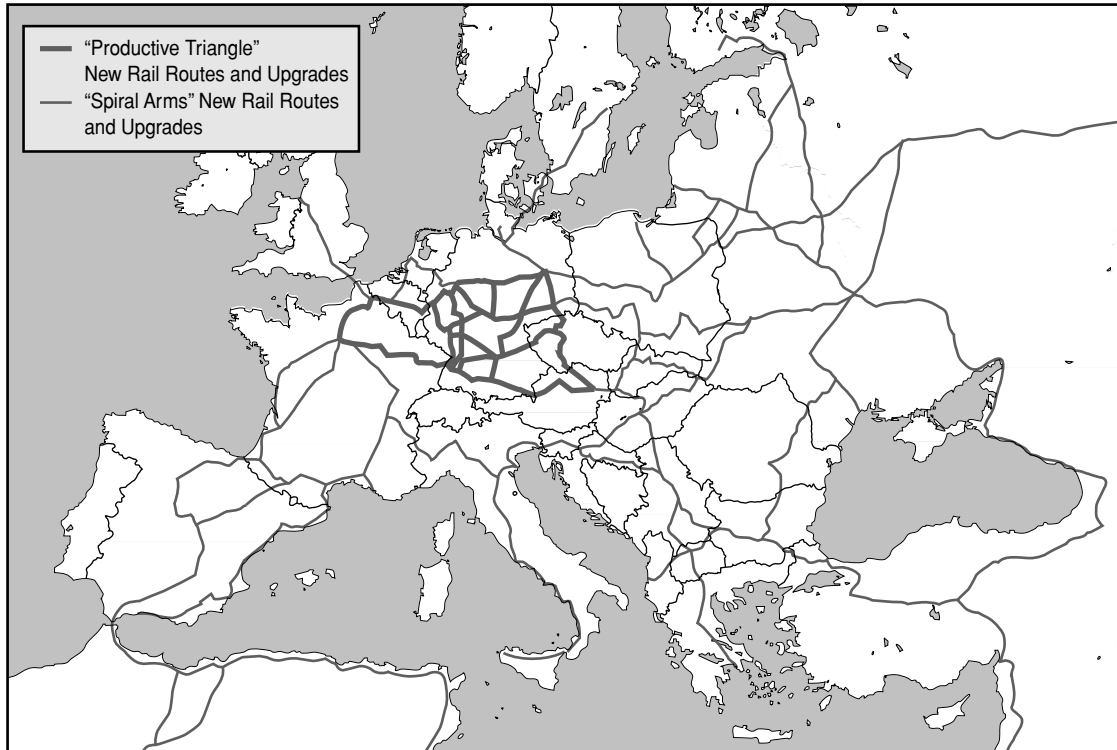
Southeastern Europe: Bridge to Asia

With the fall of the Iron Curtain in 1989, a great opportunity existed to bring about a Eurasian “economic miracle,”

recalling the economic cooperation of France, Germany, and Russia toward the end of the Nineteenth Century. Shortly after the fall of the Berlin Wall, Lyndon LaRouche published a proposal in a memorandum to European governments “toward the development and modernization of infrastructure in Europe—energy supplies, transportation routes, communications, waterways,” titled “The Paris-Berlin-Vienna Productive Triangle.” The geographical triangle formed by those three cities circumscribes an economic region which has the most unique density of skilled manpower, infrastructure, and technological capacities in the world, and could therefore be

FIGURE 2

Proposed European ‘Productive Triangle’ Rail Development



used as the motor for an economic development program along “development corridors” for the entire Eurasian continent.

The backbone of the corridors consists of an integrated system of high-speed conventional and magnetically levitated trains for both passenger and freight traffic, extended into an additional network of roads and waterways. Sufficient amounts of low-cost energy are necessary for industrial growth in the regions through which the corridors run, and that makes it necessary to increasingly employ nuclear energy. The inherently safe high-temperature reactor (HTR) developed in Jülich, Germany can play a decisive role in this effort.

Additional elements of the Productive Triangle are the use of European ports and shipyards for assembly-line construction of “floating factories,” i.e., mass production of HTR modules, desalination plants, fertilizer plants, etc., which are transported on floating platforms to the recipient country, and which can be put into operation on-site along the coast. On the whole, investments in infrastructure would generate an economic profit on account of the increases in productivity, which would far overshadow the costs of the initial investments.

Today, a decade afterwards, this potential for continent-wide cooperation, which would generate an unparalleled economic boom, is still being blocked, for geopolitical reasons. Essential features of the sabotage of this potential, were the British-instigated wars in the Middle East and Balkans, the strangulation of the western European economies by the Maastricht Treaty, and the enforcement of brutal shock therapy in Russia. The evident failure of these schemes, now offers a chance to finally realize the 1989 LaRouche Plan.

Linking in the ‘New Silk Road’

At the same time, a number of Asian countries, in particular the government of China, have announced their determination to realize a comparably ambitious infrastructure and industrial program: the construction of the “Eurasian Land-Bridge,” which is to connect the eastern coast of China with the North Sea coast of western Europe, along the two main routes of the old Silk Road.

For obvious geographical reasons, the economic development of southeastern Europe, but also of eastern Europe as a whole, is crucial to any Eurasian economic cooperation. The so-called “priority corridors,” stipulated by trans-

portation ministers at the March 1994 Second Pan-European Transportation Conference on the island of Crete, broadly coincide with the “spiral arms” of the “Productive Triangle.” The main nodal points of these 10 European corridors are:

Corridor 1: Helsinki-Reval-Riga-Kaunas-Warsaw, with the branch Riga-Kaliningrad-Gdansk.

Corridor 2: Berlin-Warsaw-Minsk-Moscow-Nizhny Novgorod.

Corridor 3: Berlin/Dresden-Wroclaw-Lviv-Kiev.

Corridor 4: Berlin/Nuremberg-Prague-Bratislava-Gyor-Budapest-Arad-Craiova-Sofia-Istanbul, with the branches Arad-Constanza and Sofia-Thessaloniki.

Corridor 5: Venice-Trieste/Koper-Ljubljana-Budapest-Uzhgorod-Lviv, extended through Bratislava-Zilina-Kosice-Uzhgorod, Rijeka-Zagreb-Budapest and Ploce-Sarajevo-Osijek-Budapest.

Corridor 6: Gdansk-Warsaw-Katowice-Zilina.

Corridor 7: Danube, including all ports in eastern Europe.

Corridor 8: Durres-Tirana-Skopje-Sofia-Plovdiv-Burgas-Varna.

Corridor 9: Alexandroupolis-Dimitrovgrad-Bucharest-Chisnau-Lyubaskeva-Kiev-Moscow/Pskov-St. Petersburg-Helsinki, as well as Odessa-Lyubaskeva and Kiev-Minsk-Vilnius-Kaunas-Klaipeda/Kaliningrad.

Corridor 10: Salzburg-Ljubljana-Zagreb-Belgrade-Nis-Skopje-Veles-Thessaloniki, extended through Graz-Maribor-Zagreb, Sopron-Budapest-Novi Sad-Belgrade, Nis-Sofia, and Veles-Bitola-Florina-Via Egnatia.

Corridors 5, 7, and 10 are obviously of crucial importance for the reconstruction of the region destroyed and affected by the war. At the speed envisaged by the participating transportation ministers up to this time, not very much will have happened in 10 years, for lack of financial resources. There are plenty of studies on these corridors already. Now the earth-moving must begin for these projects.

Additional investments in transportation infrastructure are necessary for the Balkans. These were described in a call entitled “For Peace and Development in the Balkans,” issued on April 28 by Bosnian political leader Faris Nanic and Schiller Institute founder Helga Zepp LaRouche [published in this issue]. These include:

The Drau River, which flows through Austria, Slovenia, Croatia, and Yugoslavia, and then into the Danube, as well as the Sava, which flows from Slovenia via Zagreb to Belgrade, have to be made navigable in accordance with European standards. A connected waterway from the Danube over the Morava in Yugoslavia and the Vardar in Macedonia, into the Aegean Sea at Thessaloniki, can be achieved by means of canal systems.

Additional railways and highway connections must be run from Zagreb through Croatia up to Split, and then along the Adriatic Coast over Bosnia, the Yugoslav republic of Montenegro, Albania, and Greece, and finally to Athens.

Financing Without Foreign Capital

The question of how an economy equipped with a minimum of skilled manpower can achieve reconstruction of infrastructure and production on its own power, without going into debt on international capital markets or selling off its own productive capacities and raw materials to foreign investors, was answered long ago in economic history. The histories of the United States, Japan, France, and Germany offer plenty of successful examples.

Take Germany, for example. In September 1931, German Economics Ministry official Wilhelm Lautenbach summarized the basic principles of such a credit policy, in an urgent appeal which, had it been carried out, would have led Germany out of economic depression, and thereby prevented Hitler’s rise to power. Lautenbach pointed to a “natural way to overcome an economic and financial emergency,” such as after a war, great natural catastrophes, or in a depression or financial collapse. In such a situation, he wrote, one cannot rely on market forces alone. The immediate mobilization of all idle manpower and productive capacities is the “real and most urgent task of economic policy, and it is relatively easy to solve in principle”: The state must generate “new economic demand,” and do that under the condition that it “represents a capital investment for the economy. Conceivable projects would be . . . public or publicly supported work which signifies an increase of wealth for the economy, and which would have to be carried out anyway under normal conditions,” i.e., investments in the renewal of transportation infrastructure.

The question, naturally, is: How can such projects be financed, since long-term capital is not available, neither on the foreign nor the domestic capital markets? Lautenbach emphasized that the provision of the necessary liquidity for such financing is merely a “technical organizational” problem. It can be solved, for example, by having a national bank provide a rediscount guarantee for such credits which are linked to “economically reasonable and necessary projects.” In this way, the recourse to the national bank is but a fraction of the expansion of credit needed for the infrastructure investments. The “stimulating effect of the primary credit expansion” has the effect of “rekindling the whole of production;” idle capacities are employed once more, production increases, and state tax revenue increases. Since the “extent and velocity of the expansion of production” will increase faster than the “extent and velocity of credit expansion,” the national bank financing has no inflationary effect.

The Lautenbach Plan was presented in September 1931 at a secret conference of the Friedrich List Society, in the presence of Reichsbank President Luther and 30 leading economists, politicians, and representatives of industry. (Former Reichsbank head Hjalmar Schacht, who later became Hitler’s Economics Minister, was not invited.) Had the plan been implemented, the resulting economic recovery would have deprived the National Socialists of any chance to rise to power.

How Germany Financed Its Postwar Reconstruction

by Lothar Komp

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The war damage in Kosovo and the rest of Yugoslavia totals several hundred billions of dollars. Immense investments in housing, infrastructure, and industry are now required, simply to enable the return of over a million refugees to their homes. And all of this must be integrated into a reconstruction program for the entire region of southeastern Europe, now on the brink of economic chaos.

This poses the obvious question: Who will pay? Those economies which are most in need of productive investments, are the ones least capable of coming up with the needed financial resources domestically or abroad. So, if the course of economic development here were left to the logic of the free market, there would be no hope of repairing or improving anything. Fortunately, we know from the German “economic miracle” after World War II, that there is another way to approach such a problem—a way that has been demonstrated to work.

The German economy was in catastrophic condition in the immediate postwar years. Industrial production had dropped to one-third of 1936 levels. Transport infrastructure had been decimated. More than one-fourth of existing housing had been made unlivable by the bombing attacks, which included about 50% of all homes in the urban centers. This is a rough description of conditions just at the time that 7.9 million refugees from the former German eastern provinces, and another 1.5 million refugees out of the Soviet-occupied eastern zones, flooded into the western part of Germany.

Supplies of electricity and heating for both industry and the population had largely collapsed. Food rations in the especially cold Winter of 1946-47 dropped at times below 1,000 calories per capita per day. The undernourishment of miners contributed further to bottlenecks in coal supplies, from which Germany had to derive 80% of its export earnings.

But by the end of the 1950s, this picture changed completely. Germany had risen into the ranks of the leading industrial nations. The mass unemployment of the immediate postwar years had disappeared. German businesses were active throughout the world’s export markets. Foreign debts were being paid off, ahead of schedule.

The key to this success lay in the special method for financing the reconstruction.

The Marshall Plan

After the war, there was an acute scarcity of dollars in all European countries, so that Europe’s most important export market, the United States, was in danger of evaporating. In June 1947, U.S. Secretary of State George C. Marshall announced that the United States was ready to establish a European Recovery Program, in order to re-establish “the confidence of Europeans in the economic future of their countries and all of Europe.” In a time-span of four years, from 1948-52, infrastructure and productive capacities in western Europe were to be brought up to at least the levels which existed before the war.

To that end, the United States provided commodity credits of \$17 billion, with which European firms could buy urgently needed raw materials, fertilizers, vehicles, and machines from the United States. That meant that every dollar had at least a twofold effect: With the exception of Germany, the United States did not insist on the illusory repayment of the dollar credits; instead, the businesses involved in the program were to pay the value of the received supplies, in their own national currency, into an account of their own central bank. The respective governments could then dispose of this as they chose, in agreement with the United States. In some cases, as in England and Norway, these counter-value sums were used to reduce state debts. In Germany, they were employed completely for reconstruction, as if in a revolving door.

Immense investments were necessary if Germany was ever again to get back on its feet economically, and these investments would necessarily involve amounts of financing far beyond the aid received through the Marshall Plan. The first plans for the establishment of a Reconstruction Loan Corporation (RLC) were laid out in 1947. This was to function as the central institution for provision of investment credits. There were two crucial factors to consider. First, there was the initiative of German banker Hermann J. Abs, who informed Truman’s emissary, Richard Whitehead, in September 1947, of his own ideas for the envisioned credit agency. Then there was the positive U.S. experience with its Reconstruction Finance Corporation, a Hoover-era institution revamped in 1933 by Franklin D. Roosevelt, during the Great Depression.

In November 1948, the RLC became known as the Kreditanstalt für Wiederaufbau (KfW, Credit Institution for Recon-



Herman Abs, one of the first directors of the KfW: "The activity of the KfW was not exactly oriented to the ideal model of a free market economy. Taken in the precise sense, what it did was to steer investment."

struction), in order to provide medium- to long-term loans "to enable the completion of reconstruction projects, insofar as other credit institutions are not able to provide the required financing." Abs and Otto Schniewind were entrusted with the leadership of the KfW. (Both had just previously refused to take over the leadership of the Bank deutscher Länder, the predecessor of the present German central bank, the Bundesbank.)

The loans issued by the KfW were to run primarily on a separate track from the normal banking system. If other banks shied away from the risks of a project, the KfW was empowered to provide direct credit to the businesses involved. This turned out to be the case for coal, gas, water, electricity, and transportation projects. The KfW was expressly excluded from other normal bank services, such as taking deposits, managing customers' bank accounts, or brokering stocks. The KfW was permitted to extend short-term credit in exceptional cases, but only following consultation with the central bank.

The big question initially was: Just where was the Kreditanstalt supposed to get the capital for the credits it would

issue? The monetary reform of June 1948 had wiped out masses of capital. That meant that nothing could be taken, for the moment, from the domestic capital market. In the fall of 1948, the KfW tried to entice German savers with a bond, and promptly fell flat on its face. German debtors were forbidden from going to foreign capital markets, and there was nothing to be had from the public budgets.

Also, in contrast to its European neighbors, Germany never received a credit from the World Bank. There were, to be sure, negotiations between the German government and the World Bank over the course of 1953. But, because the World Bank would come up only with a paltry \$20 million, and linked this pittance to unacceptable conditions, no agreement could be reached.

Finally, after persistent pressure from Germany, the United States relented and allowed the accumulated German mark "Countervalue Funds" of the Marshall Plan, collected in the so-called ERP Special Fund, to be used to refinance the KfW. Between 1949 and 1953, the KfW obtained a total of DM 3.7 billion from this source. Principal and interest payments on KfW credits were always paid back into the ERP Special Fund.

The London Debt Agreement of 1953 stipulated that the German government would pay back \$1 billion of the Marshall Plan aid it had received. But the German government paid this sum out of its tax income, so that the ERP Special Fund was left intact as the fund for the "revolving" issuance of investment credits.

Dirigistic Credit Policy

The mere existence of this fund by no means guaranteed success. As West German Chancellor Ludwig Erhard later remarked, everything depended on the "economically right use" of the fund. Because of the huge demand for investments in infrastructure, housing, and industry, there was an understanding between the German and American authorities, that the limited resources of the Marshall Plan, and later of the KfW, could not be surrendered to the free play of market forces. Hermann Abs always underscored the "targetted planning" in the KfW's credit issuance. Abs observed: "The activity of the KfW was not exactly oriented to the ideal model of a free market economy. Taken in the precise sense, what it did was to steer investment."

Immediately after its establishment, the KfW, in collaboration with the Economics Administration, the predecessor of the Economics Ministry, proposed a "list of priorities" for the German economy's reconstruction. These included the basic materials industries (especially coal and steel), housing, agriculture (machines, fertilizers, reconstruction of farms), local infrastructure (roads, water supplies, and so on), an autarkic energy supply for encircled West Berlin, promotion of export business, and, finally, job creation and integration of many millions of refugees. From the outset, the aim was not merely to re-establish conditions as they had been before the



German women in Berlin in 1946, known as the Trümmerfrauen, or “rubble-women,” struggle to rebuild the city from total ruin. By the end of the 1950s, the picture of devastation had changed completely: West Germany had risen into the ranks of the leading industrial nations, thanks to the policies of the Kreditanstalt für Wiederaufbau (KfW, Credit Institution for Reconstruction), and other agencies and individuals.

war, but, rather, to promote all of those investments necessary for a productive economy that would be capable of sustaining itself in the worldwide arena.

In 1949, the KfW set the highest priority on gearing up production of coal, iron, steel, gas, water, and electricity. Because these were all areas of urgently needed and scarce products, they were subjected to strict price controls. For example, the price stipulated by the German government for coal, covered only one-sixth of the costs of production. The costs of production were, however, covered by subsidies, but not above the sales price. In the case of exported coal, Germany was forced to sell far below the cost of production. Many firms in the raw materials sector would have been unable to present any balance sheet at all, in order to obtain credits at banks. The mining firms, for example, did not even know whether the mines, which had been confiscated by the Allies, would belong to them again some day.

In similar situations today, it is the practice of the World Bank and the International Monetary Fund to advise—for example, in the case of eastern European countries—either that such firms be closed, or that they be broken up and the “competitive components” sold off to foreign investors. To be sure, there were people in the German administrative apparatus in the postwar period, who, under the circumstances where issues of ownership had not been previously resolved, advised *against* giving credit to mining firms. But it was typical for the political and economic elite of that time, that such advice was not heeded.

Hermann Abs, at the KfW, pronounced boldly that it was

irrelevant to whom the mines belonged, and that it was also irrelevant whether their production yielded a profit or a loss under those conditions. The only thing of any importance, he insisted, was that production of coal be cranked up as quickly as possible.

In the years 1949 and 1950, forty percent of all West German plant investment in the areas of energy, coal, and steel, was financed by direct credits from the KfW.

The Crash Program of 1949

Events in early 1949 illustrate the KfW’s working methods in the decisive years at the beginning of reconstruction. The KfW opened in Frankfurt on Jan. 2, and the U.S. authorities promised to put DM 265 million of countervalue funds at its disposal as a first tranche. Ten energy firms received credits under Energy Program I for 20 projects, running for ten years. As a consequence of the Soviet blockade of West Berlin, a considerable portion of this went into the construction of a new power plant there. A total of 55 mining firms obtained long-term credits for capital investments in their mines, for the payment of urgently needed imports, and for paying off bills that were due. The KfW was the direct investor in the energy and coal sectors, because the risk was too great for the private banks. In other cases, part of the financing came from private banks.

These other cases included the KfW’s tractor program, under which 40,000 tractors were produced—25,000 for German farms and 15,000 for export. The producing firms, MAN, Hormag, Hanomag, and Lanz, received long-term credits for

TABLE 1

Distribution of Marshall Plan Aid Through the End of 1952

(Millions \$)

Great Britain	\$3,165.8
France	2,806.3
Benelux countries	1,532.8
Netherlands	1,080.0
Italy	1,515.0
West Germany	1,412.8
Austria	711.8
Greece	693.9
Denmark	275.9
Sweden	107.1

this purpose. The production of phosphates, which had been shut down throughout Europe, was also geared up under this crash program. The KfW started a program to build fishing boats, in order to secure a high-protein diet for the German population. The KfW also hand-picked some 70 firms in industrial sectors, especially in machinery and electro-technology, which had special know-how and capacities relevant to projects the KfW wanted to accomplish. These firms were then told to apply for credits for investments to get the job done.

Step by step, the KfW was allocated additional sums from the countervalue funds, until 1953, and these funds were immediately used as the base upon which to issue new credits, and initiate new credit programs. Beginning in 1950, housing construction was one of the KfW's areas of special focus. Initial demand was estimated at some 5 million housing units. Because there was no free market for housing, refugees were assigned to the homes of other families, and the rents were fixed by the authorities.

Housing construction would not have moved ahead without state intervention. In 1950 alone, 350,000 homes were completed, every eighth one financed by the KfW. By 1956, some 3 million housing units had been completed, and government-subsidized public housing projects became an important pillar of the construction sector. In the 1960s, when more than 6 million new housing units had been completed, market conditions began to settle into the construction sector.

A 'Financial Multi-Purpose Weapon'

The West German government and the KfW were compelled, time and again during the reconstruction phase, to react to disruptions in economic development, and, thus, also to improvise financing when necessary. For example, at Hermann Abs's initiative, the lower house of Germany's par-

TABLE 2

Investment Credits of the KfW, 1949-53

(Millions of DM)

Coal mining	531.0
Electricity	835.3
Gas and water	86.0
Iron and steel	67.7
Other industries	495.2
Agriculture	466.3
Refugee housing	20.0
Fishing vessels	5.0
Housing	328.2
Mining	145.0
Oceangoing shipping	169.3
Canal shipping	9.4
Maritime and canal ports	14.6
Urban surface trains	24.7
Tourism	22.5
Small credits	0.2
Research	30.9
German Railway (Bundesbahn)	45.0
German Post Office (Bundespost)	20.0
Refugee firms	95.0
Export promotion	2.3

liament, the Bundestag, decided in December 1951 to initiate a new special investment aid program for the basic-materials sector. Developments in this sector still lagged behind the rest of the economy, because profits were insufficient to cover the necessary investments. And if the production of coal and steel did not keep in step, this threatened to bring to a standstill production in the other industrial sectors.

According to the "Abs Plan," the booming consumer-goods industry was put under gentle pressure, to "persuade" it to invest a portion of its write-offs into bonds of a fund, administered by the KfW, from which the KfW then generated the credits for the raw materials industry. In addition, the Bank deutscher Länder agreed to issue short-term central bank credit as pre-financing for the program, so that the KfW was in position to issue the first investment credits, even before the Bundestag had formally passed the "Abs Plan" as law.

The KfW also played a crucial role in developing export markets for German industrial goods. It was not sufficient to raise the German level of production in order to re-establish a strong German position in foreign trade. Export business for German producers of investment goods became a calculable risk, only when accompanied by export credits and state credit guarantees. In March 1950, the KfW announced that the "opening of financing opportunities for medium- and long-

term export business is extremely urgent and of special importance for the economic reconstruction.”

Therefore, new investment techniques for foreign trade had to be created, in addition to investment credits. The KfW granted exporters bills of exchange, so-called “Sola bills,” for financing deliveries abroad, when the firm’s own private bank liaisons were not able to do so. The Sola bill was, however, redeemable at the respective firm’s house-bank (i.e., its private commercial or savings bank). In addition, the government guaranteed payment of the contract in the framework of the Hermes export credit insurance, in cases where the foreign customer did not pay.

Here again, the central bank played a crucial role. The Sola bill was provided with a rediscount promise from the Bank deutscher Länder, which expanded its rediscount volume for export bills, step by step, until it reached DM 1 billion in 1952. After that, the Ausfuhrkredit-AG (Export Credit Stock Company, AKA) was created to take this business off the hands of the KfW and the Bank deutscher Länder.

The German government sought to secure additional foreign contracts for German firms with bilateral trade agreements and the financing of large foreign industrial and infrastructure projects. An agreement with Yugoslavia, concluded in October 1950, was the beginning of this process. Germany agreed to deliver plant, equipment, machines, and apparatus for the mining, chemicals, electrical, petroleum, and wood industry to Yugoslavia, by the end of 1952. In return, during 1954-55, Yugoslavia delivered grain, ores, wood, and petroleum. The participating German firms received export credits from the KfW running for five years, with an additional federal government guarantee.

In 1958, for the first time, the KfW provided credits to foreign nations, with India among its first partners. Because the Indian government was unable to keep to the timing of the agreed-upon payments, which were for building the Rourkela steelworks, the KfW bought Indian Sola notes and pre-financed the Indian payments. In the 1960s, the KfW then emerged as a major credit-issuing partner for numerous large construction projects around the world, which naturally produced several thousands of high-skilled jobs in German firms in Germany itself. These included dam projects in Africa and the Mideast, railway construction in Indonesia, construction of nuclear power plants in Argentina and Brazil. Word had already spread far and wide that development aid projects in which the KfW participated, had a surprisingly high success rate—more than 75%.

Promotion of Medium-Sized Industry

Once Germany’s reconstruction was successfully completed, international capital markets opened once again for German firms and banks. The KfW has used this source of funds, from the beginning of the 1970s, in order to provide small and medium-sized businesses in Germany with long-

term credit, under conditions that were otherwise the privileged preserve of large firms.

The declared aim of the “KfW Medium-Sized Industry Program” was to secure the medium-sized businesses’ long-term investment capacity. Such firms would apply to their house-bank for long-term credit, and this bank would pass the application on to the KfW, unless the house-bank wanted to take full responsibility itself for issuing the credit. With this system, the KfW would be called upon only for financing those projects that the house-banks did not want to finance.

At the same time, this mechanism encouraged the private banks to provide most attractive conditions for their credits, in order to be able to keep the contracts they wanted. The interest rates stipulated by the KfW remained constant for the entire term of the credit, even if market interest rates rose drastically. And if interest rates dropped, the firm had the option of paying off the principal ahead of time. KfW credits usually ran for 10 to 30 years, with a principal-free grace period of one to three years. To date, a quarter-million individual credits have been issued in the framework of the “KfW Medium-Sized Industry Program.”

Post-Unification Reconstruction

In 1990, Germany was finally reunified, after the collapse of the communist East German regime and the incorporation of its territory into the Federal Republic of Germany. Between 1990 and 1997, the KfW issued 722,000 private investment credits (chiefly to private households) in the new eastern states, with a total volume of DM 121 billion. This credit volume was seed-financing for DM 210 billions of investments, securing or creating 2.5 million jobs. In the framework of the KfW housing modernization program, 3.3 million housing units were modernized, which accounts for 40% of the total housing in the new states. The KfW participated in financing 4,200 infrastructure projects in the east of Germany.

Today, 50 years after its founding, the KfW is one of the largest banks in Germany, with a balance of DM 315 billion. In 1998, the KfW promoted the German economy with credits amounting to DM 65 billion. Of this sum, DM 48.4 billion went toward financing investments directly in the German economy, including DM 20.4 billion for small and medium-sized firms, DM 15.2 billion for housing construction, and DM 6.5 billion for communal infrastructure. An additional DM 13.1 billion was allocated for export and project financing in other countries, and DM 2.7 billion for support of developing countries.

The investment credits for firms sustained some 1 million jobs and created 60,000 new jobs. In addition, 240,000 jobs in the construction sector and related firms were secured by KfW activities in infrastructure projects and housing construction.

Balkan Peace and World Economy: The Case for a 'New Marshall Plan'

by Lyndon H. LaRouche, Jr.

The following article is excerpted from EIR, June 18, 1999.

2. An Engineer's Duty

. . . The West Point, and matching traditions of an Annapolis established under the influence of Benjamin Franklin's great-grandson, Alexander Dallas Bache, served the U.S. very well during two World Wars, and the immediate decades of post-war reconstruction. A study of the way in which the U.S. Corps of Engineers and its achievements served both our peace-time economy, and our war-time requirements, is crucial for pin-pointing the approach which must now be taken, at U.S. initiative, for the economic reconstruction of southeastern Europe.

Typical of the impact of that West Point tradition, is the personal report of a since-deceased friend, a regular army officer who, as a Colonel, had led the advance of General George Patton's Third Army toward Austria—as the Colonel put it, "With Patton's Third Army coming down on my heels." He detailed the actions of his units in establishing functioning self-government of the economic and related affairs of the localities taken over by advance Third Army elements. Under that West Point tradition, also the republican tradition of Lazare Carnot and the general staff and *Auftragstaktik* tradition established by Germany's Scharnhorst, professional officers and their units were not merely combat forces, but engineering units, whose ability to build an economy was as exceptional as their ability, like that of our greatest World War II military commander, General Douglas MacArthur, to defeat an enemy force.¹

1. A collaborator, Andreas Ranke, has pointed out, that the first thing to notice in the common features of the contemporary military reformers Lazare Carnot and Scharnhorst, was that they were typical of the moral superiority of plebeian officers from engineering and artillery, over most of those from the landed aristocracy which commanded the other military arms. (Notable, is the role played by Germany's Moses Mendelssohn in shaping the institution which produced Scharnhorst. Anti-Semites must wish to denounce the creation of the German general staff system as a "Jewish conspiracy.") West Point as reformed under the influence of Monroe and John Quincy Adams, the West Point of republicans such as Grant and Sherman, typifies the quality of the military professional which separates a Scharnhorst and Carnot from the cabinet-warfare inclinations exhibited in the U.S.A.'s disastrous Indo-China war of 1964-1975.

That often-repeated lesson of the West Point tradition of engineering officers, is absolutely indispensable for a successful reconstruction in southeastern Europe today. Any other approach would fail, miserably. It is as necessary, in such situations, to smash through bureaucratic obstacles—as to get the job done—as might have fit the late General George Patton's disposition. What is needed, is a centralized command of a quickly mobilized and deployed, peace-time military crash-program type of engineering effort. Otherwise, the Balkan region will rot in a spiral of death and decay lasting as long as decades, or even longer.

The cutting edge of the reconstruction, which must be assembled and deployed immediately, will be a military engineering spearhead.

A military engineering force must be deployed to clear up to as many as a million land-mines in the Kosovo region, and elsewhere. Means required: coordinated military teams drawn from several participating nations, teams aided by sharing technologies for this purpose.

The Danube River must be cleared immediately for not only normal but expanded barge traffic, and other relevant rivers, too. Ball-park cost of an immediate emergency rough-cleaning of the transport waterways: \$1 billions equivalent.

Rail and truck connections must be restored and improved immediately, otherwise the entire peace-building effort will turn quickly into a catastrophe, that within months.

Adequate power generation and distribution must be restored immediately, otherwise the winter will be a panic-stricken carnage of death and epidemic disease.

Hospitals and related facilities must be established immediately. The nature of the wounds suffered by military and civilian victims alike, including children, requires a restoration of the kind of rehabilitation programs the U.S. Veterans Administration used to muster, and which are being curtailed, for budgetary reasons, in Germany and other nations today.

These and other elements of basic economic infrastructure must be provided immediately. The strategy for doing this, is a crash program. The means for injecting that program, is a military engineering command functioning as the U.S. Corps of Engineers used to function under war-time-like conditions of emergency—as my late friend, the veteran of the Third Army advance, would have understood the mission.

We have at hand, the prospect of a multi-national military



Gen. Douglas MacArthur (foreground), in October 1944. Under the West Point tradition, “professional officers and their units were not merely combat forces, but engineering units, whose ability to build an economy was as exceptional as their ability, like that of our greatest World War II military commander, General Douglas MacArthur, to defeat an enemy force.”

engineering team, as the spearhead of the reconstruction efforts. The military side of the joint effort must emphasize responsibility for the immediately needed infrastructural measures. The form of the mission is, to secure and restore essential functioning of government and economy in the assigned areas. The assigned officers must apply the Scharnhorst-Moltke principle of *Auftragstaktik*—also Carnot’s method, to get the job done. The Carnot mobilization of 1792-1794, is the relevant French model to be considered.

The reconstruction, thus, has three principal elements in general.

1. A multi-national military-engineering authority, which must have authority and responsibility for the emergency basic economic infrastructure mission, and will serve, for the initial period of operations, as the agency primarily assigned for liaison with authorized private economic initiatives of reconstruction.
2. A special financial facility, operating with independence from presently existing monetary and related institutions, and modelled upon the success of the Kreditanstalt für Wiederaufbau (KfW) [see article in this section—ed.], for coordinating the funding of both the public and private enterprises of economic reconstruction. Otherwise, very little of what need

be done would ever be accomplished.

3. A Private Contractors Authority, assembled in memory of former U.S. Secretary of Commerce Ron Brown, which mobilizes public and private vendors of materials and engineering services for support of the infrastructure-building effort, and on behalf of fostering development of private enterprises relevant to the mission of economic reconstruction.

The functioning of such three cooperating agencies will inevitably vary among the nations directly participating in such a program for southeastern Europe. For example, special cooperating agencies would be needed for relations between the Yugoslavia teams and those of adjoining nations such as Austria, Slovakia, Slovenia, Croatia, Bosnia, Hungary, Romania, Bulgaria,

Macedonia, Turkey, Greece, and Albania. The European Union might provide assistance to this effect.

The principal physical difficulty of such an undertaking will be, that none of the military or private facilities available to be deployed in this mission, has, today, better than a small fraction of the military and industrial engineering-type capabilities the same nations had as recently as ten years earlier. The level of competence is less than that available ten years earlier, and the quantity of the relevant types of capabilities is only a small fraction of that which existed ten years earlier. The general level of literacy of military and civilian personnel, has fallen significantly below even the levels which prevailed ten years earlier. Much emphasis on forced-draft “on the job training” of military and other personnel will be indispensable. The accompanying feature and purpose of the program must be to foster the reawakening of the interdependent factors of morale and morals within the military forces deployed.

Nonetheless, there are some impressive technologies and skills currently lying fallow. Ukraine, for example, could contribute from its store of such potential additions to the reconstruction repertoire. Italy’s engineering design for the construction of a bridge across Messina strait, is an example of a relevant technology and skills applicable to the problems posed in the Balkans.

This brings us to the most critical of the political issues: How shall it be financed?

3. The Carnot Principle

The effort will fail unless we exclude the use of what have become conventional financial accounting practices from the designing of the program of reconstruction itself. This means the exclusion of the present leadership of the IMF and World Bank from control over the program. This brings us to the most technically sophisticated feature of this report, but a feature which must be understood if the reconstruction is not to degenerate rapidly into a far worse failure than the Dayton accords have suffered so far.

The essential function of good accounting, is to detect theft and looming potentials for financial bankruptcy, especially the kind of theft on a grand scale, by which today's criminally inclined, liberal financial carpetbaggers of the U.S.A. and Europe have employed a criminal "mafia," to loot post-1989 Russia, and other eastern European states. This crime has been committed in the name of a form of theft called, euphemistically, "liberal reforms." Therefore, the accounting firms, if they are honest and competent, will not have to beg for their proper work as auditors of financial institutions and of the pilfering by the "liberal" carpetbagging mafia.² Under the City of London's direction, the bankers of much of the world, even formerly austere scrupulous bankers, have been turned into thieves, as the only way in which they can maintain their positions as bankers under the present, London-dominated IMF system. Honest accountants will be busily occupied with such matters.

Merely conventional accounting and related auditing practice, has no comprehension of the kind of real economics needed to get the world out of the economic depression, unleashed by the presently accelerating world financial catastrophe. The delimitation of the competence of financial accounting, on this account, is that financial accounting is currently based on a set of virtually "flat Earth" assumptions (definitions, axioms, and postulates) which are intrinsically linear forms of deductive relations. Thus, what passes customarily for good accounting principles, is worse than useless for defining, or judging how real economic processes, including the generation of real (e.g., physical) economic growth works. Such incompetence intrinsic to present-day financial accounting, is reflected in the scandalous misuse of the funds intended for the proposed reconstruction of Bosnia, in particular.

In economic policy, financial accounting must be reduced to the rank of servant and hod-carrier for real economics. I mean real economics as typified by both the policies outlined

2. It is relevant, that the Vice-President Al Gore who acted as partner of Russia's Viktor Chernomyrdin in the Golden ADA mafia-scheme, has recently been a principal in other swindles, including the LTCM-related scandals, and Gore's lunatic proposal to denounce as "corruption," any resistance to the actual corruption practiced by the hedge funds and their mafia accomplices.

by U.S. Treasury Secretary Alexander Hamilton, and scientific principles of economic growth introduced to practice, during 1792-1794, by France's Lazare Carnot.

Admittedly, some financial accountants develop useful insights into features of industrial and other economics matters as such, but, as in the related case of exceptionally insightful persons among the common run of contemporary academic economists, this reflects their individual, personal cognitive qualities of insight of persons able to rise above the limits of current academic doctrine. The generally accepted, deductive principles of current accounting practice as such, are axiomatically incompetent in the matter of defining and assessing net economic growth. Any design of a Balkans reconstruction plan based upon such accounting principles would be a mass-murderous tragedy in effect. In the field of economics, science and engineering must compose the tunes to which the financial accountants march.

Today's financial accounting practice and good economics practice are founded upon mutually exclusive, often directly contrary principles. It is possible for some individuals to become skilled in both, but, otherwise, speaking of the analytical functions applicable to analysis in the two respective professions, the two fields have nothing substantially in common.

To understand how a successful economic reconstruction of southeastern Europe might be devised, the absolute difference between responsible auditing and economics must be clearly emphasized, as I summarize that distinction at this point.

For the competent economist, and for the physical scientists generally, the world of accounting is, as I have already forewarned you, a domain of virtual reality, a "flat Earth" world, in which the relations among economically significant magnitudes are reduced to systemic misrepresentation, and thus assumed, falsely, to be simple, linear, deductive relations among magnitudes measured in prices. Monetarism, such as that of Friedrich von Hayek, Milton Friedman, or John von Neumann, is the outgrowth of carrying that specific kind of "flat Earth" mentality to fanatical, radical-positivist extremes. Except for bare distinctions between the simple notions, the mere empty Aristotelian copula, of plus and minus,³ accounting has no notion of the actual physical functions (transformations) by means of which the shrinking or growth of a real economy is actually determined.

For example, the notion that reducing costs (e.g., "cost-saving," cutting budgets) will directly and simply cause an

3. Or, more exactly, the wildly positivist linear system of Bertrand Russell's contributions to the *Principia Mathematica*, which was Russell's outburst of hatred against Carl Gauss and the *Disquisitiones arithmeticae*. Russell acolyte John von Neumann's lunatic notion of economy as a zero-sum game, and the Black-Scholes formula adduced from von Neumann's lunacy, pinpoint the incompetencies spilling over from excessive reliance upon today's methods of financial accounting.



The Main-Danube Canal in Germany, with one of the locks shown in the background. A priority for Balkan reconstruction is that the Danube River be cleared immediately of debris from the war in Yugoslavia, for not only normal but expanded barge traffic. The Balkans cannot become economically and politically stable “without developing commerce around the Rhine-Main-Danube artery from the North Sea to the Black Sea, and without developing a high density of transportation and power conduits, south from the Danube to the Mediterranean and Black Sea.”

economic process to grow more successfully, is typical of the kinds of delusions upon which former Speaker of the House Newton Gingrich’s “Contract with America” folly was propagated; precisely the opposite effect, directly contrary to that projected by Gingrich et al., has already occurred, as similar logic has been a principal contributing cause for the presently accelerated budgetary crisis in Germany, and the collapse of that recently established Euro system, set into operation at the beginning of this present year.

For example, in earlier times, one of the more frequent causes of bankruptcy, or near-bankruptcy of formerly well-established companies, was the cutting of capital-intensive advances in technology, as a means of increasing disbursements to Wall Street interests or company stockholders who had grown soft-headed and greedy in younger generations. The various expressions of obsolescence which resulted from looking at corporate budgets in principally simple budgetary terms, sometimes pushed a firm over the edge, beyond which it could never reverse the damage it suffered as a result of such medium- to long-term policy blunders.

For example, the present, lunatic fad of computer-based “benchmarking,” as a cost-saving substitute for engineering testing of design principles, has plunged numerous formerly outstanding corporations to the brink of irreversible degeneration. The “flat Earth” side of the financial accounting mentality, is a leading contributing factor, if not the only element of

incompetence underlying such disastrous trends in performance.

Never impose upon the financial-accounting profession, the responsibility of stating how real economic growth is generated. One might begin, instead, by reading U.S. Treasury Secretary Alexander Hamilton’s December 1791 Report to the U.S. Congress *On The Subject of Manufactures*. Or one might study the way in which an American, Benjamin Franklin, not only personally directed the original industrial revolution to occur in England, but took his protégé, Scotland’s Watt, to France, to learn from the circles of Lavoisier, how to design a steam engine based on the principles of steam-engine design earlier developed by Gottfried Leibniz and Papin.

With this sort of difference between accounting and economics under consideration, now focus upon the problem of generating the self-expanding pyramid of credit needed for even the bare minimum of immediately required economic reconstruction in southeastern Europe. The problem is, since Europe

(and also the U.S. economy) are now virtually bankrupt, how could Europe and the U.S. combined fund the needed reconstruction of the Balkan region? How can we generate the growth in real wealth, which would enable us to sustain the funding of even the minimal level of necessary reconstruction? Accounting will never give the answer. Economics, instead of accounting, is required.

Politicians and other laymen will wish to learn: Since wealth is not created in the ways in which financial accountants describe such growth, how is real wealth actually produced, with or without the presence of accountants? The founders of the Massachusetts Bay Colony and others understood those principles, in an elementary but accurate way, during the Seventeenth Century.

Lessons from History

When the Spaniards arrived in Central America, the area of today’s Mexico supported not more than about two millions individuals. The vaster area of Canada and the U.S.A. today, sustained a population of much lower population-density than did the Mexico founded by the Spaniards. Today, the population of Mexico is about fifty times the number existing when Cortés landed. The area of the United States, which could not support more than a few millions persons before the colonists landed, could now support three to four hundred millions in prosperity, indefinitely, if nothing more than existing science

and technology were intelligently applied to this purpose, as it has not been during the most recent decades.

This has involved an American principle which was already understood by English colonists such as the leaders of the Massachusetts Bay Colony.⁴ Here was a vast, economically infertile wilderness, a virtual wasteland, as measured in terms of the potential relative population densities of the existing cultures encountered by the English colonists. The first economic task of the settlers was to tame the wilderness, to develop the agricultural and other basic economic infrastructure needed to provide both the settlers and pre-existing populations a standard of living and culture soon superior to that enjoyed by those who remained behind, in England.

Thus, largely through the methods described by Hamilton's *Report on the Subject of Manufactures*, by the time of the first U.S. decennial census, the per-capita income and economic output of the U.S.A. was twice that of Britain. Much of the reason for this economic success, was the fact that the literacy, and, therefore, the productivity of the U.S. citizen, was more than twice that of the Englishman. This achievement reflects the fact that the first government of the U.S. Federal Republic had inherited national bankruptcy, but rose, through the methods described by Secretary Hamilton's reports, to be envied abroad, by the turn of the century.

It is the type of economics thinking which Hamilton's report typifies, which must be chosen, instead of conventional financial-accounting methods popular with today's miseducated, monetarist, and other financial-accounting-oriented professionals. It is the methods of Leibniz, Franklin, Hamilton, the Careys, and List, as enriched by the revolution in Leibnizian principles of machine-tool design introduced by Carnot, which are the foundation of all of the successes of the American agro-industrial model defined by the U.S. developments of 1861-1876, the American model upon which the successes of the economies of Japan, Germany, and many other nations have depended crucially.

Admittedly, there were political setbacks. Nations which had adopted this American System model sometimes abandoned it, much to their sorrow later.

Thus, it must be acknowledged, that the economic policy of the U.S. itself, under Albert Gallatin's President Jefferson and Madison, who had abandoned the economic policies of Franklin and Hamilton, led to a national economic disaster. The same kinds of ruinous effects, but far worse, the 1837 Panic, were the result of the policies under President van Buren and his protégé and predecessor Andrew Jackson. Such was the U.S. under Polk, and far worse under the treasonous Pierce and Buchanan.

Nonetheless, when the U.S. returned to the American System, during 1861-1876, we returned, more or less effectively, to the economic policies of what Hamilton had termed "the

4. Some wags might say, the leaders of the Massachusetts Bay Colony had the good fortune not to have graduated from St. Albans.

American System of political-economy."

That recurring story of ups and downs, does not end there. Anglophile New York bankers such as Morgan and the treasonous August Belmont were not pleased with the success of the 1861-1876 transformation into the world's leading national economy. Those bankers, in concert with our nation's London adversaries, rammed measures such as the Specie Resumption Act through, driving our national economy to the brink of ruin. The assassination of President William McKinley brought pro-Confederacy ideologues such as Presidents Theodore Roosevelt and Woodrow Wilson to power.

But, the American methods which Teddy Roosevelt and Wilson hated, and attempted to uproot, were forced upon Confederacy and Ku Klux Klan buff Wilson, employed to the degree needed to support Britain's cause in World War I. The same American System methods seen in the form of the 1861-1876 industrialization of America, were employed to foster the recovery of the U.S. from the Depression, and to enable the U.S. to perform what envious other nations viewed as economic miracles during the period of World War II.

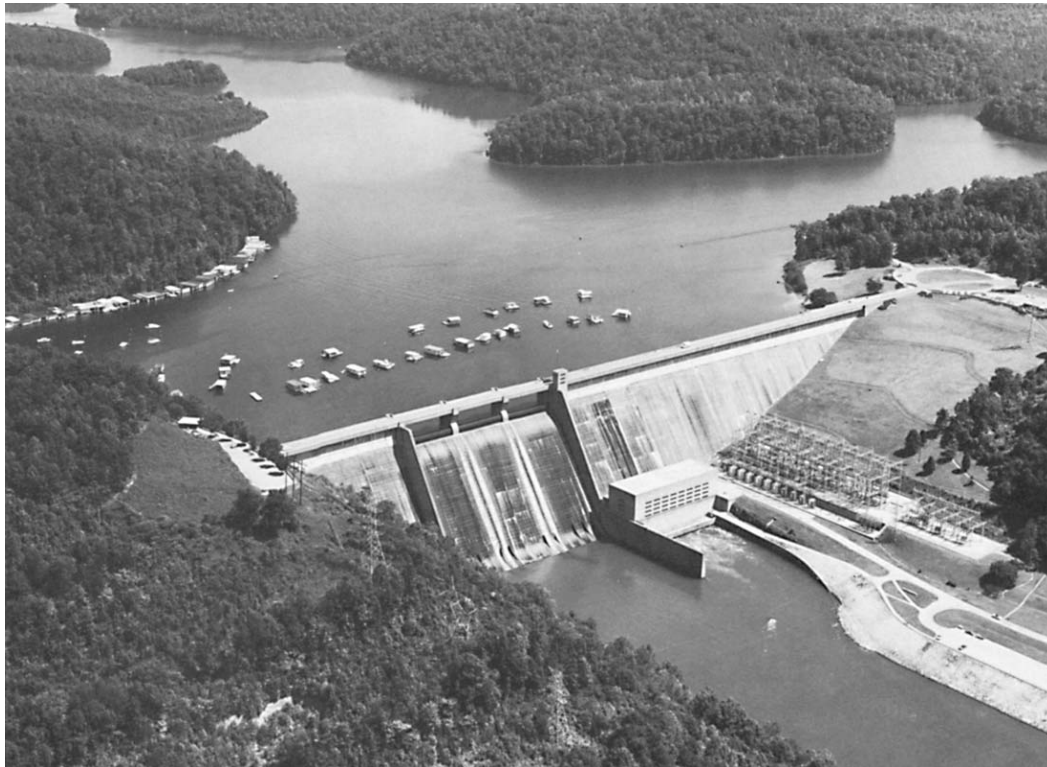
Today, the ration of persons in the world who understand the secrets of the periods of former U.S. economic leadership, is shrunken far smaller than at any time during this century. Nonetheless, the principles still work; under present circumstances, they are the only guides to economic policy which will actually succeed.

In reviewing the span of the history of modern national economy, a certain pattern has prevailed until now. Notably, it was only under conditions of wars and other revolutionary changes in circumstances, under conditions of urgent need for an exceptional economic mass mobilization, that those always successful American System methods of Leibniz, Franklin, Hamilton, the Careys, and Friedrich List were used. We should never have abandoned those methods; suffering Americans, and many others, are suffering increasingly today, because we went back to the old ruinous British "free trade" methods, instead of the American System. We shall not come out of the present crisis, without returning to the "economic mobilization" methods which served us so well during the grave crises of the past.

That said, turn now to the way in which those same American System methods — incorporating the Carnot principle, as used so successfully by Germany's post-war KfW and related institutions, provide a unique solution for the problems posed by the urgency of a general post-war economic reconstruction of southeastern Europe.

Physical Economy as Science

I shall now describe the general method by which "economic miracles" such as those of Germany's Marshall Plan-aided post-war reconstruction were accomplished. I focus on the way in which a self-expanded volume of secured investments, brought about the growth of stable credit needed to bring that so-called "German economic miracle" about, in



The Clinch River Dam, one of the first projects begun after legislation approving the Tennessee Valley Authority (TVA), was signed in the 1930s. The role of the TVA, “in making possible the scale of the mobilization for war later, illustrates the means by which successful economic mobilizations succeed.”

contrast to the relatively much poorer performance of Britain and France during that same period.

After outlining the method of financing to be used, I shall summarily define the physical principle upon which the success of this method depends.

The method of economic expansion used, is not dependent primarily on borrowing from some “primeval hoard” of miser’s money on deposit. The method of the American System of political-economy, places the primary emphasis on the issue of state-guaranteed, and kindred forms of bank credit, as the basis of fostering investments in which the resulting rate of growth of secured assets is far greater than the credit originally advanced.

Thus, as the economy expands under such credit-stimulus, the volume of new credit which can be created increases, without causing the kind of inflationary effects which inheres in monetarists’ reliance on a simple financial-accounting “multiplier effect.” The expansion of credit and investment does not risk the inflationary devaluation of the total volume of secured assets, which must occur under a simple financial expansion under conditions of “free trade” rules.

This was the same method at the core of the means used by Franklin Roosevelt’s U.S.A. to produce what seemed to many at that time as “a miracle” of war-production for World War II.⁵ It is the kind of method to which capable modern

5. Roosevelt saw himself as compelled to cooperate with his deadly adversaries of the Wall Street crowd, in arranging the financing of war production

governments turn for successful war mobilizations.

The role of the U.S. Tennessee Valley Authority (TVA), launched during the 1930s, in making possible the scale of the mobilization for war later, illustrates the means by which successful economic mobilizations succeed. It is the same general approach proposed by German economist Dr. Wilhelm Lautenbach, in a secret report adopted in 1931 by Germany’s Friedrich List Society, the report whose policy could have prevented Hitler from being brought to power. It is broadly the same method at the core of the success of the KfW in fostering the so-called “German economic miracle” of Chancellors Adenauer’s and Erhard’s Germany.

Let us take as illustration, the way in which a group of nations, chiefly the U.S.A. and continental Europe, should approach the financing of an economic mobilization for the reconstruction of the area of southeastern Europe. I shall outline some of the highlights of this approach, and then, as I have promised, explain those scientific principles which might be called the “secret” of the success of such methods.

Let each of the participating nations pledge a line of credit made available to the kind of master financing facility, modelled on the success of the KfW, which I have indicated above.

and warfare itself. Had he lived, he would almost certainly have handled the resulting U.S. war debt, politically, in a much happier way than occurred during the immediate post-war years. He would not have objected, nor could I, to the manner in which the U.S. deployed the Marshall Plan for the reconstruction in western Europe, in particular.



Artist's representation of China's Three Gorges Dam project. "Large-scale construction programs in infrastructure are the most natural rapid stimulant of levels of employment and of all other economic activity, in the region where such infrastructural developments are operating. The impact of the U.S.A. TVA, and a comparison of the TVA with China's ongoing Three Gorges Dam project, is a suitable illustration."

The U.S. Export-Import Bank was a facility designed to perform this kind of function for the U.S. economy. This is not a pledge of money, but rather, a credit which can be used to purchase relevant goods from the national economy which has provided a line of credit for this purpose.

This line of credit has two primary financial-economic impacts. It provides the delivery of goods from the national economy extending the line of credit. As the U.S. Marshall Plan experience illustrates the point, it also serves as a stimulus of real economic growth in the nation which provides that line of credit. A large program of this type is a leading source of increased productive employment in the economy which extends the line of credit.

The credits extended by the vendor nations are of two principled types: grants in aid, and loans. Under the conditions of the U.S. during the 1930s, or a revival of the regulated exchange-rate system of the pre-1958 Bretton Woods agreements, the latter type of lines of credit, when used to build up assets in the Balkan-region nations, are convertible into long-term bonds at nominal interest-rates (1%-2%), and built-in grace periods, earmarked to the assets built up in the recipient nation. These obligations are either secured by sovereign guarantees, or private securities. Twenty-year maturities—more or less—for such bonds would be typical. This will work as a sound economic and financial arrangement, only under the condition that fixed exchange-rates, like those operating during the pre-1958 period of the Bretton Woods

agreements, are in operation for the life-span of the bonds and other securities issued as part of the reconstruction process.

The operation begins with heavy emphasis upon developing essential basic economic infrastructure in the nations of southeastern Europe. This has two immediate functions. First, the development of functioning basic economic infrastructure, as typified by public works and utilities, is the precondition for viable agriculture and industry. Second, large-scale construction programs in infrastructure are the most natural, rapid stimulant of levels of employment and of all other economic activity, in the region where such infrastructural developments are operating. The impact of the U.S.A. TVA, and a comparison of the TVA with China's ongoing Three Gorges Dam project, is a suitable illustration.

Mass transportation (especially water-borne and railway networks), water management, power production and distribution, typify, but do not delimit the leading elements of mass development of basic economic infrastructure. These programs of reconstruction can usually be successful only in the public sector. If this is limited to private sector ventures, the entire reconstruction effort would be a catastrophic failure.

These and comparable crash-program developments of basic economic infrastructure, perform three leading functions.

1. Without such infrastructure's development, the development and functioning of the private sector will

be largely a failure, especially so when we recognize the rates of economic growth which southeastern Europe must experience to overcome the more than \$1 trillions of economic deficit, left in the wake of the recent Balkan wars. The provision of cheap and reliable efficient transportation, adequate power, water management, and sanitation, to the entirety of the land-area of a nation, is the absolute precondition for successful economic growth of the private sector as a whole.

2. Large-scale infrastructure programs of this type provide an immediate, direct boost to the economy as a whole, providing the conditions and economic-growth stimulant required for emergence and growth of private ventures.

Of course, as the painful experience of such programs in the new federal states of Germany ought to remind us, without a concomitant fostering of large-scale agricultural and industrial development, especially in the relatively higher technology, closely-held middle-sized ventures, such as the machine-tool sector, the growth potential contributed by infrastructure programs may “rot on the vine.”

A note of caution, here. It is necessary to set priorities, which ensure that the economy emerging from the reconstruction program has the structure of the composition (infrastructure, agriculture, general manufacturing, machine-tool) which characterized the most successful national economies coming out of the 1950s period of post-war reconstruction in western continental Europe and Japan. What is to be avoided, is the disastrous effects which the so-called “structural reforms” of the 1964-1998 interval have introduced into continental Europe, as this trend began in Prime Minister Harold Wilson’s United Kingdom.

3. Among the leading factors of stimulus, which infrastructure programs provide to growth of the private sector are two: employment of the labor-force in the infrastructure programs, and the role of private vendors in the construction and maintenance phases of the infrastructure program.

As the cases of Croatia and Bosnia should remind us, among the leading special considerations to be faced in reconstruction of the economy of a war-torn area, is the rebuilding of housing and small shops. The same lesson is to be observed from the experience of reconstruction in post-war Germany. Assistance to households for the rebuilding of their own homes, is usually the most efficient administrative approach to the most pressing social problems of the economy during the immediate post-war period.

The extension of reconstruction credits for loans to private

enterprises, is best handled through coordination with the financial agency responsible for the reconstruction program, but in coordination with a facility of the sort which former U.S. Commerce Secretary Brown was working to assemble for Bosnia at the time of his death.

The general program of reconstruction which ought to govern the immediate, emergency economic restoration of southeastern Europe, can be viewed broadly as emphasizing three interrelated economic missions.

First, the rapid establishment of the basic economic infrastructure required as the foundation of a viable economy in and among each of the nations involved.

Second, the development of private enterprises essential to the day-to-day life of the economy of each nation.

Third, private economic development aimed to provide each and all of the nations of the region a rational basis for earning international revenues, at a level needed to enable these economies to sustain themselves. Focus on this third mission for a moment. I shall return to this important sub-topic below.

Just as I did in my Berlin Columbus Day address of 1988,⁶ as my associates and I did in our 1989-1990 development of guidelines for a European Productive Triangle Program,⁷ and, as we have done, beginning 1992, in defining the objectives of the Eurasian Land-Bridge policy,⁸ and as Friedrich List defined the policy upon which both the development of the U.S. transcontinental railway and the original Eurasia Land-Bridge proposals were based,⁹ the proper design of the development of any very large land-area must be based on certain geographical principles. In modern history of the past two centuries, the center of these geographical principles is transportation routes, chiefly for water-borne commerce and trunk railways, still the cheapest and most efficient modes for move-

6. Lyndon H. LaRouche, Jr., Presidential candidate’s broadcast, “The Winter of Our Discontent,” Oct. 31, 1988, which included the candidate’s press conference at the Berlin Kempinski-Bristol Hotel. The full transcript appeared in *EIR*, Oct. 21, 1988.

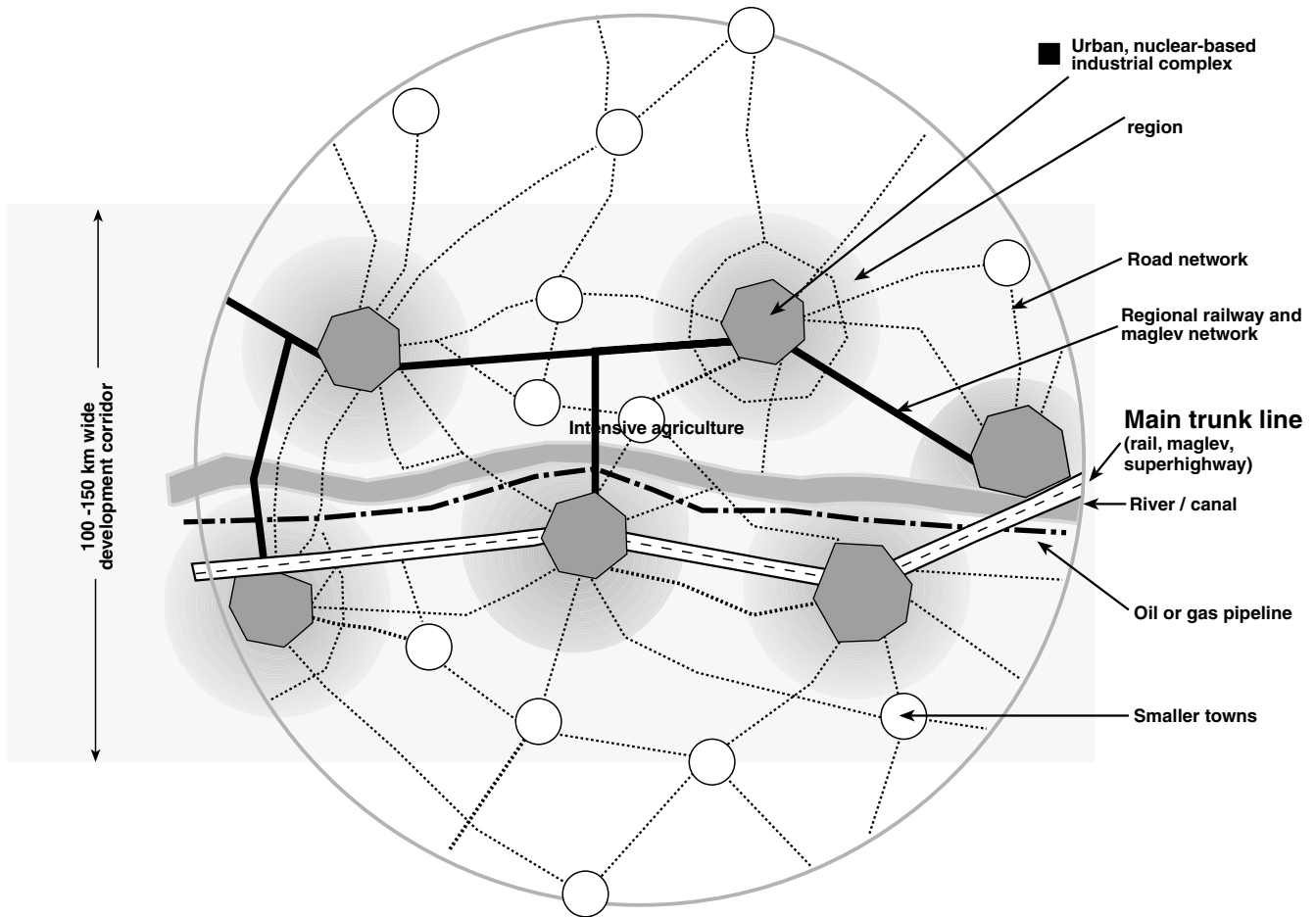
7. Dec. 10, 1990, LaRouche issues memorandum on “Economic Development for Eastern Europe,” later published as part of an *EIR* White Paper, “The Crucial Role of Lyndon LaRouche in the Current Strategic Situation,” April 1993; Jonathan Tennenbaum et al., *Das ‘produktive Dreieck’ Paris-Berlin-Wien: Ein europäisches Wirtschaftswunder als Motor für die Weltwirtschaft* (Wiesbaden: EIR Nachrichtenagentur GmbH, August 1990); “The Economic Geography of Europe’s ‘Productive Triangle,’” *EIR*, Aug. 3, 1990; *EIR*, “High-Speed Railroads Will Transform Europe’s Economy,” Aug. 31, 1990, p. 22; “High-Speed Rails Planned in France, Germany, Italy,” *EIR*, Sept. 14, 1990.

8. Jonathan Tennenbaum, “Beijing Promotes Grand Design for Eurasian Progress,” Helga Zepp-LaRouche, “Building the Silk Road Land-Bridge,” *EIR*, June 14, 1996; Jonathan Tennenbaum et al., *The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive for Worldwide Economic Development* (Washington, D.C.: EIR News Service, Inc., January 1997).

9. Friedrich List, *Outlines of American Political Economy* (Wiesbaden: Dr. Böttiger Verlags-GmbH, 1996).

FIGURE 1

Graphic Representation of a 'Development Corridor'



ment of produced goods.

Just as my associates and I have detailed this within our prescriptions of design for both the Productive Triangle and the Eurasia Land-Bridge, and as the 1861-1876 Lincoln reforms defined the development of the U.S. transcontinental railway system, begin with the natural routes for trunk-lines of trade.

These lines often turn out to have a history going back to medieval, or even more ancient times, as the Silk Roads did. Do not think of this as merely passage-ways for transportation; think of them as development corridors, just as the U.S.A.'s Lincoln reform of 1861-1876 defined the relationship between transcontinental railways, and economic development of the land-areas through which the railways passed. Think of these as *strategic development routes*.

Today, such a strategic development route features a modern high-speed, high-capacity railway spine: the cheapest method of rapid transport of manufactured goods, and the

fastest economical route for movement of perishable refrigerated and other agricultural goods.¹⁰ Attached to the lengths of that spine, are subordinated railway and automobile routes, and also trunk-lines for large-volume water and power development and transmission.

Think of these routes as not merely conveyer-belts of people, goods, water, and power, but as like production-lines: a zone of efficient, high-density production of agricultural,

10. Magnetic levitation systems of mass transport are not merely an upgrading from friction-rail systems. Although the speeds achievable do relieve the presently excessive reliance on passenger air transport for medium-distance travel, the revolutionary impact of magnetic levitation shows itself in the transport and classification of freight shipments. Of course, on the horizon, there is the prospect of magnetic-levitation transport within long evacuated tunnels, and well above ordinary supersonic speeds. We would rely on the latter for sub-surface transport among centers in a science-city form of astrophysical research and development, and production colonies on the Moon or Mars, for example.

mining, and manufactured goods, running the length of the trunk-line and with a width of up to approximately a hundred kilometers. [Figure 1]

Within this zone, there are nodes, such as cities and towns, areas of intensive agricultural and industrial production. Think of this trunk-line zone not in terms of the cost of moving transported goods, but, rather, in terms of the net social (physical) profit generated along each hundred kilometers' length of the movement of productive activity, along the route of that trunk line.

These trunk lines are the proper location for most of the agricultural and industrial output of the nations through whose territories they pass. We should have brought together here, in these zones, the most efficiently provided basic economic infrastructure required for high-density, diversified production. The effective economic development of adjoining areas, outside the width of these trunk-line zones, is fostered by the functional relationship between those wider areas and the trunk-line zone.

This plan for development of the Balkans was included in the first Productive Triangle plan designed by my associates and me.¹¹ This is what I have endorsed as an outline of the policy for the immediate economic reconstruction of southeastern Europe.

Unlike the time when accountants favored alleged economies achieved by use of super-sized thermonuclear warheads, this approach gives us the "biggest and best economic bang for the buck." It is the only really efficient economic approach.

Now, look briefly at the way in which this approach benefits the other nations of Europe, especially from Brest in France to Ukraine, Russian Siberia, the Trans-Caucasus—and beyond.

Since the time of Charlemagne, the civilized minds of all Europe have aimed at criss-crossing Europe with a well-connected network of improved riverways and barge-canal links, to provide efficient barge-transport waterways linking Europe from France and the old Hanseatic seaports and their riparian tributaries, and, by way of the Danube, to the Black Sea. Ironically, the main spine of the barge-system, the Rhine-Main-Danube route from the Netherlands ports to the Black Sea, was not completed until about the same time as the breakup of the Soviet Union. Since about 1992, that link has been effectively jammed up by the recent Balkan wars. *What a terrible, disgusting waste of economic opportunity we have tolerated, all too long!*

By combining modern rail trunk-line systems with improved waterways, the long-locked-up economic potential of southeastern Europe can be suddenly freed to work. The formula is rather simple.

First, remember that efficient transport through an area under economic development is not a net cost, but a source

11. Jonathan Tennenbaum et al., *Das 'produktive Dreieck' Paris-Berlin-Wien*, op cit.

of net physical profit in and of itself. Think, as I have said, of transport trunks as the main conveyer-belts of a productive enterprise. Real profit, as profit is defined in physical terms, is generated every hundred kilometers of trunk-line length. This defines the link-areas, such as the Balkans, as areas of rich economic potential, because of their highly useful role in linking adjoining regions. Second, the critical margin of growth which will define the prosperity of the region's future, is those kinds of industries which are designed to serve as source of inputs to their immediate neighbors along those trunk-line routes.

Take as an example, the shipments of foodstuffs and other bulk freight along the Rhine-Main-Danube barge-route to the Black Sea. These and other, related considerations show how improved trunk-lines through the region of southeastern Europe, tap the economic growth potential of now largely idled or underutilized labor-force in the impoverished portions of this region.

Think also, of the desperately needed stimulant to the economies of France, the Benelux nations, Germany, Italy, and others, through the fruits of such economic reconstruction of southeastern Europe. It must be conceivable even to some hard-headed Republicans in the U.S. Congress, that a U.S.A. now suffering an already catastrophic and growing balance-of-trade deficit, might have a vital national economic interest, both directly and indirectly, in fostering such growth in southeastern Europe and beyond.

Someone in Oshkosh needs a decent job? Economic reconstruction of southeastern Europe would work in the same general way as Marshall Plan reconstruction of war-torn Europe earlier. . . .

Whether or not the relevant political authority fully understands the principles of economic science which I have once again reported here, he or she, by aid of relevant experts who do, may be assured in a choice of policies, by means of which self-replicating, non-inflationary increases in state-backed creation of credit, may solve problems such as that posed by the crisis of southeastern Europe today.

The catch is, that the effort to aid southeastern Europe could not succeed, unless a hopelessly bankrupt present world financial system were radically reformed, through politically directed reorganization in bankruptcy, to be capable of adapting to such tasks as the urgently needed tasks of a "New Marshall Plan" for southeastern Europe as a whole.

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Anti-Nuclear Hoaxsters Hide Benefits of Radiation

Fear of radiation has been fostered by unscientific policies and the mass media, reports Dr. Zbigniew Jaworowski. Not only is the danger grossly exaggerated; radiation can be highly beneficial!

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Abstract

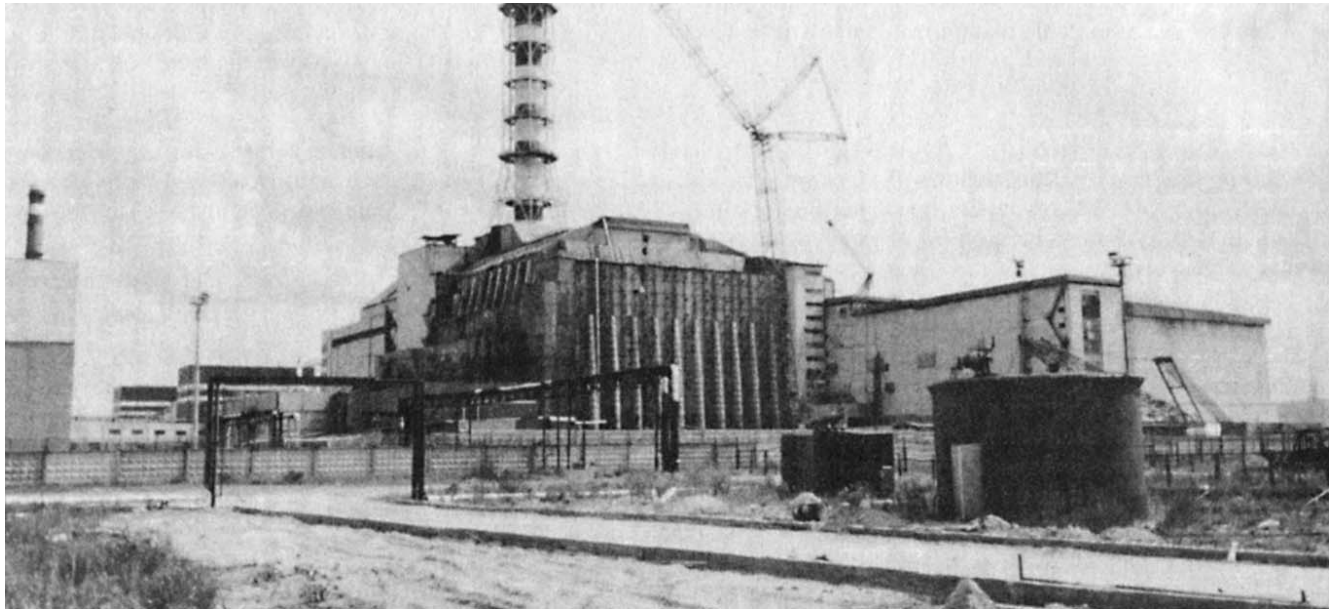
Administrative acceptance of the linear, no-threshold dose/effect relationship (LNT) for radiological protection was convenient for regulatory bodies, but is impractical, and inconsistent with observations on beneficial effects of low doses and dose rates of radiation, with a lack of increased malignancy and hereditary disorders in inhabitants of areas with high natural radiation background, and with a lack of genetic effects in progeny of Hiroshima and Nagasaki survivors. Man-made contribution to the average global individual radiation dose from all commercial nuclear power plants, nuclear explosions, and the Chernobyl accident, amounts now to about 0.4%, and from medical x-ray diagnostics 20% of the average natural dose of 2.2 millisieverts (mSv) per year. The natural dose is in many regions of the world two orders of magnitude higher than the current exceedingly low dose limit for population of 1 mSv per year.

Introduction

A prompt criticality accident occurred in September last year at a nuclear plant in Tokaimura, Japan. Three workers absorbed potentially lethal radiation doses of about 4,500 to more than 20,000 mSv. One of them died on the 83rd day after the accident; the other was discharged from the hospital on the 82nd day, and the third, with skin lesions, is being successfully treated by skin grafts (Sasaki, 2000). Radionuclides produced in this accident by the short-term fission reaction, entered the atmosphere, but no significant ground contamination was found outside the plant boundary. Notwithstanding, the local authorities evacuated 150 residents and urged another 310,000 to stay indoors (IAEA-ERC, 1999; Lewis, 1999).

Compared with other industrial accidents occurring every day over the world, and which result in about 12,000 deaths per year in the United States alone, the Tokaimura incident does not seem to have been very serious. Nevertheless, it was described by the media and by International Atomic Energy Agency (IAEA) officials as "the world's third worst nuclear accident behind Chernobyl and Three Mile Island," and the worst nuclear accident in Japan—all of which is indeed correct.

In Japan, nuclear power has been in operation since 1965. Today, 35 years later, almost 36% of its electric power is produced by 53 nuclear reactors. One fatal victim during so long a time just proves the excellent safety of the vast nuclear



“The man-made contribution to the average global individual radiation dose from all commercial nuclear power plants, nuclear explosions, and the Chernobyl accident, amounts to about 0.4%, and from medical x-ray diagnostics 20%, of the average natural dose of 2.2 mSv per year.” Here, the damaged Chernobyl nuclear plant in 1992.

industry in Japan. Every year during the last decade, due to fatal accidents at work, Poland suffered the loss of anywhere between 20 and 110 miners, to produce about half of Japan’s electric power output, almost exclusively by burning coal.

Why then did the Tokaimura incident evoke such enormous media outcry? Why did it provoke such a vehement reaction from the public and from local and international authorities? Why did, for several days, the Emergency Response Center of the IAEA in Vienna give reports on the accident, sometimes five times daily, to all Permanent (national) Missions to the IAEA, and to 213 National (emergency) Contact Points all over the world? Why did President Clinton order a safety survey of all American nuclear facilities, as if what had occurred in Japan could somehow extend to the United States?

Nothing like this occurs in any other industry, when three workers get electrocuted, or burned by hot fumes, or die when a cloud of ammonia escapes from a factory or a railway tank. Any minor leak of radioactivity from a broken tube in a reactor, even if completely innocent and bearing no relevance to the overall safety of the plant, is trumpeted throughout the world, and is used to direct mass emotions against the inherently safe and environmentally friendly nuclear energy. What makes people demand that the nuclear industry be a zero accident enterprise? Yet, at the same time, the same people appear to willingly accept all other kinds of man-made accidents, including some 17 million deaths estimated to have been caused by cars since their invention. What causes this paranoiac imbalance? An attempt to answer these questions, is the subject of this presentation.

The Chernobyl catastrophe resulted in vast quantities of

radionuclides being released into the global atmosphere, which were easy to measure even high in the stratosphere, and far away at the South Pole (Jaworowski et al., 1997). It was a godsend for anti-nuclear activists. Yet, according to estimates of the United Nations Scientific Committee on the Effects of Atomic Radiation (UNSCEAR), one of the most distinguished international authorities in matters of ionizing radiation, there were only 31 early deaths among the plant workers and rescue operators, and no early deaths among the public.

Thirteen years after the accident, apart from an increase in thyroid cancer registry (very likely due to increased screening, rather than a real increase in incidence), there is no evidence of a major public health impact related to the ionizing radiation, and no increase of overall cancer incidence or mortality that could be associated with radiation exposure. There is no scientific proof of any increase in other non-malignant disorders, genetic, somatic, or mental, that could be related to ionizing radiation from Chernobyl. This UNSCEAR (UNSCEAR, 1999) estimate is clearly quite different from what one finds in most media, which prefer to cultivate mass radiophobia—an irrational fear of radiation and all things nuclear. But who reads UNSCEAR reports?

Chernobyl was the worst possible catastrophe of a badly constructed nuclear power reactor: complete core meltdown, followed by free dispersion of radionuclides in the atmosphere, and with an area of lethal fallout, of only 0.5 km², reaching up to 1,800 meters from the reactor. Nothing worse could happen with any reactor. It resulted in a comparatively minute death toll, amounting to about half of that of each

TABLE 1

Major Industrial Disasters in the 20th Century

Year	Accident	Site	Number of fatalities
1917	Explosion	Halifax Harbor, Canada	1,654
1921	Explosion in chemical plant	Oppau, Germany	561
1942	Coal-dust explosion	Honkeiko Colliery, China	1,572
1947	Fertilizer ship explosion	Texas City, U.S.A.	562
1956	Dynamite truck explosion	Cali, Colombia	1,100
1957	Nuclear reactor fire	Windscale, U.K.	0
1959	Hydroelectric river dam collapse	Fréjus, France	421
1963	Surge of 108 m ³ water from a reservoir	Vaiont, Italy	2,600
1975	Mine explosion	Chasnala, India	431
1976	Chemical leak (dioxine)	Seveso, Italy	0
1979	Biological/chemical warfare plant accident	Novosibirsk, Russia	300
1979	Nuclear reactor meltdown	Three Mile Island, U.S.A.	0
1984	Natural gas explosion	Mexico City, Mexico	452
1984	Poison gas leak	Bhopal, India	>15,000*
1986	Nuclear reactor meltdown	Chernobyl, Ukraine	31

* *IHT*, 1996.

Source: After Jaworowski, 1996.

Note that most famous disasters, permanently imprinted in public memory, are those with the lowest death toll: Windscale, Seveso, Three Mile Island, and Chernobyl.

weekend's traffic in Poland. When the irrational rumble and emotions of Chernobyl finally settle down, in the centuries to come, this catastrophe will be seen as a proof that nuclear fission reactors are a safe means of energy production. Several accidents at hydroelectric, gas and coal energy production, and other industrial catastrophes in the 20th Century, each caused up to three orders of magnitude greater death toll than the Chernobyl accident (**Table 1**).

In the highly contaminated regions of the former Soviet Union, from which 270,000 people were evacuated and relocated, the 1986-95 average radiation doses from the Chernobyl fallout ranged between 6 and 60 mSv. By comparison, the world's average individual lifetime dose due to natural background radiation is about 150 mSv. In the Chernobyl-contaminated regions of the former Soviet Union, the natural lifetime dose is 210 mSv, while in many regions of the world it is about 1,000 mSv, and in the state of Kerala, India, or in parts of Iran, it reaches 5,000 mSv. Yet no adverse genetic, carcinogenic, or any other deleterious effects of those higher doses have been ever observed among the people, animals, and plants that have lived in those parts since time immemorial (Nair et al., 1999); (Sohrabi, 1990); (Kesavan, 1996); (Cheriyen et al., 1999); (Jaikrishan et al., 1999). The forced evacuation of 270,000 people from their, presumably, poisoned homes, and other forms of overreaction by the Soviet authorities (for example the famous "coffin subsidy"—a monthly financial compensation), did not result in a benefit,

but instead caused some real harm: an epidemic of psychosomatic disorders observed in the 15 million people of Belarus, Ukraine, and Russia, such as diseases of endocrinological system, circulatory and gastrointestinal diseases, depression and other psychological disturbances, headaches, sleeping disturbances, difficulties in concentration, emotional instability, inability to work, and so on (Ilyin, 1995); (Ageeva, 1996); (Filyushkin, 1996); (Jaworowski, 1998). The "coffin subsidy," which in impoverished Belarus will total \$86 billion by 2015 (Rolevich et al., 1996), for millions of recipients, each time they sign a receipt, confirms that they are the "victims of Chernobyl." The psychosomatic disorders could not be attributed to the ionizing radiation, but were assumed to be linked to the popular belief that any amount of man-made radiation—even minuscule, close to zero doses—can cause harm. This assumption, a linear, no-threshold theory (LNT), was accepted in the 1950s, arbitrarily, as the basis for regulations on radiation and nuclear safety, now still in force. It was under this assumption and regulations (ICRP, 1984a) that the Soviet government decided on the mass relocation of people from regions in which the Chernobyl radiation dose was much smaller than natural radiation background in many countries. This act by the Soviet authorities demonstrated not only the absurdity of LNT, but also the harmful effects of practical application of regulations based on this principle.

During the last three decades, the principles and regulations of radiation protection have gone astray and have led to

exceedingly prohibitive, LNT-derived standards and recommendations. Revision of these principles, which is now being proposed by many scientists and several organizations, was evoked both by the eye-opening Chernobyl experience, and by recent progress in radiobiology, genetics, and oncology. Radiation carcinogenesis should no longer be perceived as a straightforward process started by a random hit by radiation to the DNA double strand in the cell. The complexity of this process precludes the use of direct proportionality, even to estimate the probability of the malignant cell becoming a macroscopic, clinically verifiable tumor. After a total malignant transformation, the cell has to divide some billions of times, before a cancer is formed. Such transformed cells appear to be distant from cancer by so many billions of iterative steps, that their outcome cannot be predicted, as a matter of principle (Walinder, 1995).

A great radiobiologist, the late Harald Rossi, summarized the situation as follows: "It would appear . . . that radiation carcinogenesis is an intricate intercellular process and that the notion that it is caused by simple mutations in a unicellular response is erroneous. Thus, there is no scientific basis for the 'linearity hypothesis' according to which cancer risk is proportional to absorbed dose and independent of dose rate at low doses" (Rossi and Hald, 1984).

One of the factors responsible for these winds of change is the recognition by many scientists that small doses of radiation, like small doses of other physical or chemical agents, may be beneficial for organisms, and may evoke a stimulatory or hormetic response, which is in direct opposition to the LNT. About 2,000 scientific papers on radiation hormesis were published in the 20th Century. However, when in 1982 I proposed that UNSCEAR should review and assess these papers, nobody seemed interested. Each following year, I repeated this proposal in vain, until after Chernobyl, in 1987, it finally gained support from the representatives of France and Germany. It took UNSCEAR some dozen years of deliberations before, in 1994, the committee published its fundamental report (UNSCEAR, 1994), rubberstamping the very existence of the phenomenon of hormesis. It was difficult for the committee to overcome its own prejudices on radiation hormesis, and to produce a balanced objective report.

Along the way, the committee rejected two rather one-sided drafts of a "hormesis document," and in 1990, also an excellent document on "Hereditary Effects of Radiation," prepared by a leading expert in the field, Prof. F. Vogel. This last rejection demonstrated the hesitance of the committee, as Vogel's paper showed a lack of genetic effects after the Chernobyl accident, and presented the existence of hormetic effects in children of Hiroshima and Nagasaki survivors, as well as the lack of any hereditary disorders both in these children, and in inhabitants of high natural background radiation areas. The draft of the UNSCEAR 1994 "hormetic report" was prepared by Dr. Hylton Smith, then the Scientific

Secretary of the International Commission on Radiological Protection (ICRP), a body strongly supporting LNT and rejecting hormesis. However, while working for a few years on this report, Dr. Smith changed his initially negative approach to radiation hormesis, and finally produced an excellent, unbiased treatise on this yet-unfathomed matter, demonstrating his scientific integrity. This report sparked a quasi revolution in the radiation protection community, which is now gaining momentum, with some encouragement from the chairman of ICRP, Prof. Roger Clarke (Clarke, 1999).

Natural and Man-Made Radiation

The linear no-threshold hypothesis was accepted in 1959 by the ICRP as a philosophical basis for radiological protection (ICRP, 1959). This decision was based on the first report of the then just established UNSCEAR Committee (UNSCEAR, 1958). A large part of this report was dedicated to a discussion of linearity and of the threshold dose for adverse radiation effects. UNSCEAR's stand on this subject, more than 40 years ago, was formed after an in-depth debate, not, however without any influence of the political atmosphere and issues of the time. Soviet, Czechoslovakian, and Egyptian delegations to UNSCEAR strongly supported the LNT assumption, using it as a basis for recommendation of an immediate cessation of nuclear test explosions. The then prevailing target theory and the then new results of genetic experiments with fruit flies irradiated with high doses and dose rates, strongly influenced this debate. In 1958, UNSCEAR stated that contamination of the environment by nuclear explosions increase radiation levels all over the world, posing new and unknown hazards for present and future generations. These hazards cannot be controlled, the report said, and "even the smallest amounts of radiation are liable to cause deleterious genetic, and perhaps also somatic, effects." This sentence had an enormous impact in the next decades, being repeated in a plethora of publications, and taken even now as an article of faith by the public.

However, throughout the 1958 report, the original UnscEAR view on LNT remained ambivalent. As an example, UNSCEAR accepted as a threshold for leukemia a dose of 4,000 mSv (p. 42), but at the same time the committee accepted the risk factor for leukemia of 0.52% per 1,000 mSv, assuming LNT (p. 115). The committee quite openly presented this difficulty, showing in one table (p. 42) its consequences: Continuation of nuclear weapon tests in the atmosphere was estimated to cause 60,000 leukemia cases worldwide if no threshold is assumed, and zero leukemia cases if a threshold of 4,000 mSv exists. In its final conclusions, UNSCEAR pinpointed this situation: "Linearity has been assumed primarily for purposes of simplicity" and "There may or may not be a threshold dose. Two possibilities of threshold and no-threshold have been retained because of the very great differences they engender."

In the ICRP document of 1959, no such controversy appears; LNT was arbitrarily assumed, and serious epistemological problems related to the impossibility of finding harmful effects at very low levels of radiation, later discussed by Weinberg (1972) and Walinder (1987), were ignored. Over the years, the working assumption of ICRP of 1959 came to be regarded as a scientifically documented fact by mass media, public opinion, and even many scientists. The LNT principle, however, belongs to the realm of administration and is not a scientific principle.

In these early years, the LNT assumption did not seem very realistic, but was generally accepted, because it simplified regulatory work. The original purpose was to regulate the exposure to radiation of a relatively small group of occupationally exposed persons, and it did not involve exceedingly high costs. In the 1970s, however, ICRP extended the LNT principle to exposure of the general population to man-made radiation, and in the 1980s, it extended LNT limiting the exposure to natural sources of radiation (ICRP, 1984b).

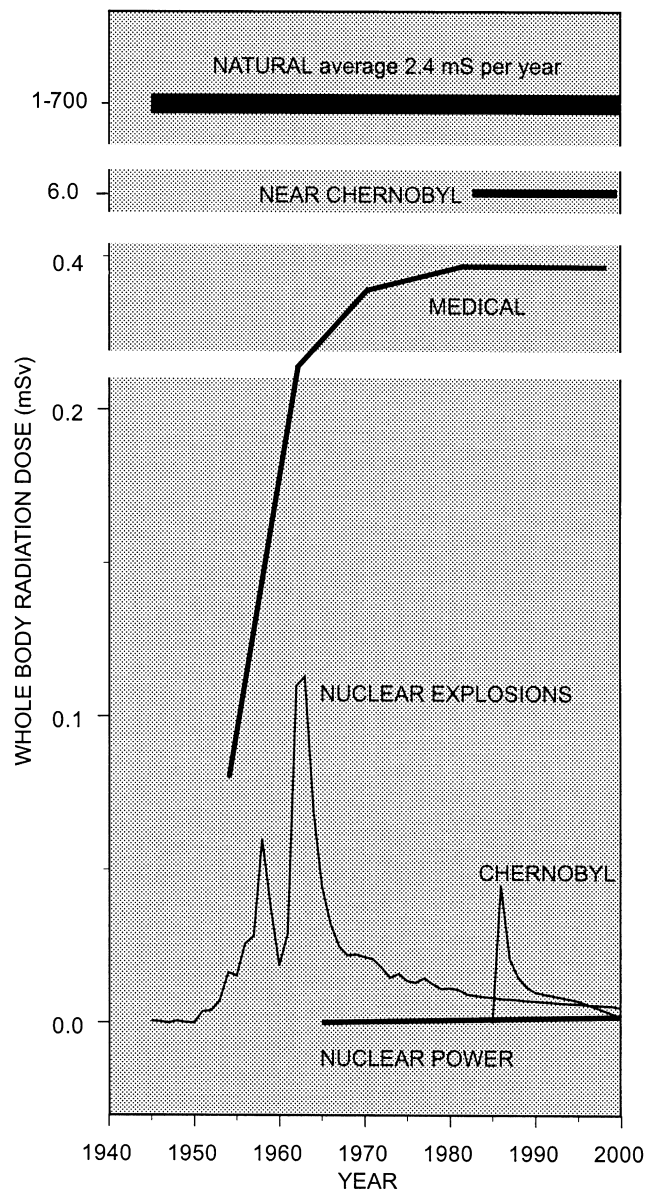
In the same document, ICRP recommended restriction of radiation exposure of members of the public to 1 mSv per year, that is below the average annual global natural radiation dose of 2.2 mSv, and many tens or hundreds of times lower than the natural doses in many regions of the world. Such an absurdly low limitation of exposure was a logical consequence of the administrative LNT assumption from 1959. It made a false impression on the public, that new research steadily discovers a greater harmfulness of radiation, which needs more protection, more money, and lower standards. In fact, nothing like this occurred.

Since the introduction of rational standards in the 1930s, which were based on a tolerance dose concept, and were orders of magnitude higher than now, no deleterious effects were found among those that observed them (Taylor, 1981). This constant decreasing of standards, however, was less than palatable to many scientists associated with radiation protection, standing both on purely scientific and practical grounds.

One of the important factors in changing the opinion of many scientists was finding actual proportions between man-made and natural exposures. Data published in the UNSCEAR documents clearly show that the average individual global radiation dose in the 1990s from nuclear explosions, the Chernobyl accident, and commercial nuclear plants combined was about 0.4% of the average natural dose of 2.2 mSv per year. In areas of the former Soviet Union that were highly contaminated by Chernobyl fallout, the average individual dose was much lower than that in regions with high natural radiation. The greatest man-made contribution to radiation dose has been irradiation from x-ray diagnostics in medicine, which accounts for about 20% of the average natural radiation dose (Figure 1). From the medical point of view, it does not matter whether ionizing radiation comes

FIGURE 1

Average Annual Global Radiation Doses from Natural and Man-Made Sources



Natural exposure is assumed to be stable. The temporal trends in local Chernobyl exposures are not presented.

from natural or from man-made sources; its nature is the same. We do not observe any adverse effects of irradiation from Mother Nature's sources: No increase of cancers and hereditary disorders was ever found in natural high-radiation areas. The concern about large doses, such as absorbed by three workers in Tokaimura or by 28 fatal radiation victims in Chernobyl, is obviously justified. But should we spend

enormous funds to protect people against radiation corresponding to tiny fractions of natural doses, only because humans make them?

A few billion years ago, when life on Earth began, the natural level of ionizing radiation was about three to five times higher than it is now (Karam, 1999). At the early stages of evolution, increasingly complex organisms developed powerful defense mechanisms against adverse effects of this radiation, and of all kinds of environmental factors, for example against toxicity of oxygen and other innumerable inorganic and organic toxins, and dangerous physical agents, including the whole range of the radiation energy spectrum. Living organisms developed not only protective mechanisms against these environmental agents, but they learned how to use them to their advantage. We see this readily in the case of visible light and UV radiation. UV radiation belongs to the ionizing part of the spectrum. It is rather doubtful that other types of ionizing radiation were excluded from this evolutionary adaptive process. The phenomenon of radiation hormesis observed in man, and in animals, argues against such exclusion. On the other hand, that the evolution proceeded for so long is proof of the effectiveness of living things' defenses against environmental agents, including ionizing radiation.

The adverse effects of ionizing radiation, such as mutation and malignant change, originate in the cell nucleus, where the DNA is their primary target. Other adverse effects, which lead to acute radiation sickness and premature death in humans, also originate in the cell, but outside its nucleus. For them to take place requires radiation doses thousands of times higher than those from natural sources. A nuclear explosion or a cyclotron beam could deliver such a dose; so could a defective medical or industrial radiation source—Tokaimura and Chernobyl are two examples. An artificial distinction between these two types of effects, 1) starting in the DNA of the cell nucleus, and 2) outside the nucleus, was made by introducing terms of “stochastic effects” for late malignant and hereditary changes, and “deterministic effects” for early acute changes and cataracts (ICRP, 1977). Medicine does not recognize such a distinction. In fact, it was a tacit introduction of the LNT thinking template into radiation protection. By definition, stochastic (probabilistic) effect is “an all-or-nothing effect, the severity of which does not vary with dose” (NCRP, 1995), and which distinguishes them from “deterministic” effects, the severity of which increases with dose.

However, both notions—stochastic and deterministic effects—seem rather empty and obsolete, in view of the new information on mechanisms of carcinogenesis and genetics. The lack of dose-related severity in stochastic effects—the main difference between them and deterministic effects—is simply not true. As demonstrated by Walinder (1995), many radiogenic cancers in man and in experimental animals show

greater histologic and clinical malignancy after high-radiation doses than after smaller ones. Also, latency time is shortened when the dose increases, so the malignant tumors can have more time to develop during a lifetime.

According to recent studies, by far the most DNA damage in humans is spontaneous and is caused by thermodynamic decay processes and by reactive free radicals formed by oxygen metabolism. Each mammalian cell suffers about 70 million spontaneous DNA-damaging events per year (Billen, 1994). More recent measurements of steady state oxygen free radical damages to DNA (Helbeck et al., 1998) and their repair rates (Jaruga, Dizderoglu, 1996) demonstrate about 350 million metabolic DNA oxidations per cell per year. Only if armed with a powerful defense system could a living organism survive such a high rate of DNA damage. An effective defense system consists of mechanisms that repair DNA, and other homeostatic mechanisms that maintain the integrity of organisms, both during the life of the individual and for thousands of generations. Among those homeostatic mechanisms are antioxidants, enzymatic reactions, apoptosis (suicidal elimination of changed cells), immune system removal of cells with persistent DNA alterations, cell cycle regulation, and intercellular interactions.

Ionizing radiation damages DNA also, but at a much lower rate. At the present average individual dose rate of 2.2 mSv per year, natural radiation could be responsible for no more than about 5 DNA-damaging events in one cell per year. Why, with a background of 70 million spontaneous DNA damages per cell per year, should we protect people against 2.3 DNA damages per cell per year, expected from the 1 mSv annual dose limit recommended by ICRP? Though spontaneous repairing of double-strand break damages of DNA occurs rarely, compared to their occurrence in radiation damage, spontaneous oxygen metabolism induces about 1,000 times as many double-strand breaks as background radiation (Stewart, 1999). In this perspective, even a limit permitting 200 DNA damages per cell per year, or 100 mSv per year, would be proper.

As compared with other noxious agents, ionizing radiation should be regarded as rather feeble. The safety margin for ionizing radiation is much larger than for many other agents present in the environment, e.g., thermal changes, plant and animal poisons, or heavy metals. For example, a toxic level of lead in blood is only three times higher than its “normal” level. A lethal dose of ionizing radiation delivered in one hour—which for an individual human is 3,000 to 5,000 mSv—is a factor of 10 million higher than the average natural radiation dose received in the same time (0.00027 mSv). Nature seems to have provided living organisms with an enormous safety margin for natural levels of ionizing radiation—and also, adventitiously, for man-made radiation from controlled, peacetime sources. Conditions in which levels of ionizing radiation could be noxious, do not normally occur in the

biosphere, so humans required no radiation-sensing organ and none evolved, although all species have always been immersed in the sea of radiation ever since life began.

Why Radiophobia?

If radiation and radioactivity, though ubiquitous, are so innocuous at normal levels, why do they cause such universal apprehension? What is the cause of radiophobia, an irrational fear that any level of radiation is dangerous? Why have radiation protection authorities introduced a dose limit for the public of 1 mSv per year, which is less than half the average dose rate from natural radiation, and less than 1% of the natural dose rates in many areas of the world? Why do the nations of the world spend many billions of dollars a year to maintain this standard (Cohen, 1992; Hezir, 1995)? In a recent paper, I proposed some likely reasons (Jaworowski, 1999):

- the psychological reaction to devastation and loss of life caused by the atomic bombs dropped on Hiroshima and Nagasaki at the end of World War II;
- psychological warfare during the Cold War, which played on the public's fear of nuclear weapons;
- lobbying by fossil fuel industries;
- the interests of radiation researchers striving for recognition and budget;
- the interests of politicians for whom radiophobia has been a handy weapon in their power games (in the U.S.A., and in the 1980s and 1990s in eastern and western Europe and in the former Soviet Union);
- the interest of news media that profit by inducing public fear;
- the interest of "greens" that profit by inducing public fear;
- the assumption of a linear, no-threshold relationship between radiation and biological effects (LNT).

In addition, a very important factor was:

- the complaisance of the nuclear industry leadership, paralyzed by anti-nuclear propaganda. Intimidated industry accepted irrational standards, and did not develop research programs to check the validity of LNT.

During the past five decades, nuclear weapons were regarded as a deterrent, and the countries that possess them wished to make radiation and radioactivity seem as dreadful as possible. Therefore, national security agencies seldom correct even the most obviously false statements, such as that often voiced: "Radiation from a nuclear war can annihilate all mankind, or even all life," or (the ever-authoritative *International Herald Tribune*) "200 grams of plutonium could kill every human being on Earth" (Koning, 1996). The facts say otherwise. According to UNSCEAR reports, between 1945 and 1980, the 541 atmospheric nuclear tests injected into the global atmosphere about 3,000 kilograms of plutonium (that is, almost 15,000 supposedly deadly 200 gram doses), yet lo and behold: Somehow we are still alive! (Try to publish this in the *International Herald Tribune*: no way!)

According to UNSCEAR data, from all these 541 atmospheric explosions with a total energy yield of 440 megatons of TNT, we accumulated, between 1945 and 1998, an average individual radiation dose of about 1 mSv, which is less than 1% of the dose from natural sources over the same period. In the heyday of atmospheric testing, 1961 and 1962, there were 176 atmospheric explosions, with a total energy yield of 84 megatons. The average individual dose accumulated from the fallout between 1961 and 1964 was about 0.35 mSv.

At its Cold War peak of 50,000 weapons, the global nuclear arsenal had a combined potential explosive power of about 13,000 megatons, which was only 30 times larger than the megatonnage already released in the atmosphere by all previous nuclear tests. If that whole global nuclear arsenal had been deployed in the same places as the previous nuclear tests, the average individual would have received a lifetime radiation dose from the global fallout of about 30 to 55 mSv, a far cry from the short-term dose of 3,000 mSv that would kill a human.

For several decades, humanity has lived under the gloomy shadow of imminent nuclear annihilation. This has had an extremely negative influence not only on public perception of radiation and nuclear energy, but induced a cultural change: distrust of science, rejuvenation of irrational apocalyptic mythologies, and even an aversive approach to civilization, the fruit of toil and sweat of ourselves and of our forefathers.

Hiroshima, Nagasaki, and LNT

The survivors of the atomic bombing of Hiroshima and Nagasaki who received instantaneous radiation doses of less than 200 mSv have not suffered significant induction of cancers (Cohen, 1998). Among 59,539 inhabitants of these two cities who absorbed doses up to 1990 mSv, 119 persons died between 1950 and 1985, due to leukemia, i.e., about 0.006% per year, and 4,319 persons died due to all other cancers, i.e., 0.2% (Shimizu et al., 1989). According to Polish Cancer Registry data, in 1993, 0.006% people died in Poland due to leukemia, and about 0.2% due to all other cancers (Zatonski and Tyczynski, 1996). This comparison shows that with doses of up to nearly 2,000 mSv, we should not expect any detectable epidemic of malignancies. Among the bomb survivors irradiated with doses lower than 150 mSv, mortality caused by leukemia was lower (although statistically not significant) than among the non-irradiated inhabitants of two Japanese cities (UNSCEAR, 1994). A slight, but non-significant, decrease in overall non-cancer mortality among bomb survivors exposed to low and intermediate doses can also be seen in the data of the Atomic Bomb Casualty Commission and the Radiation Effects Research Foundation (Kondo, 1993; Shimizu et al., 1992). So far, after 50 years of study, the progeny of Japanese survivors who were exposed to these and much higher, near-lethal doses, had not developed any adverse genetic effects (Sankaranarayanan, 1997).

Until recently, such findings from the study of A-bomb



“Should we spend enormous funds to protect people against radiation corresponding to tiny fractions of natural doses, only because humans make them?” Here, a shipment of low-level radioactive waste.

survivors has been consistently ignored. In place of the actual findings, has been the theory of linear no-threshold (LNT), which presumes that the detrimental effects of radiation are proportional to the dose, and that there is no dose at which the effects of radiation are not detrimental. LNT theory played an important role in effecting first a moratorium, and then a ban on atmospheric nuclear tests. But otherwise, its role was mostly negative, inducing worldwide fear of radiation and effective strangulation of development of nuclear energy systems in many countries, including the United States. My own country, Poland, spent billions of dollars on construction of its first nuclear power station, only to abandon the project after politically motivated manipulation of the public opinion by means of the LNT theory.

The mechanism of inducing fear is quite simple. For example, one calculates, very exactly, that 28,000 people would die of Chernobyl-induced cancers over the next 50 years, and news media trumpet this, or much greater values all over the world, now and again, and ad nauseam. The frightening death toll was derived by multiplying the trifling Chernobyl doses in the Northern Hemisphere, including Canada and the United States (0.0046 mSv per person) by the vast number of people leaving there and by a cancer risk factor based on epidemiological studies of 75,000 atomic bomb survivors in Japan (Goldman et al., 1987). But the A-bomb survivor data are irrelevant to such estimates, because of the difference in the individual doses and dose rates. A-bomb survivors were flashed within about one second by radiation doses at least 50,000 times higher than the dose which U.S. inhabitants will ever receive, over a period of 50 years, from the Chernobyl

fallout.

We have reliable epidemiological data for a dose rate of, say, 6,000 mSv per second in Japanese A-bomb survivors. But there are no such data for human exposure at a dose rate of 0.0046 mSv over 50 years (nor will there ever be any). The dose rate in Japan was larger by 2×10^{15} than the Chernobyl dose rate in the U.S.A. Extrapolating over such a vast span is neither scientifically justified nor epistemologically acceptable. It is also morally suspect (Walinder, 1995).

An offspring of the LNT assumption is the concept of dose commitment, introduced in early 1960, and of collective dose. Dose commitment reflected the great concern, at that time, that harmful hereditary effects could be induced by fallout from nuclear tests. The concern was so great that, according to definition, dose commitment values were to be calculated for periods of time ending in infinity. In later years, the individual dose commitments, and collective dose commitments, also for some truncated periods, were calculated mainly for exposures from nuclear power. For example, UNSCEAR calculated 205,000 man Sv [a unit of collective dose and of dose commitment] for the next 10,000 years from power reactors and reprocessing plants, 600,000 man Sv from Chernobyl fallout in the Northern Hemisphere for eternity, and 650,000,000 man Sv for the world's population from only the past 50 years of exposure to natural radiation. These large values, terrifying as they are to the general public, provide society with no relevant biological or medical information. Rather, they create a false image of the imminent danger of radiation, with its all actual negative social and psychosomatic consequences.

But why stop at 50 years in calculating dose commitments for natural radiation, when, for man-made radiation, one makes estimates over infinite time? For example, the individual dose commitment, supposedly accumulated over the past 130,000 years of existence of the modern *Homo sapiens*, and calculated for the average human now living, is 286,000 mSv, i.e., about a hundred short-term lethal doses. Each of us is burdened with this or a similar value of dose commitment. Do these values represent anything real, or are they just figments of scholastic fantasies? What are the medical effects of these enormously high doses? I proposed in a recent paper (Jaworowski, 1999), that the intellectually invalid concepts of collective dose and dose commitment be hacked off with William of Occam's razor.

Acknowledgments

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assumptions of the radiation regulatory agencies.

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- **James Muckerheide, "It's Time to Tell the Truth About the Health Benefits of Low-Dose Radiation,"** Summer 2000

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Financial Crash, U.S. Blunders Set Off Mideast Conflagration

by Dean Andromidas

The world has entered an extraordinary new phase, in which there is a combination of an already-in-motion global financial crash, and war in the Middle East, the which is taking a form unlike any previous conflict in the region. These combined events are occurring, precisely in the time-frame in which American political statesman Lyndon LaRouche warned they would happen, and are both, as he also warned, the lead features of a global systemic crisis. To put it mildly, we are now entering uncharted territory: There is no possibility of returning to some kind of *status quo ante*, by various tactical measures. This is a qualitatively new situation, and both the financial crisis and the Middle East situation must be understood on that level, and in no other way.

Only a commitment to in-depth economic reconstruction and recovery, along the lines of LaRouche's widely circulated New Bretton Woods program, can provide the framework for a possible positive resolution, and for avoiding massive chaos and general breakdown. LaRouche emphasized, that his recent warnings of the war danger in the Middle East, have now been proven 100% correct, and that the world is witnessing the devastating consequences, of the ruthless suppression of LaRouche's Presidential candidacy, by the U.S. Democratic Party leadership, earlier this year. LaRouche also referenced those in the U.S. policy structure who foolishly reacted to his Mideast proposals by insisting that "LaRouche doesn't understand the situation." Clinton did *not* insist on the strategy of immediate economic development, which alone could outflank the pressures for war from inside and outside the region.

The danger is not simply a new regional war; the Israelis and the Palestinians are already at war. The real danger is that the financial crisis will drive this new "Middle East" war into a global strategic crisis.

When an army and security establishment as strong as that of Israel confronts thousands of rock-throwing youths and a few gunmen with the full force of the Israeli army,

including special forces, tanks, and helicopter gunships, it should be clear where appropriate pressure must be applied.

As of this writing, the Israeli army has put the Palestinian territories under a state of siege. Tanks and helicopter gunships have been deployed, striking at points throughout the territories, including the offices of the Palestinian officials and even the headquarters of Palestinian Authority President Yasser Arafat. Events are moving so rapidly, that a description of events on the ground or in the diplomatic field will be irrelevant by the time our readers see this article.

What can be identified are the two fundamental miscalculations upon which the major players continue to base their actions. At the center of these miscalculations is President Clinton's failure to grasp the implications of his abandonment of his position as "honest broker," by basing his "peace making" on an electoral pact with the right-wing American Zionist lobby, in order to secure election victories for his wife and Al Gore.

That is the reality of why Clinton's meeting with the late Syrian President Hafez Assad, and the later Camp David meetings, failed. For the Arabs, it signalled that Clinton fully backed the Israeli position. For the Israelis, it has not simply strengthened the resolve of the right wing, but has laid the basis for a new Israeli consensus around demands which are wholly unacceptable to the Palestinians and the Arab world.

What has to be understood is that, as of the beginning of October, not only are all the old rules that determined Middle East policy obsolete, but also if they are applied, the situation will only grow worse.

A Renewal of Arab Unity

Ariel Sharon's provocation — his deliberate "invasion" on Sept. 28, with Israeli police forces, of Islam's sacred Al-Aqsa mosque — has sparked a political unity in the Arab and Islamic world that has not been witnessed for over two decades.



Port side view showing the damage sustained by the guided missile destroyer USS Cole, after a suspected terrorist bomb exploded during a refueling operation in the port of Aden on Oct. 12. The incident took place in the context of the rapid escalation of violence in Israel and the Palestinian occupied territories, and illustrates the fact that the crisis there has entered a qualitatively new phase.

LaRouche and *EIR* have warned for the past 20 years, that just such a “Temple Mount” provocation, in that holy spot, would be the trigger for generalized, spreading religious war in an economically impoverished Mideast. It is rapidly making irrelevant the Kissingerian policy of putting pressure on the moderate Arabs in order to crush the radicals.

Since that provocation, hundreds of thousands have demonstrated in Egypt, Jordan, Yemen, Saudi Arabia, Iraq, and Iran. In the Kingdom of Morocco, long considered one of the key players in the peace process, half a million people marched through the streets of Rabat, led by the Moroccan Prime Minister and with the blessing of the King. The governments of Egypt, Jordan, Saudi Arabia, and Bahrain airlifted Palestinian casualties from the West Bank and Gaza Strip to hospitals in their respective countries. A television marathon on Saudi Arabia’s government-backed network raised \$30 million for the Palestinians in one evening, while the United Arab Emirates donated \$30 million to a Palestinian Defense Fund.

Saudi Crown Prince Abdullah warned on Oct. 9, that Israeli Prime Minister Ehud “Barak has to think before taking any step . . . and nobody should think that the Kingdom of Saudi Arabia and the whole Arab and Islamic nation would just watch with their hands tied.” The Crown Prince also warned the participants in the peace process—that is, the United States and Israel—that their interlocutors would not compromise Arab and Muslim rights in Jerusalem.

“We have an historic and legal right and a just cause. . . . It is time for the Israeli side and all who are involved in the

peace process to realize what Al-Aqsa means for us as Arabs and Muslims. . . . There is no compromise on that.”

Writing in the Arabic international daily *Al Hayat*, Mideast historian Patrick Seale underscored that the widespread support for the Palestinian cause represents a shift in the strategic situation in the region. This has been bolstered, according to Seale, by the failure of the U.S. “dual containment” policy against Iran and Iraq. He pointed out that Iran has fully normalized relations not only with the other Persian Gulf states, including Saudi Arabia, but also with Egypt and Algeria, and is a major player in the Organization of Petroleum Exporting Countries and the Arab and Islamic world. In addition, the breaking of the air embargo against Iraq, has ended its isolation, particularly among the Arabs.

The most important development has been Egypt’s calling for an Arab Summit, on Oct. 21. For the first time in a decade, both Iraq and Kuwait have agreed to attend.

Egyptian Minister of Information Safwat el Sherif issued preconditions for President Hosni Mubarak to host a four-way summit with himself, Barak, Arafat, and Clinton. The conditions, which are in line with Palestinian demands, call for: “First, the withdrawal of Israeli forces from Palestinian territories. Second, the cessation and withdrawal of Israeli warnings and threats directed at the Palestinian Authority or any Arab country.” While reiterating that Clinton would always be welcome in Egypt, the Minister warned, “It is important that Israel accept these steps. If it does not, then Egypt is utterly sorry, but it will not hold a four-way summit on its land.”

It appears that the old pattern, whereby Arab League summits issue statements in support of the Palestinians, and then do what the Americans want, is about to end.

‘Fundamentalist Zionism’

The most dangerous development is the failure to understand that a new consensus has been reached in the Israeli political military elite, around a policy of implementing militarily what Arafat would not accept at the negotiating table. This is the only way to understand recent events within Israel.

On Oct. 6, Barak, speaking on Israeli television, prepared Israel for war: “The moment it is clear to us that there is no peace and there is violence, we will fight and defend our soldiers and citizens, even if it will be against all the world. Full stop.” He later said that Israel would “win any war.”

The Israeli government and public opinion is unified around the line that Ariel Sharon did not trigger the current

conflagration, but that he only gave Arafat the excuse to implement the Palestinian plan to “win through violence what he refuses to accept in negotiations.” Thus, the notion that “Arafat is a terrorist” has been revived. The reality is the very opposite.

One has to go back to the framework agreement negotiated in 1995, and made public only last month. It had been negotiated by Yossi Beilin, currently Israeli Justice Minister, and Abu Mazen, one of Arafat’s closest advisers. As we wrote in our Sept. 29 issue, the same assassin’s bullet that killed Israeli Prime Minister Yitzhak Rabin on Nov. 4, 1995, killed that agreement (“The Peace that Was Killed by an Assassin’s Bullet”). It is now reported that the same document was presented to Barak nine months ago, and he rejected it. Instead, Barak drafted his own plan that involved the annexation of settlement blocks encompassing 80% of the settlers and territory where no less than 100,000 Palestinians live.

A review of events since Sept. 28 confirms this assessment. In the days prior to Sharon’s provocation, intelligence chiefs from the Israeli Defense Forces, police, border police, the intelligence agencies, Shin Bet and Mossad, in a meeting in Tel Aviv, determined that Sharon’s visit to Al-Haram al-Sharif would spark a conflagration that Arafat would “exploit.”

As soon as Sharon’s set foot on the Muslim sacred site, a pre-planned military operation called, “Operation High Tide Low Tide,” was implemented. This was, in effect, the contingency plan that was announced by Barak several months ago as a response to Arafat’s threats to unilaterally declare a Palestinian state. The plan calls for the eventual deployment of Israeli armored divisions throughout the West Bank to the Jordan River and the frontier with Syria and Jordan. It would involve the annexing of large blocks of Israeli settlements and laying siege to densely populated Palestinian towns and cities. These centers would revert to bantustans or, more likely, “Warsaw Ghetto”-type Palestinian concentration centers.

According to U.S. satellite intelligence, Israel has been redeploying its forces in preparation for wide-scale military operations in the Occupied Territories.

Contrary to initial reports that the Israelis were surprised by the spontaneous outbreak of clashes among its own Israeli Arab citizens inside Israel, the security forces were not only expecting such a conflagration, but had been prepared for it. The Israeli police had held an exercise on Sept. 6, based on the scenario that Israeli Arabs would show sympathy with the Palestinians if the latter declared a Palestinian state. At that time, it was determined that the police would have to use live ammunition against Israeli citizens; 13 unarmed Arab Israelis died from gunshot wounds in subsequent clashes.

As of this writing, Barak is in the process of forming a national emergency government with Sharon and the Likud Party. Sharon would most likely be made foreign minister.

EIR Hits OAS Coup Against Peru

Since Peruvian President Alberto Fujimori abruptly cut short his third term in office with his Sept. 16 announcement that new Presidential and Congressional elections would be held, the international media have raised a hue and cry over an alleged threat to democracy coming from the high command of Peru’s military, which, it is said, is preparing a coup d’état, to stay in power.

As usual, the media lie. As *EIR*’s Ibero-American editor, Dennis Small, said on Peruvian national television on Oct. 8, there is, indeed, a live coup attempt ongoing in Peru—but it is not being run by Peru’s military, but rather by Wall Street’s dope bankers, operating through the Organization of American States (OAS), which is working on turning the OAS-run “dialogue committee,” the supposed forum for government-opposition talks on democratic reforms, into the de facto government of Peru.

Small explained that Wall Street and Co. are driven, as *EIR* founder Lyndon LaRouche has explained, by murderous hysteria over the disintegration of their financial system. Their strategy in Peru is similar to that employed in Colombia, where the purported “peace process” committee ensconced in southern Colombia, has become the de facto seat of government, where the narco-terrorist killers of the Revolutionary Armed Forces of Colombia (FARC) dictate the terms of surrender to Colombia’s government. In the Peruvian case, Small said, the OAS coup is directed, step-by-step, by the new OAS Deputy Secretary General, Luigi Einaudi. Fanatically committed to imposing limited sovereignty upon the Western Hemisphere, the ever-arrogant Einaudi has served as the United States’ foremost anti-Peru “hand” from his start at the RAND Corp. in the mid-1960s, through his 25-year State Department career, and his more recent stint at the notorious Inter-American Dialogue.

Small’s charges were aired on the well-watched Sunday political analysis show, “Contrapunto,” on Channel 2 TV, as the last five minutes of a hard-hitting 20-minute program exposing the international offensive aimed at taking apart Peru’s Armed Forces and their alliance with Fujimori over the last decade. The next day, the daily *Expreso* gave favorable, detailed coverage to Small’s interview, under the headline “U.S. Interests Behind Campaign Against Armed Forces” (see below). Channel 2’s television program and *Expreso*’s news article informed millions of Peruvians of LaRouche’s analysis of why foreign financial powers are out to overthrow the Fujimori coalition.

EIR’s intervention set off hysteria. Two prominent oppo-

sition dailies, *La República*, the mouthpiece for the narco-terrorist São Paulo Forum interests in Peru, and *Liberación*, on Oct. 9 ridiculed Small as a “know-nothing,” and denounced his charges as “ridiculous,” “delirious,” and “absurd.” *La República* followed up the next day with a pathetic slander against LaRouche, whom they labelled a “neo-Nazi,” while calling Small (who is Jewish) “the representative of an anti-Jewish group.”

LaRouche’s influence in Peru is one of Wall Street’s biggest concerns. An Aug. 31 *Los Angeles Times* article on the crisis in the Andean countries let the cat out of the bag. The newspaper complained that Fujimori’s Peru had only “globalized” economically, while politically, “the regime has hardened its tone with anti-U.S. diatribes and a strange affinity for the far-right ramblings of the U.S.-based Lyndon LaRouche movement.”

The televised broadcast of Small’s charges — in fact, they were the third consecutive Sunday airing in Peru of comments by spokesmen for the LaRouche movement — clearly indicated that the civic-military nationalist alliance associated with the Fujimori government has not given up the fight for Peruvian sovereignty, and continues to pay close attention to what LaRouche has to say.

The military issue is critical. With Fujimori now a lame duck President, the National Intelligence Service (SIN) set to be dismantled by the end of October, and its chief architect Vladimiro Montesinos in precarious exile, Wall Street is focussing its fire on the military, the one institution left standing which can hold Peru together as a nation, and which remains under the leadership of firmly committed nationalists.

Through its agents in the opposition, Wall Street is demanding a sweeping purge of the military officer corps — some speak of purging 30%, at minimum — starting with the head of the Joint Chiefs of Staff, Army Gen. José Villanueva Ruesta, whom they seek to drive out by December, at the latest. Wall Street’s media outlets insist, as a *Washington Post* article asserted on Sept. 30, that “the test of whether we are on track toward real democratic elections will be in the decision of the new Army command.”

Wall Street’s premier mouthpiece, the *New York Times*, suggested on Oct. 1 that the OAS take charge of this decision. It demanded that the OAS’s “dialogue committee . . . discuss who will take charge of the election apparatus, changes in the election rules and even which military officers will be permitted to succeed the top commanders of the army set to retire in December.”

“Permitted,” no less.

Documentation

The Peruvian daily Expreso ran the following article, entitled “U.S. Interests Are Behind Campaign Against the Armed Forces,” on Oct. 9:

“Washington became hysterical over Alberto Fujimori’s proposal to create a United States of South America,” stated U.S. analyst Dennis Small, who declared that last week’s campaign against the Armed Forces obeys the interests of Wall Street’s financial centers.

In statements to *Frecuencia Latina* [Channel 2], he added that they would not tolerate a government like Fujimori’s, and his alliance with the Armed Forces. That is why, he said, “the instrument through which they are operating is the OAS, and, especially, through Luigi Einaudi, who is the brains behind all this.”

United South America

According to Small, what really happened is that President Fujimori gave a speech on Sept. 1 at the South American Summit in Brasilia, where he proposed integration for the creation of a United States of South America.

The idea he presented was to achieve economic and infrastructural integration, especially between Brazil and Peru, to replace the current economic model of the International Monetary Fund. “This kind of proposal threatens the international financial system, which is hanging by a thread,” [Small] said.

Fujimori’s proposal, on top of the role which Peru’s civic-military alliance has played against narco-terrorism, he said, meant that Washington was at the end of its rope. “They decided on Sept. 1 that they were going to topple the Fujimori government, to break the link between him and the military; that’s why they launched the Montesinos case,” he emphasized. He said that on Sept. 8, U.S. Secretary of State Madeleine Albright met with Fujimori and gave him an ultimatum, and, from that moment, all the developments which Peruvians know, were unleashed.

“That’s when they gave the green light, not because of the Montesinos affair, but because of the international financial crisis and Fujimori’s proposal in Brazil,” he said.

Coup Danger

For Small, there is, indeed, a danger of a coup, but it does not come from the Armed Forces, but from the OAS-sponsored dialogue committee. “It is a group of persons whom no one elected, but who have been imposed from abroad, and are taking on all the attributes of a government,” he pointed out.

He specified that although [the State Department’s] Plan Colombia is tied to the campaign against the Armed Forces, it is not a direct relationship. “[Plan Colombia] is a proposal which has no possibility of defeating the FARC, but rather it is a vehicle for imposing limited sovereignty on the nations surrounding Colombia, so that they will participate in a multi-lateral military operation.” He added that it was Albright, who travelled to South America at the end of August, who proposed to the governments of the region that they should permit military bases to be established in the Amazon. . . .

India and Russia Sign Strategic Partnership, Back Multipolar World

by Ramtanu Maitra

A whirlwind four-day trip to India, on Oct. 3-6, by Russian President Vladimir Putin, resulted in the signing of a ten-point agreement, the centerpiece of which is the declaration that as strategic partners, the two nations will work toward establishing a multipolar world. Both nations agreed that all threats to strategic stability and international security must be addressed, taking into account the legitimate security interests of all nations.

The six-page joint statement, issued at the end of President Putin's stay, said that the strategic partnership signed by the two countries marked a step forward in the further elaboration of the principles contained in the Indo-Soviet Treaty of 1971, and others agreed upon between India and Russia in 1993 and 1994.

The Russian President was accompanied by a high-level delegation of government and business leaders, specialists in the areas covered by several new bilateral agreements. The declaration for strategic partnership included bilateral agreements. These agreements were on enhancing cooperation in science and technology, with special emphasis on the peaceful uses of nuclear energy; Russian supply of military hardware and licenses to manufacture Russian tanks and aircraft in India; and a joint effort to curb extremism and terrorism, now being bred in Afghanistan.

Agreements were also signed to enhance economic and trade relations; trade had fallen to only \$1.5 billion in 1999, and while improving this year, it is not expected to surpass \$2 billion. The eagerness of both countries to move beyond this low level was evident even before the summit, in discussions that go beyond the bilateral. These include the statement of intent to develop the North-South Eurasian transport corridor, signed by Russia, India, and Iran last month in St. Petersburg (*EIR*, Sept. 29, p. 22), and Russia's solicitation of Indian involvement in Sakhalin Island oil development, where Japan is also a partner.

New Formulation

The Russian President's trip was originally scheduled to take place in early 1999, when President Boris Yeltsin was in power. However, Yeltsin's poor health, and political instability in both countries, resulted in the trip being postponed. President Putin's trip took place in a much changed environ-

ment, with the Indian political scene seemingly more stable. The overall situation in South Asia, however, has deteriorated further. Ravaged by international terrorism and massive drug trafficking unleashed from Afghanistan, South Asia has emerged as a highly dangerous and volatile region. During the last year, violence in Kashmir has increased rapidly, and terrorism, under the garb of "Islamic extremism," is now spreading toward Central Asia.

During the same period, India's relations with China have improved, although they deteriorated with Pakistan. India's relations with the United States have also improved vastly over the last year.

Russia, for its part, is beset with internal economic problems, as well as fighting the Chechen separatists. Moscow has become increasingly concerned over the rise of an orthodox Islamic regime in Afghanistan, which provides support for insurgencies in the Central Asian republics.

In December 1998, when then-Russian Prime Minister Yevgeni Primakov was in Delhi to prepare for Yeltsin's visit, he had spoken of establishing a "strategic triangle" among Russia, China, and India, that would be in the interest of peace and security. That question is still hanging in the air, as evidenced by a Sept. 28 interview with the *Russia Journal* and *India Today*, in which Putin was asked about the Primakov overture. His cautious reply was that "bilateral relations" and "the architecture of international relations as a whole" were his priorities, "with due account for the interests of all interested states. Such states, without any doubt, are India and China and Russia. But everybody will understand us if we are going to say that India, China, and Russia have some common interests as countries located in that region, interests that we want to pursue jointly. I do not see anything special in this, nothing dangerous."

The new Indo-Russian declaration on strategic partnership, issued Oct. 4, was a measured one, as carefully worded as Putin's remarks. Both sides stressed that the strategic partnership agreement is not aimed against any country or group of countries, and would not in any way mean the formation of a strategic alliance. But it is also evident that neither Russia nor India is comfortable with the present unipolar world. In the joint declaration, it was stated that Russia and India would work together for a multipolar world, as Moscow backed In-

dia's inclusion in the United Nations Security Council as a permanent member. Russia, India, and China, among others, had earlier objected to the United States' plan for a missile defense system, indicating their refusal to accept the present-day dominance of the United States in military and strategic spheres.

At the same time, the declaration for strategic partnership was quite different from the 1971 Indo-Soviet Friendship Treaty. Formulated during the Cold War, the 1971 treaty was defensive by nature, and for all practical purposes was designed to counter both China and the United States—considered then to be common foes by both Russia and India. The strategic partnership now envisaged, takes into account a much wider political objective, one aimed at re-fashioning the international political order. Both sides have committed themselves not to participate in any military, political, or other arrangements or armed conflicts threatening the other side.

Agreement on Nuclear Power

President Putin's trip took place at a time when Indo-Russian trade has flagged drastically. Although bilateral trade grew by about 17% during the first half of 2000 compared with the same period in 1999, trade overall is not expected to go beyond a meager \$2 billion. Last year, total bilateral trade between these two large countries was only \$1.5 billion—a little less than the alleged illegal trade that takes place between India and Pakistan across their borders.

It was evident from the outset that the Indo-Russian economic and trade relations needed more than a push. The strategic partnership declaration calls for annual summit-level meetings of officials dealing with foreign affairs, defense, energy, and the economy. Deeper long-term and diversified Indo-Russian cooperation will be organized in the spheres of metallurgy, fuel, energy, information technology, and communications.

New Delhi is particularly happy over the Russian response to India's request for cooperation in the sphere of peaceful uses of nuclear energy. Putin became the first Russian President to visit India's premier atomic energy research center, the Bhabha Atomic Research Center.

India has contracted for two 1,000 megawatt reactors from Russia for installation at the Kudankoolam Atomic Power Station, which is now under construction in southern India. It is reliably reported that Russia will be supplying three more such reactors for installation at Kudankoolam. During Putin's visit, the two countries signed a memorandum of understanding on intensifying bilateral cooperation in the area of nuclear energy.

New Delhi also noted that Russia, now under the restrictions of the Nuclear Suppliers' Group on nuclear technology exports to aspiring nuclear power nations, such as India, may find it difficult to carry out its promise. India had a previous disappointment in the 1990s, when Moscow, which had con-

tracted to supply India with cryogenic engines for its space program, backed out under U.S. pressure.

However, Russian Deputy Prime Minister Ilya Klebanov struck a defiant note. On the eve of Putin's departure for India, Klebanov went on record saying that international restrictions would not interfere with Indo-Russian cooperation. He also said that Russia hopes to take part in setting up at least half of India's planned new nuclear capacity—which would translate into 5,000 MW, because India plans to install 10,000 MW of electrical power based on nuclear generation during the present decade.

Military Supply

As was widely reported prior to President Putin's visit, the Russian government has agreed that military supplies to India will remain the cornerstone of Indo-Russian relations. Moscow has agreed to license production in India of SU-30MK1 fighter jets and T-90 tanks. India purchased 140 SU-MK1s and 320 T-90 tanks from Russia. In addition, MIG-29K air defense planes and a 30,000 ton aircraft carrier, the *Admiral Gorshkov*, will be supplied to India. Although the *Admiral Gorshkov* will be given to India free of charge, the refitting of the aircraft carrier will cost India close to \$500 million, reports indicate. Though officials claim that the military supply deal is going to cost India about \$3 billion, reports from Moscow say that the final cost may be as high as \$7 billion.

In the areas of defense and nuclear power, a high-level joint research and development regime has been set up. The need for tighter secrecy was spelled out by Russian Prime Minister Mikhail Kasyanov, who said that to guarantee the "mutual security of secret materials" generated in the process of joint activity, both sides have agreed to establish a watchdog committee.

Energy cooperation between Russia and India will be expanded in the area of natural gas. Rem Vyakhirev, longtime head of the Russian gas monopoly Gazprom, accompanied the Russian government delegation. On Sept. 29, Ambassador Satinder Lamba, India's representative in Moscow, told the Russia daily *Kommersant*, that Gazprom would commence exploration in India in collaboration with the Gas Authority of India, while the Indian national Oil Natural Gas Commission (ONGC), through its Videsh Oil foreign section, would join with the Russian state-owned Rosneft firm in Sakhalin Island offshore oil development. In an address to Indian businessmen in Bombay (Mumbai) on Oct. 5, President Putin said that this oil deal "may mark a breakthrough in our trade and economic cooperation," adding that he looked forward to seeing other Indian companies among the largest investors in Russia.

Concern over the Taliban

Less than a week prior to Putin's visit, his special envoy, Sergei Yastrzhembsky, had visited Pakistan to discuss the

Afghan situation. New Delhi became concerned by reports that the objective of that visit was to extend a friendly hand to Islamabad on behalf of Moscow, in order to tame the Taliban rulers in Afghanistan. At the time that Putin arrived, Indian media were reporting on the alleged deal.

To a large extent, Putin succeeded in reassuring New Delhi that Moscow has not changed its policy on either the Taliban or Kashmir. He endorsed India's position on disputed Kashmir, saying that talks with Islamabad can start only when "foreign interference" in Kashmir comes to a halt. Though President Putin had barely veiled his denunciation of Pakistan, at the same time, he urged both India and Pakistan to "compromise" on Kashmir on a bilateral basis.

If the Russian President was less than specific on the Kashmir issue, he nonetheless identified clearly the focus of the alliance between India and Russia as the struggle against international terrorism. Describing terrorism as the principal threat to the objectives of the two countries, he urged India to join Russia to act against international terrorism as the perceived enemy.

Elaborating the theme in an address to a packed Indian Parliament, Putin said that he was sharing "absolutely true and verified information that it was often the same individuals, the same terrorist organizations, that were conducting terrorist acts, from the Philippines to Kosovo, including in Kashmir, Afghanistan, and Russia's North Caucasus."

Putin said that it was time to combat organized international terrorism decisively, and accordingly, Russia has supported the Indian proposal to create a consolidated front against global terrorism.

Mixed Reactions to a Strategic Partnership

Reaction to the Indo-Russian declaration for a strategic partnership has been mixed. While Beijing hailed it as a positive development, the West was less exuberant. Washington has so far refrained from sounding negative. Nonetheless, a senior State Department official told a Pakistani news correspondent that the United States has always encouraged Russia and other countries to take into account the effects of weapons sales on regional stability.

On the other hand, the reaction from Pakistan has been one of unease. A Pakistan Foreign Ministry spokesman said on Oct. 8 that the huge military supply to India by Russia may trigger an arms race in the area. One leading Pakistan news daily expressed alarm, speculating that there is an American-Russian agreement to appoint India as the "regional policeman."

The largest circulation Urdu news daily, *Jang*, editorialized on Oct. 5, that Washington and Moscow are doing their best to woo New Delhi to strengthen links with it in all fields. "The Russo-Indian alliance, based on agreements signed by Putin in India, especially defense deals, nuclear collaboration, and cooperation in combating terrorism, can create problems for Pakistan," the editorial said.

Brazil Toughens Security in Face of FARC Threat

by Silvia Palacios

The Sept. 22 arrest by Brazilian Federal Police of Jesuit priest Francisco Antonio Cadena Colazzo (a.k.a. Oliveira Medina), who has operated for at least the last two years as the narco-terrorist Revolutionary Armed Forces of Colombia's (FARC) "ambassador" in Brazil, should not be dismissed as a routine operation, or a one-shot deal. The arrest, rather, signals that Brazil's security policy as a whole has shifted, based on the recognition by Brazilian Armed Forces and related security agencies, that the political advance of Colombia's narco-guerrillas along the strategic Amazon border, and the FARC's open and public links to Brazil's Landless Movement (MST), constitute a threat to Brazil's territorial integrity.

The arrest of "Father" Cadena, on charges that he was "dangerous to national security," occurred as "Operation Cobra" was set into motion. Led by the Federal Police, Operation Cobra has the mission of reinforcing security along the 1,500 kilometer border with Colombia, in the Amazon area which the Armed Forces considers the area of greatest geopolitical tensions in the country. In recent years, the Armed Forces have revamped their war plans, based on the hypothesis that the Amazon is the principal area to be defended, given the drive by the Anglo-American powers to impose the doctrine of "limited sovereignty" upon Brazil. The Army is preparing to rapidly double the 22,000 troops it currently deploys in that border area.

The warnings coming from the Armed Forces have become urgent. One of the principal items discussed at an extraordinary Oct. 4 meeting of the General Officers of the Army High Command, for example, was the repercussions for Brazil of the ongoing crisis in Colombia. As they were meeting, Rear Adm. Helcio Blacker, Deputy Chief of Intelligence for the Chief of Staff of the Defense Ministry, was telling hearings on the Colombia crisis called by the Chamber of Deputies' Amazon and Regional Development Commission, that Brazil would respond militarily to any attempt to invade its territory, whether by guerrillas, drug traffickers, or foreign troops of any nationality.

No More Flirting with the FARC

Cadena had been working on politicians, diplomatic circles, and the Brazilian National Congress since 1998, attempting to get the Fernando Henrique Cardoso government to recognize the FARC as a "belligerent force," which would allow it to maintain official diplomatic offices, with the same



Colombian police and military personnel held prisoner by the FARC in a Nazi-like concentration camp. A FARC-style movement now threatens to engulf Brazil.

status granted the Palestine Liberation Organization earlier. In late 1998, Cadena and *Comandante* Hernan Ramírez of the FARC's International Commission, redoubled their pressure, securing interviews with the governors of the three influential states of Rio de Janeiro, São Paulo, and Rio Grande do Sul, and getting Congressman Arturo Virgilio, a member of President Cardoso's political party, to mediate for them. The Ministry of Foreign Relations and the President himself flirted with the idea of diplomatic recognition, and permitted the FARC's "diplomats" to operate freely inside the country.

This narco-terrorist diplomacy began to be cut off in October 1999, following the visit of former Colombian Armed Forces Commander and Defense Minister Gen. Harold Bedyoya (ret.) to Brazil. His public and private interventions, widely reported in the Brazilian press, were successful in unequivocally demonstrating both the narco-terrorist nature of the FARC and its role in the "Balkanization" of Colombia, and its links to the MST.

The Brazilian Intelligence Agency recently released a report revealing that a faction of the FARC, operating near the Brazilian border, was "recruiting" Brazilian youths to its ranks. The group was identified as the "Amazon Front," which maintained two bases along the Putumayo and Caqueta Rivers, both of which cross from Colombia into Brazil, emptying into the Amazon River.

There is also solid evidence that Brazilian territory is being used by the FARC as a major logistical base for its drugs-for-weapons trade. *O Estado de São Paulo* reported on July 11, for example, that two Brazilian aircraft downed inside Colombian territory, were part of the "Surinam Connection."

In this route, heavy-caliber weapons are smuggled into Brazil's tiny neighbor, Surinam, from Europe, and transported by air into the south of the state of Pará in the Brazilian Amazon, whence they head for Colombia, to be sold to the FARC in exchange for drugs.

Cadena was arrested in Foz de Iguaçu, precisely the area identified by the Federal Police as a major logistical base for the FARC. This is where Cadena had been most active, deploying throughout the state of Paraná, giving presentations, and visiting MST encampments which, together with the Workers' Party (PT), is the FARC's main lobbyist, outside the government. The Jesuit "ex-priest" was backed by a network of Theology of Liberation activists, who have a very strong base in Paraná, from where they direct part of the MST's operations in the Punta de Paranapanema, the area where the MST envisions establishing a "liberated" enclave, the so-called "Republic of Pontal."

The fact that the MST poses a direct threat to Brazilian national security was confirmed publicly for the first time by a high-level Army general on Sept. 20, at a ceremony called by the Southern Military Command, which covers Brazil's three southernmost states, to pay homage to Marshal Castelo Branco, the first President of the Brazilian military government in 1964. The Commander of the region, Gen. Francisco Pinto dos Santos Filho, read the "Orders of the Day" before 200 officers, among them five active-duty generals of Rio Grande do Sul, three reserve generals, and Archbishop of Pôrto Alegre Dedeus Grings. His "Orders of the Day" were a fierce defense of the role of the Armed Forces in combatting groups that threaten Brazil's integrity — an unmistakable reference to the MST.

Wall Street's Coca Rebellion Lays Siege to Bolivia

by Cynthia R. Rush

As *EIR* goes to press, tensions are running high in Bolivia, as coca producers under the leadership of drug legalizer Evo Morales, president of the Andean Council of Coca Leaf Producers (CAPHC), continue to block the crucial highway between Cochabamba and Santa Cruz in eastern Bolivia, to protest U.S.-financed construction of three military bases, and President Hugo Bánzer's commitment to completely eradicate coca production in Bolivia by 2002. A dire economic crisis in the country, the poorest in South America, is fuelling the protests, which have been joined by 80,000 teachers striking for a 50% wage increase, and farmers demanding water rights.

At this point, Morales, whose CAPHC belongs to Fidel Castro's narco-terrorist São Paulo Forum, is threatening the government with a separatist offensive to turn "the entire tropic of Cochabamba into a free coca-producing zone," and make Bolivia a "mini-Colombia," free from "U.S. imperialism," which he equates with the coca eradication drive. While the government is negotiating with the "cocaleros," Interior Minister Guillermo Fortún has warned that if an agreement isn't reached soon, the only option would be military intervention to dislodge the protesters. Thus far, ten people have been killed in the month-long conflict between 15,000 coca producers and the police and military.

A Bulwark against Terrorism

The upheaval in Bolivia goes hand in hand with an offensive by Wall Street and the City of London to overthrow neighboring Peruvian President Alberto Fujimori. If the Anglo-American financial oligarchy is to succeed in its strategy of creating "narco republics" throughout the region, Fujimori must be knocked out. His government has served as a bulwark against narco-terrorism and drug production, which is advancing with astonishing speed, and with Wall Street's blessing, in Colombia. In alliance with the Armed Forces, Fujimori defeated the murderous Shining Path and Túpac Amaru Revolutionary Movement (MRTA), and reduced coca production from 129,110 hectares in 1992 to 38,700 hectares in 1999. Within the last four years, overall coca production has been reduced by 66%.

Bánzer, the former military junta President of the 1970s who was democratically elected in 1997, has committed a

similar "crime," of trying to eradicate coca production in Bolivia—which is currently the third-largest producer in the world. With backing from the Clinton Administration, in 1999 he reduced cultivation in the major coca-producing region of Chapare by 68%—43% nationwide—and has set Dec. 15 as the deadline for eradicating all coca production in Chapare. The next goal will be to eradicate 6,000 acres of illegal coca production in the Yungas region by early in 2001.

According to the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs' March 2000 report, the Bánzer government has also had an extremely effective chemical interdiction program, which has forced Bolivian traffickers to rely on substitutes for scarce and expensive chemicals smuggled in from abroad.

Bolivia is a glaring case study of how Wall Street forced a country into illicit drug production, beginning during the 1985-87 government of Víctor Paz Estenssoro, whose Finance Minister, Gonzalo Sánchez de Lozada, hired Harvard University's Jeffrey Sachs as his adviser. By 1987, their monetarist, free-market, and privatization policies wiped out productive activities, especially in the mining sector, and drove thousands of unemployed miners "into the coca-growing region to find work," as Sachs confessed in his 1988 study *Bolivia: 1952-1986*. Sánchez de Lozada's Presidency in the mid-1990s finished off the job he began with Sachs in 1985.

Bánzer vows he won't back down from coca eradication. But his plan to offer impoverished coca producers "crop substitution," can't work under conditions of worsening economic crisis and global financial disintegration, when no alternatives for real economic or industrial development are offered. The International Monetary Fund and World Bank demand that the government stick with their monetarist prescriptions, and are tying future aid to political reforms to shape Bolivian "democracy" according to Wall Street's anti-nation-state agenda. Limited action by the United States, the United Nations, and the Paris Club of creditors, to finance crop substitution and forgive some of Bolivia's foreign debt, hasn't begun to address Bolivia's urgent economic needs.

Bánzer has recently raised questions about globalization's aims, and he had been scheduled to travel to Japan for an official Oct. 1-8 visit, which he had to cancel because of the cocalero protest. The trip was to have included discussion of Japanese investments in the country, seen by Bánzer as a lifeline in an otherwise desperate situation. Moreover, three weeks or more of conflict has caused at least \$60 million worth of damage to the country's highways, whose repair cannot be easily financed. The blockade of all roads leading into the capital of La Paz, as well as to the agricultural centers of Cochabamba and Santa Cruz, caused food prices to skyrocket. Meat prices have doubled, and some vegetable prices have quadrupled, since the roadblocks began in mid-September. Even with Air Force airlifts to supply food to major cities, there are still shortages, and the blockade of roads to Chile and Peru has also caused losses in the range of \$120 million.

Koreans Continue Peace Drive Despite Wall Street Provocations

by Kathy Wolfe

North Korean National Defense Commission Vice Chairman Cho Myong-nok visited Washington on Oct. 9-12 as a personal envoy of his head of state, Democratic People's Republic of Korea (D.P.R.K.) Chairman Kim Jong-il. There, he delivered a letter from Kim to President Bill Clinton outlining Kim's proposals for cooperation, and held a series of positive meetings with Clinton and other officials.

The two sides issued a joint communiqué calling for peace and stability on the Korean peninsula, the re-opening of four-party talks between the United States, China, and the two Koreas on a peace treaty to formally end the 1950-53 Korean War, and the creation of mutual diplomatic missions as soon as possible.

U.S. Secretary of State Madeleine Albright, who was remarkably friendly in her toast at the Oct. 10 dinner she hosted for Vice Chairman Cho, said that she would be accepting his invitation to visit Pyongyang soon. In an Oct. 12 press conference, Albright added that President Clinton might also visit Pyongyang by year's end, but that the United States was not, at this time, removing North Korea from its list of "states of concern" which allegedly support terrorism.

According to Seoul's leading newspaper, *Chosun Ilbo*, Cho also brought President Clinton details of Kim Jong-il's plan, introduced at the Okinawa Group of Eight summit on July 21 by Russian President Vladimir Putin, to abandon North Korea's long-range Daepodong missile project, if the United States, South Korea, and their allies would provide financial assistance to launch Pyongyang's satellites in other countries. Arriving at the White House in full military uniform, Cho said that he was doing so to demonstrate the agreed support of North Korea's military for better relations with the United States. At this "historical moment . . . I am here as the special envoy of Gen. Kim Jong-il," Cho said. "We will do our best to have frank discussions with the American leadership so as to remove deeply rooted and age-old distrust and make an epochal change in advancing the relations between our countries to a new stage."

Cho's visit followed a remarkable "Joint U.S.-D.P.R.K. Statement on International Terrorism," issued on Oct. 6 after a week's talks at the UN. The two sides "agreed that interna-

tional terrorism poses an unacceptable threat to global security and peace, and that terrorism should be opposed in all its forms," the statement said. "The D.P.R.K. affirmed that, as a matter of official policy and as its government has stated previously, it opposes all forms of terrorism. . . . Taking account of the D.P.R.K.'s opposition to international terrorism, the United States noted that, as the D.P.R.K. addresses the requirements of U.S. law, the United States will work in cooperation with the D.P.R.K. with the aim of removing the D.P.R.K. from the list of state sponsors of terrorism." This is a step toward tackling the issue of the Japanese Red Army provocateurs who were granted asylum in North Korea during the Cold War after hijacking a Japanese plane to Pyongyang, which Japan naturally wants resolved.

Going Ahead No Matter What

The fact is, that South Korean President Kim Dae-jung, who initiated the current quick-moving phase of peace talks, and North Korean Defense Chairman Kim Jong-il, who has forcefully brought his military behind this move, are in control of this process. President Clinton has striven for peace in Korea since he took office, but has been ineffective on foreign policy since his impeachment. The explanation for the oddly cooperative behavior of Albright, U.S. Defense Secretary William Cohen, and their bureaucracy, during the Cho trip, is that the South and North Korean leaders are going ahead no matter what Washington does, and Cohen and Albright recognize that they had best go along.

With the dollar and Wall Street about to collapse, and U.S. elites hysterical about it, there is little Washington can do to stop any strong action by Asian leaders—a fact those considering an "Asian Monetary Fund" should urgently realize. Kim Dae-jung, for example, won "full support" for his peace initiative from Japan after his Sept. 24-25 summit in Atami with Japanese Prime Minister Yoshiro Mori, *Chosun Ilbo* reported. "During the meeting, the Japanese government actively supported the South-North dialogue and our stance," Kim told a joint news conference with Mori.

Shortly after the Atami summit, Seoul and Tokyo each

announced they will be sending 500,000 tons of rice (a total of 1 million tons) to North Korea, almost one-third of the country's annual consumption requirement.

"Kim Dae-jung sent a very clear message today to the United States and Japan that South Korea is now playing the main role," Pyon Jin-II, publisher of the Tokyo-based *Korea Report*, told Agence France Presse. "Kim has taken the initiative for the détente since the Inter-Korean Summit. He now wants Japan and the United States to follow."

More Provocations

The only cards that Wall Street and its hired guns in certain Pentagon offices can play now are pure provocations, such as that in the Frankfurt Airport on Sept. 4, when "U.S. air security agents" attempted to strip search North Korean President Kim Yong-nam and his delegation, who were en route to the UN Millennium Summit in New York. Albright was forced to publicly apologize to Pyongyang for the incident, but *EIR*'s investigation showed that the FBI, the Department of Justice, and a related faction of the U.S. military were behind the affront. The fact that North Korea remains on the State Department's "states of concern" list made this incident possible, and makes further such incidents possible as well.

No sooner was the ink on Albright's apology dry than the same wing of the Pentagon was at it again. On Sept. 22, the Defense Department released a report stating that "North Korea remains the major threat to stability and security in Northeast Asia and is the country most likely to involve the United States in a large-scale war."

"Here we have peace breaking out in Korea," as Asian specialist Chalmers Johnson told *EIR*, "and it's the U.S. military which insists on acting like a 'rogue state,' or surly at best."

"There is little or no evidence of economic reform, or reform-minded leaders, reduction in military forces or a lessening of anti-U.S. rhetoric," the Pentagon report went on. The 30-page document, entitled "2000 Report to Congress: Military Situation on the Korean Peninsula," dated Sept. 12, was written in response to Congress's fiscal year 2000 National Defense Authorization Act (Section 1233), which requires the DOD to submit a report "on the security situation" in Korea.

The report focusses on the North Korean threat to the Republic of Korea. "A decade of steep economic decline has not deterred the North's leaders from allocating precious resources to improving their military forces. The D.P.R.K. maintains a dogged adherence to a 'military first' policy even against the backdrop of a nation facing severe economic and social challenges," the report says. "If economic conditions worsen, we must consider that the North Korean economy could break down completely, precipitating social chaos and threatening the existence of the regime itself. We should

anticipate a flood of refugees, humanitarian needs, and the potential for chaos, a military coup, or the devastation of civil war."

On the other hand, "North Korea possesses weapons of mass destruction," including not only nuclear weapons, but enough anthrax, smallpox, bubonic plague, and other biological-chemical warfare agents to kill every man, woman, and child in South Korea, the report details.

The report attacks the concept of rebuilding the Korean peninsula's rail, road, and power infrastructure, which is a major node in the much-needed Eurasian Land-Bridge, or New Silk Road, between Asia and Europe. Seoul's "promises of massive road, rail, and electrical infrastructure improvements pose a dilemma" for South Korea, the DOD document states. "Without any simultaneous reduction in the D.P.R.K.'s conventional military capability, such infrastructure improvements enhance the North's ability to rapidly mobilize and invade south with minimum warning."

The Pentagon report was also held for specific release during Cohen's Sept. 15-24 nine-day tour of Asia. "Secretary Cohen hinted at U.S. impatience [with North Korea] in Tokyo Sept. 22," the DOD's American Forces Press Service (AFPS) reported in a Sept. 29 feature on Cohen's Asia tour. "You cannot have a situation where all the economic aid flows into the North and they continue to build up the military," Cohen told the Japanese Diet (parliament). "The United States is committed to the Asia-Pacific region and will remain engaged in helping solve the region's problems."

Threat of Economic Warfare

During his trip, Cohen repeated an implied linkage between acceptance of U.S. military superiority in Asia, and a threat of U.S. capital flight out of the region should Washington's dominance be challenged. "At the center of Cohen's trip was the idea he called the 'virtuous circle,'" the AFPS article notes. " 'Where there is security and stability, then investment flows,' he said to the [Japanese] lawmakers. 'If we have investment flowing in, then we have a chance to produce prosperity. Prosperity in turn promotes more security and further democracy. The moment there is an area of insecurity, investment flows out. Then you have all the social problems that are attendant to that.' "

Cohen's statement was seen by some as a veiled threat that East Asia ought not strike out on its own financially with an Asian Monetary Fund independent of the International Monetary Fund, which is controlled by the City of London and Wall Street. Just as certain Wall Street-dominated offices in the Pentagon would like to deny that "peace is breaking out" in Korea, however, this is another form of wishful thinking from Washington. As the Korean situation shows, should the leadership of Asia move strongly to create an independent AMF, there would be very little the Anglo-American elite could do to stop it.

East Timor: Another ‘October Surprise’?

Indonesia has been added to the list of nations targetted for elimination of its national sovereignty. Michael and Gail Billington report.

Sept. 17: The United States deploys a guided-missile carrier and three amphibious ships offshore, carrying more than 2,000 Marines.

Sept. 18: Six hundred U.S. Marines are deployed ashore to two areas adjacent to the border. U.S. officials claim it is for “humanitarian purposes.”

Sept. 19: U.S. Secretary of Defense William Cohen threatens to drastically expand already-existing sanctions, if U.S. and UN demands are not met.

Sept. 20: UN peacekeeping troops on the border are given orders to shoot to kill, without warning, any armed suspect. Previously, rules of engagement required shouted warnings and shots in the air before killing anyone who had not themselves fired on UN troops.

What country is this? Iraq, perhaps, or Yugoslavia, the so-called “rogue nations,” which have been subjected to Anglo-American unilateral warfare over the past years, and are top prospects for an “October Surprise” military action to prop up the election hopes of Wall Street’s George W. Bush or Al Gore? No, it is Indonesia, the world’s fourth-most populous nation, battling to survive after three years of International Monetary Fund (IMF)-dictated looting by speculators and foreign banks, while trying to hold itself together with a newly elected government against ethnic, religious, and separatist ferment which has been aggravated by growing poverty.

With the pre-programmed unfolding disaster of East Timor as the excuse, the “world’s only superpower” has added Indonesia to the list of nations eligible for the unilateral breach of sovereignty—economic, political, and military—by the British-American-Commonwealth (BAC) financial oligarchy, which has become their common practice.

A ‘Messy State’

One cheerleader for this London-Wall Street cartel, Thomas Friedman of the *New York Times*, on Oct. 4 declared Indonesia to be a “messy state,” a newly coined term, joining “rogue state” and “failed state,” as categories which, when applied by the likes of British Prime Minister Tony Blair, U.S. Secretary of State Madeleine Albright, or the *New York Times*, serve to justify unilateral intervention by the world’s self-appointed defenders of “democracy.” A “messy state,” says Friedman, is one “too big to fail, but too messy to work”

as a nation-state, therefore, by implication, requiring that its sovereignty must be relinquished in deference to “international interests.” Ominously, Friedman includes Russia, Pakistan, and China in this “messy state” category as well.

The context of the assault on Indonesia has less to do with East Timor, or even the much-publicized murder of three UN workers in West Timor (East Nusa Tenggara), by an enraged mob of East Timorese refugees on Sept. 6, than it does with the rapidly unfolding collapse of the international financial system. As the past year’s hyperinflation in the “new economy” asset bubble flows out into oil, metals, real estate, and other commodity prices, nations around the world are increasingly refusing to accept the IMF’s “Washington Consensus” of subservience to free-market globalization at the expense of their real economies and the welfare of their populations. To enforce their will over economic and political policy, the BAC oligarchy is instigating crisis, and planning intervention, in every corner of the world, including Indonesia.

Indonesia is also viewed by the City of London and Wall Street as the vulnerable spot in the newly strengthened alliance of the ten nations of the Association of Southeast Asian Nations (ASEAN), with China, Japan, and South Korea, known as “ASEAN-Plus-3.” ASEAN-Plus-3 issued a joint declaration in Chiang Mai, Thailand on May 6, setting in motion concerted efforts to create an Asian-wide monetary defense mechanism against international speculation, and an Asian Monetary Fund to generate real development in spite of the IMF. While the IMF publicly voices its approval of the Chiang Mai declaration, the financial oligarchy correctly fears that such regional measures will undermine IMF control, while serving as the seed-crystal for a new world monetary system to replace the bankrupt IMF-centered system altogether. Taking advantage of the instability of this transition period in Indonesia, by provoking multiple crises, serves their purpose.

Secretary of Defense Cohen, who flew into Jakarta on Sept. 18 to issue his threat of new sanctions, also visited other Southeast Asian nations, demanding that they prepare to intervene, together with the United States, in Indonesia or other potential “peacekeeping” or “humanitarian” crises. His proposal for multilateral military cooperation, which he calls the Asia-Pacific Regional Initiative, is precisely the same policy



Australian peacekeeping forces in Dili, East Timor, September 1999, under a UN mandate. The proposals to beef up UN peacekeeping operations amount to a renewed assault on the nation-state by the British-steered financier oligarchy.

demanding by the United States in Ibero-America, aimed at breaking up moves toward unity there, by promoting joint military operations, under U.S. direction, against any nation which promotes such unity or resists IMF dictates—such as Peru under President Alberto Fujimori (see *EIR*, Sept. 29, 2000).

Most ASEAN nations, recognizing that such arrangements would compromise sovereignty, and could be used to justify Western intervention into the region, have resisted these proposals. Malaysia, whose Prime Minister Dato' Seri Dr. Mahathir bin Mohamad has provided the vital leadership in rejecting IMF dictates in favor of the sovereign defense of the economic welfare of its citizens, has also refused to participate in Cohen's scheme. China has also kept its distance from U.S. overtures to join such multilateral military arrangements involving the United States.

A Textbook Case

The East Timor situation is a textbook case of a programmed point of crisis designed to justify intervention. A brief review of its history demonstrates the lies by commission and omission in nearly all press and official reports in the West.

Former colonial power Portugal, whose abysmal record of occupation was characterized in a 1973 UN report calling it possibly the worst among all former colonial powers, held its East Timor enclave in a state of abject poverty and ignorance for over 450 years. Also in 1973, the World Health Organization described East Timor as one of the worst places in the world to live. Suddenly, in April 1975, after a leftist military junta came to power in Lisbon, Portugal chose to rid

itself of East Timor, literally deserting under cover of night, but not before distributing its arsenal of far more sophisticated weapons than locally home-made fare or World War II-vintage arms to both sides, but overwhelmingly to the radical Marxist Revolutionary Front for an Independent East Timor (Fretelin).

Four months later, in August 1975, the Portuguese military abandoned East Timor, and in another three months, November 1975, Portugal declared itself the administrative power in the former colony, an incredibly hubristic claim, which the United Nations has recognized, right up to the Aug. 30, 1999 referendum. Two days after Fretelin declared the formation of the Democratic Republic of East Timor (D.R.E.T.) on Nov. 28, 1975, the pro-integration with Indonesia coalition issued its "Balibo Declaration," announcing the integration of East Timor with Indonesia. On Dec. 7, 1975, the pro-integration coalition, backed by the Indonesian military, took control of the capital city of Dili, and on July 17, 1976, Indonesian President Suharto signed the law that established East Timor as the 27th province of the Republic of Indonesia.

In one of the few honest statements about East Timor in these past months, Australia's Ambassador to Indonesia during 1975-78, Richard Woolcott, defended Australia's support for Indonesia's 1975 takeover in East Timor, in a commentary in the *Jakarta Post* on Sept. 20, 2000. Woolcott wrote: "Given the irresponsible actions of Portugal and Fretelin, the impatience of Indonesia, and the support for incorporation on the part of major and regional powers, the 'pragmatic' acknowledgment that incorporation had become inevitable in the second half of 1975 was the right and practical policy for Australia to adopt. . . . The other countries of

ASEAN, then still in its formative stages as a regional organization, were urging Indonesia not to permit the emergence of an unstable mini-state in Southeast Asia.”

In January 1999, the Howard administration in Australia did an about-face on Indonesia's incorporation of East Timor, urging then-President B.J. Habibie to sponsor a referendum on autonomy in the province. In September 1999, Prime Minister John Howard's Foreign Minister, Alexander Downer, commented on the devastation wrought in capital Dili, by pro-integrationists enraged by the outcome of that referendum, by comparing the Dili landscape to that of Phnom Penh, Cambodia in April 1975, after the genocidal Khmer Rouge had forcibly evacuated the entire population.

The comparison was more appropriate than Downer may have known. The Sept. 22, 1999 *Phnom Penh Post* reported that the only countries that recognized the Democratic Republic of East Timor were Pol Pot's Democratic Kampuchea, and fellow former Portuguese colonies Mozambique, Angola, Guinea Bissau, and Cape Verde—the latter all prodigies of the particularly bloody school of revolution at Dar Es Salaam University in Tanzania. Subsequently, the Documentation Center of Cambodia uncovered evidence that the Khmer Rouge trained a delegation from the Democratic Republic of East Timor for a year, beginning in 1976. Ngo Pin, a translator in the Democratic Kampuchea Foreign Ministry at the time, told the *Phnom Penh Post* that Ieng Sary organized courses “to teach the East Timor students the art of revolution. . . . The cadre were taught how to fight with guerrilla tactics.” A letter from then-D.R.E.T. military commander Rogerio Lobato to KR Deputy Prime Minister Ieng Sary reads in part, “The one-year period of visit and stay of the three of us in the Democratic Kampuchea, together with the precious knowledge we have gained, renders great significance for the revolutionary resistance in East Timor.” Lobato, however, was subsequently discredited when he was caught smuggling diamonds in Mozambique.

In East Timor, Fretelin retreated into the jungles, to wage terror attacks on military and government officials. The Indonesian Army was advised and encouraged by the United States and Britain to adopt the “strategic hamlet” approach, which failed so miserably for the United States in Vietnam. Indonesia used strong measures to impose order, and, by their own admission, over the years, was guilty of several episodes of brutal and illegal repression of civilian supporters of independence—for which a number of military officers were tried and convicted in Indonesian courts. Both sides relied on local militias to secure and defend territory.

Despite the severe Indonesian Army repression, the combination of government-sponsored economic development and the criminal prosecution of those guilty of abuses against the political opposition, brought the situation into relative peace during the mid-1990s, although human rights organizations financed by London and Wall Street maintained a constant flow of diatribes against Indonesia's control of the prov-

ince. Indeed, on the international front, the cause of East Timor's independence has been championed by the three former colonial powers in Indonesia—Britain, Portugal, and the Netherlands—and by an extensive network of international non-governmental organizations (NGOs), which has flourished since the Reagan-Bush Administration in the early 1980s began the process of “privatizing” government policy-making through the National Endowment for Democracy, and its Democratic and Republican siblings, the National Democratic Institute and the International Republican Institute. These, in turn, have spawned like-minded institutions in western Europe and key British Commonwealth countries, Canada and Australia.

Indonesia spent \$892 million to build essential social and physical infrastructure to make East Timor humanly habitable, and continued to spend an estimated \$100 million per year on the province, but the UN refused to recognize Indonesia's jurisdiction over East Timor, preferring the ambiguity created by Portugal's dubious claim as the administrative power, without paying the price of upkeep.

Nonetheless, the Indonesian government made extraordinary progress in alleviating the poverty and backwardness left behind by colonial Portugal. A brief comparison of East Timor in 1976 to 1996 makes the point: From 1976, the 20 kilometers (12.5 miles) of paved roads, all within the capital of Dili, increased to 1,645 kilometers (1,022 miles) of asphalt roads throughout the province. The number of schools serving a population of 625,000 grew from 47 elementary schools, 2 middle schools, 1 high school, and no colleges, to 30 kindergartens, 684 elementary, 109 junior high, and 54 senior high schools, and four colleges, serving the population of 843,100. In terms of health care, the number of hospitals and clinics increased from 2 hospitals and 14 clinics with 3 doctors and 2 dentists in 1974, to 11 hospitals and 332 village health centers, staffed by 221 physicians, 172 general practitioners, 5 specialists, and 40 dentists, assisted by more than 1,500 paramedics in 1996, most of which increase was accomplished during 1991-96. At the time of integration, 90% of the population were illiterate; by 1996, illiteracy had been reduced to an estimated 18.75%.

Asia's Economic Crash

Then, in 1997, the global speculators and the IMF laid waste to the Indonesian economy (and the rest of the ASEAN economies as well), stealing billions, and driving the population back into poverty, after 30 years of significant economic improvement. In this crisis, old ethnic, religious, and separatist tensions were easily rekindled. The IMF orchestrated the removal of President Suharto (a fact that many Western officials, including the IMF, openly admit today), and then applied maximum pressure on his successor, Habibie, to set up a referendum in East Timor to vote to “accept” or “reject” greater autonomy *within* Indonesia. Australian Prime Minister Howard's January 1999 letter to President Habibie was

the *coup de grâce*, reversing Australia's support for Indonesia's integration policy, the only country in the world to have endorsed Indonesia's incorporation of East Timor. President Habibie, initially enraged, eventually agreed to set up a vote.

Then the "international community" went to work. UN agencies, openly favoring the pro-independence forces, were sent to organize the election process. Huge amounts of money were promised to the East Timorese if they voted for independence. Former colonial power Portugal alone pledged an estimated \$3 million! With the domestic economy in shambles, and with promises of a new paradise coming from the world powers and the UN, the vote, not surprisingly, was a landslide for change. Also not surprisingly, the human rights mafia made no complaints about neo-colonial powers "buying" the election.

The murderous rampage by pro-Indonesian militias and certain elements of the military is well known. Trials of some of those responsible are now in preparation in Jakarta, while further investigations are expected to identify others. However, the agreement for the precipitous deployment of Australian-led military forces into East Timor under UN auspices was largely based upon wildly fanciful estimates of more than 10,000, and up to 20,000 fatalities, whereas confirmed fatalities are in the range of 200-600. Whereas the U.S. State Department would later pass off continued rioting and killing in occupied Kosovo, despite the presence of an entire NATO army, as unfortunate, but understandable and unstoppable, due to long-standing animosities between the two sides, in East Timor, the Indonesian military was held fully responsible for the killing and rioting by East Timorese.

Second Thoughts on Integration?

The past year of UN control in East Timor has created a "dollarized" economy and a sub-culture of bars, "foreigners only" exclusive areas, fleets of UN Land Rovers, and high-priced creature comforts for the well-heeled foreign occupiers, and very little for the East Timorese, among whom unemployment has been reported as high as 80%. A generational divide is also emerging within the camp of the pro-independence victors of the August 1999 referendum, a divide between the generation of guerrilla fighters, and their children and grandchildren, who benefitted from the hard and soft infrastructural investments under Indonesian integration. The divide is best indicated by the debate over what national language to adopt, what currency to use, etc. The U.S. dollar has been adopted as the official national currency.

The language issue is more telling. Senior leaders within the pro-independence political front, the National Council of Timorese Resistance (CNRT), including guerrilla leader Xanana Gusmao, and the UN administration in East Timor, headed by Brazilian Sergio Vieira de Mello, have chosen Portuguese as the national language. In a feature in the July 13, 2000 *New York Times*, author Rajiv Chandrasekaran interviewed senior CNRT leaders and Nino Pereira, 26, leader of

the CNRT youth wing. Senior official João Carrascalao told the author, "We have a strong and long link with Portugal. They were benevolent colonialists. It makes sense for us to speak the language."

But Pereira told the *New York Times* that East Timor should pick two languages: English, because it has become the international language of choice, and Tetun, the *lingua franca* of the Timorese. Tetun, at least, is spoken by 60% of the local population, but is incapable of expressing complex concepts. Among his generation, 90% speak "Bahasa Indonesia," but Portuguese is spoken by only 10% of the population, all among the older generation. "The old people have this nostalgia with Portugal, but they have to realize that we are moving forward. The colonial days are over," Pereira said.

Indonesia's newly appointed civilian Defense Minister, Mohammad Mahfud MD, stated publicly that after one year of UN control, "there are indications that many pro-independence supporters have changed their minds and want to be part of Indonesia." Minister Mahfud also reported that there is evidence of foreign intelligence involvement in provoking the Sept. 6 incident in West Timor, which led to the deaths of three UN aid workers: "It appears there are certain countries that keep their hands off but conduct intelligence operations to create the impression that Indonesia has failed to deal with the East Timor refugees and militia." While Western officials have ridiculed Mahfud's charges, he is not alone in the growing outcry against colonial threats from the West, and especially from the United States.

Chairman of the People's Consultative Assembly Amien Rais, who played a leading role in bringing down the Suharto regime, with considerable support from the West, has expressed outrage at the UN and U.S. dictates following the killings of the UN workers in Atambua, West Timor. "All in all," he told a seminar in Jakarta, "it was not a natural incident or coincidence. . . . It seems like we will be attacked from different sides, like Atambua, Papua (Irian Jaya), and Aceh." He slammed Defense Secretary Cohen and U.S. Ambassador to Jakarta Robert Gelbard, for claiming that the four warships and the 2,000 Marines were on a "humanitarian" mission: "I don't understand what the defenders of America in this country are saying. The presence of those Marines was threatening, and that is a military stress for us. . . . They encircled the border area with weapons and warships. I don't think that's humanitarian purposes."

The Refugees

The hue and cry about "disarming and disbanding the militia" must also be put in context. First of all, the mob that attacked the UN office in Atambua were *not* a disciplined unit of militiamen, but about 5,000 refugees, including women and children, who had gathered to mourn the death the previous day of one of their leaders, Olivio Mendosa Moruk. Moruk had been killed and physically dismembered in his home, only days after being included on the government's list

of 19 suspects to stand trial for the rampage that followed the Aug. 30, 1999 East Timor referendum. This summary execution was *expected* to provoke rage against the UN, as a symbol of the forces opposed to the pro-Indonesian sentiments of the refugees, and yet, inexplicably, several UN workers refused to vacate their offices as police requested, when the mob approached. The police managed to save seven of the ten workers when the assault began. It is also of note that the other three were not killed by military-issue weapons, but by machetes, a tool carried by nearly every peasant in every Third World rural community in the world.

There is a growing body of evidence that multiple issues are involved in the disposition of these refugees, and that body of evidence includes clear indications that senior U.S. State Department officials are fully aware of an array of problems that remain unresolved, and which are not addressed in the NGO and official diatribes demanding that the refugees be repatriated to East Timor or otherwise relocated. Included in these are the status of former civil servants who served in the Indonesian administration in pre-referendum East Timor, the status of their dependents, and the disposition of their severance pay, pensions, or re-assignment. The same issue exists for “retired” Indonesian military who served in East Timor, and their dependents, as well as displaced militia and their dependents.

Pro-Indonesian militia leader Eurico Guterres, who is also a leader of the youth movement of Vice President Megawati Sukarnoputri’s PDI-P party, which holds the largest number of seats in the House of Representatives, pointed out that most of the militia’s weapons at this point are home-made guns and machetes. “Go ahead and disarm us,” he said, “but will that solve the problem? Unless all the stores are closed, don’t lay the blame on us if home-made weapons show up.” Asked if his men still had weapons, he responded: “Yes, we still have about 130,000 weapons,” referring to the 130,000 refugees still stranded in West Timor. Guterres was arrested in Jakarta on Oct. 4 in connection with the April 1999 attack on the home of a leading pro-independence proponent in East Timor.

Disbanding the militia would require the resettlement of the 130,000 refugees. Although President Abdurrahman Wahid reported upon his return from the UN’s Millennium Summit on Sept. 6-8 in New York that the United States had agreed to finance their relocation, few expect the aid to be forthcoming, with the demonization of Indonesia now dominating the U.S. Congress.

One of the most important contributions to this discussion is that of former Defense Minister Juwono Sudarsono, who has warned that the conflict will continue unless an approach of forgiveness is introduced. “I think they [the pro-independence victors in East Timor] will have to accept some degree of pardon to all these people [militia and military], otherwise, there will continue to be problems.” Several senior leaders in the region have also urged that the “demonization” of former leaders and principal actors in Indonesia’s drama must end for the country to recover, and for stability in the region.

U.S. Embarrasses Itself in Campaign vs. Sudan

by Muriel Mirak-Weissbach

The Millennium Summit of the United Nations General Assembly, on Sept. 6-8, was hailed as an historic event, gathering the largest number ever of heads of state and government for political deliberations. Among the noble aims laid out, to usher in the new millennium, was the project to fully democratize the United Nations itself, giving every member-nation truly equal rights in the body.

But no sooner had the special security arrangements been dismantled, than the U.S. Administration engaged in an operation which has made a mockery of the very idea of democracy, at the UN or anywhere else. Violating every norm of UN procedure, the United States, under the leadership of former Ambassador to the UN Madeleine Albright, and her State Department cohorts, current U.S. Ambassador to the UN Richard Holbrooke and Assistant Secretary of State Susan Rice, interfered to prevent the election of Sudan to the Security Council. To do so, they used every trick of lying, deceit, and bribery.

On Oct. 10, the tiny island nation of Mauritius was elected to the two-year rotating post, as the African candidate. Sudan lost the fight, but events will prove, that it is the United States which has suffered the greater loss: the final shreds of credibility it had in the rest of the world.

Diplomacy, Mafia-Style

The campaign to deprive Sudan of its seat on the UN Security Council was run like a mafia blackmail operation, by Albright and company. Sudan had been chosen as the candidate of the Organization of African Unity (OAU), by its 53 members, unanimously, in July 2000. Generally, it is the regional bodies which settle on a candidate. One of the many reasons why it chose Sudan, rather than Uganda (which was also named initially), or Mauritius, is that both these countries had had a seat on the Security Council more recently than Sudan, which occupied the position last in 1972. In addition to the OAU, the Arab foreign ministers all approved of Sudan.

The way the United States sabotaged Sudan’s candidacy, was to mobilize the willing stooge, Uganda, to create dissension within the ranks of the Africans. On Sept. 25, Uganda’s permanent representative to the UN sent a letter to the Chairman of the Candidatures Committee of the African Group, Roland Y. Kpotsra of Togo, totally distorting the facts relative to the choice of Sudan. The official letter of the Togo representative of Oct. 6, included two annexes, from Ambassador Amedou Kebe, the Permanent Observer of the OAU to the

UN. In it, he noted that, contrary to normal procedure, copies of the Ugandan letter had also been sent, apparently by Uganda, to all the UN missions, including non-African states. The intention was clearly to influence their vote. As the OAU Observer detailed in his response, the Ugandan letter, which alleged that the meeting which chose Sudan was a “rump” meeting, was, instead, fully regular. “At the end of the deliberation, the Council of Ministers adopted the recommendation of the African group in New York which, in turn, was endorsed by the OAU Ministerial Candidatures Committee, to the effect that Sudan should be the OAU’s candidate for the Security Council seat for the African region.” So read the text of the official communication, A/55/457.

The attempted sabotage did not end there, however. When, following the Millennium Summit, the Sudanese government representative addressed a group of foreign ministers from the Organization of Islamic Conference (OIC), which groups 52 countries, and explained Sudan’s candidacy, the Ugandan foreign minister rose, to say that there were two—not one—candidates for the post, Sudan and Mauritius. At that point, the foreign minister of Gambia intervened on a point of order, saying it was inappropriate for Uganda to lie.

Albright: The OAU Doesn’t Matter

Then, on another occasion prior to the vote, a Namibian diplomat asked Albright, how the United States could counter the candidacy, given that the OAU had endorsed it unanimously; her reply was that, “it does not matter what the OAU says.” A letter was then sent out to the OAU ambassadors, instructing them (from the imperial headquarters) not to vote for Sudan.

The United States also went to the Sudanese directly, as has since been made public. What was threatened has not been made public, but if one puts two and two together, one gets four. To wit, after the visits, a public relations campaign was launched, by Freedom House, and other State Department fronts, to smear Sudan’s image, with the usual allegations of slavery, terrorism, and so forth. A Freedom House conference on Sudan was hastily organized in New York on Oct. 5, targetting UN diplomats and selected press.

The conference, attended by six or seven diplomats, and journalists from the *New York Times*, Associated Press, the London *Financial Times*, and *Earth News*, featured several anti-Sudan operatives, including Roger Winter of the U.S. Committee for Refugees, and someone identified as a “former Sudanese slave,” to claim that Sudan engages in slavery. Adrian Karatnycky, the head of Freedom House, opened the meeting announcing that his organization was focussed on preventing Sudan from winning the Oct. 10 UN vote. He railed against Sudan, for alleged crimes against Christians and black Africans, for forced religious conversions, terrorism, slavery, and so forth. “Such a toll of suffering ranks with the crimes of Hitler, Stalin, and Pol Pot,” he said. “We



U.S. Secretary of State Madeleine Albright has done it again, destroying what little credibility the United States has left around the world, by its treatment of Sudan.

hope that the vote of the General Assembly on Tuesday will take heed of this record of brutality and violence.”

Charles Jacobs, head of the American Anti-Slavery Group, said, “We should not be here discussing whether Sudan is fit for a seat at the Security Council. We should be here, explaining why Sudan is unfit for membership in the United Nations.”

Lynne Speed of *EIR* intervened in the debate, challenging Winter and the others. She asked how it were possible, during the UN Millennium Summit, which is celebrating democratization, to deny Sudan its democratic right to be a member of the UN Security Council. She asked, given the fact that the OAU had endorsed Sudan’s candidacy, if they were saying that the African governments do not have the ability to deliberate on matters of international policy. She also reminded Winter of his intervention in the “ethnic” conflict in Congo, which left 3 million dead. Nina Shea of Freedom House, answered that she had spoken to the Sudanese foreign minister weeks earlier, and claimed that he did not argue against their charges. When asked why Sudan had not been invited to this forum, she answered, “There is a time and place for dialogue,” implying that such a forum were not a place for dialogue. Winter refused to answer at all, on grounds that “*EIR* is a LaRouche political front and

they go everywhere making these wild allegations.” When *EIR* asked, if it were a “wild allegation” to say the OAU had endorsed Sudan, he replied, “As a matter of policy, we do not respond to them,” and the forum was shut down.

The *New York Times*, on Oct. 6, promptly announced that Mauritius was “Washington’s candidate.” And, as if on cue, in a press briefing the same day, U.S. State Department spokesman Richard Boucher said that the United States would escalate its “lobbying” against Sudan, and push for Mauritius as its candidate instead. “We really do believe that Sudan is unsuitable for this position and would in fact undermine and weaken Africa’s representation on the Council,” he said. He cited UN sanctions because of alleged terrorism, human rights violations, and that they have not “shown any economic or political leadership in Africa.” He praised Mauritius as a “vibrant democracy” and a “strong market economy.” Boucher claimed that 15 African nations would vote for Mauritius.

Breaking the Rules

Sudan was ordered repeatedly to withdraw its candidacy, but it refused. This, in itself, was breaking the rules. Furthermore, Sudan exposed the operation, in a series of press releases and statements by government officials, denouncing the fraud of “democracy” as practiced by the United States.

For example, a press release issued on Oct. 8, entitled “The ‘Undemocratic’ Vicious United States Bid to Block Africa’s ‘Democratically’ Endorsed Candidature of the Sudan to the Security Council,” read: “At a time when the entire international community has emphatically called during the Millennium Summit, for the enhancement of the democratization process in the United Nations, the United States is yet again and in the wake of the Millennium [Summit] trying to ‘undemocratically’ manipulate the principled positions of sovereign countries so as to block Africa’s endorsed candidate.” Continuing, that this is not the first time the United States has done so, the release recalls that the United States has been alone in the UN Security Council, refusing to lift the sanctions against Sudan.

Sudanese Minister of Information Ghatzi Salaheddin Atabani said in an Oct. 9 statement, that he found it “astounding” that the case against Sudan had been based on accusations from “the country which destroyed the pharmaceutical plant in Khartoum in 1998 [and] still evades investigation into the incident.” The minister said, however, that his country “is confident of its just cause and of the support by the African nations, despite pressures being exerted by America.”

The Game Is Rigged

At the vote on Oct. 10, however, Sudan was defeated, and Mauritius was elected. The UN General Assembly had to vote four times, before a two-thirds majority could be secured, which means that the arm-twisting and other meth-

ods of “persuasion” had to be applied increasingly.

Once the news was out, Holbrooke relished the fact that he, Albright, Rice, and others had succeeded in buying off enough members of the UN General Assembly, to deny Sudan a rotating seat on the Security Council. Uganda’s Ambassador to the UN, Joseph Mutaboba, also rejoiced. After the vote, Holbrooke told the press that Sudan had offered him a deal, claiming that Sudan had offered to withdraw its candidacy if the United States agreed to lift sanctions. Holbrooke said that he refused the deal, and Sudan lost. “The Sudanese gambled and lost both ways,” he beamed. “I think this is a terrific victory for reason in the United Nations and a total repudiation of Sudan.”

Sudanese Ambassador to the UN Alfatih Mohammad Erwa made clear what had happened: “The influence of the U.S. in this election was very clear. We consider that we were fighting against the United States and not Mauritius.” He added, “To go four rounds against the U.S. I think is a good number.”

Holbrooke even illustrated the United States’ thuggish operation against Sudan, saying that he and Rice had visited the Sudanese mission at the UN twice, “to say they should withdraw because they didn’t belong on the Security Council. But, they chose to fight.”

To add insult to injury, Holbrooke approached Erwa after the vote and shook his hand, saying, “I told you you should have withdrawn,” to which Erwa replied, “Congratulations.”

There is little that Holbrooke or anyone else in the Administration should be proud of. The entire affair has only demonstrated once again, that Washington believes it can play the imperial game, and get away with it. Already, however, there have been signs of backlash. The *Washington Times* reported on Oct. 9, that although some Africans, especially the Ugandans, were playing the game, “they also say that position smacks of a colonialism they cannot tolerate.” And another North African diplomat was cited who said, “Three words: Boutros Boutros-Ghali,” referring to the former UN Secretary General whose reelection had been blocked by the United States. The outright disdain shown throughout by Albright and Holbrooke, to the authority of African governments, and the OAU as an organization, smacks of racism, a fact which will not be forgotten.

Despite the extraordinary hate campaign waged against Sudan by the Anglo-Americans over years, including sanctions, the country, which is Africa’s largest, has many powerful friends in the world, including China and Malaysia. Both Asian countries have challenged American sanctions and threats, and have invested in Sudan, especially in its newly developed oil sector. In an international climate increasingly characterized by anti-Americanism, and hostility to those in Washington who believe they can preside over a unipolar world, the mafia operation against Sudan in the UN, is certain to backfire.

International Intelligence

China-Africa Cooperation Forum Opens in Beijing

The China-Africa Cooperation Forum opened in Beijing on Oct. 10-12, with attendance by cabinet ministers from more than 40 African nations. The Forum is the first such gathering held in China. In addition, the Presidents of Togo, Algeria, Tanzania, and Zambia were scheduled to attend.

The Secretary General of the Organization of African Unity (OAU), Salim Ahmed Salim, in an interview with China's Xinhua news agency in Adis Abeba, Ethiopia on Oct. 7, called the Forum "a very constructive and timely initiative." African countries have many problems of stability and security, he said, but "first and foremost, obviously, we have to fight for economic and social development to end poverty in the continent, because poverty is the genesis of most disasters in our continent."

The Forum will give China the opportunity to gain a better comprehension of the reality in Africa and vice versa. It will discuss joint work in international settings and worldwide negotiations to meet the challenge of globalization, Salim said. "Africa continues to be very much dependent on production of primary commodities and raw materials, we do not even have a say in most of the prices. Neither do we control the prices of what we import." Economic unity is important to deal effectively with these problems, Salim said.

The conflicts in Africa, he continued, "take away our resources, they bleed our people, they deprive our people of the food potential that our countries have for economic and social development."

Pope Celebrates Jubilee With 2,000 Bishops

Some 2,000 Roman Catholic bishops gathered in Rome over Oct. 6-8 to celebrate the Jubilee year with Pope John Paul II, the largest assembly of bishops since Vatican II. The celebrations, entitled "The Bishop: The Servant of the Gospel of Jesus Christ for the Hope of the World," took place in

the presence a statue of Our Lady of Fatima.

In his homily on Oct. 8, Pope John Paul II said, "The bishops as successors of the Apostles . . . must fulfill their apostolic duty as witnesses of Christ before all men." He pointed to the enormous task and responsibility that weighs on the bishops in our contemporary world, at whose center is the task to announce the "Word Incarnate," with the kind of spirit and emotional devotion St. Paul expressed.

There have been "many bishops," he said, who, over the last two millennia, have borne witness through their martyrdom and personal sacrifice, to what it means to live in the image of Christ, and to follow the path laid by the Apostles. Particularly, the 20th Century has been rich in such witnesses, the names of whose martyrs he read out.

In their final prayer, which the Pope and all 2,000 bishops addressed to Our Lady of Fatima, he said: "We men and women are living in an extraordinary time, which is promising as well as difficult. Mankind has today means of power that it never had before. It is capable of turning the world into a flourishing garden, or destroying it completely." The Pope drew a distinction between those who use science for the well-being of all, in the context of a "moral law," and those who, out of short-sighted pride, make use of a science which denies the dignity and life of man.

The Pope expressed his hope that the hearts of men would be filled with Love and Justice, and that peoples as well as nations would reinforce their mutual understanding as well as the spirit of peace.

Malaysia Shutting Down Video Arcades Nationwide

Malaysia's government has given video arcade managers two months to shut their facilities down, because they represent a "dangerous and large social problem." The move, which was supported by a broad spectrum of political groups and organizations, was announced on Oct. 5, by Deputy Prime Minister Abdallah Ahmad Badawi. Badawi

compared the social problems caused by these activities to opium addiction, saying that many youth had been turned into video-game addicts.

Kuala Lumpur had been under pressure from parents to ban the arcades, where illegal gambling and other illicit activities flourish, in full view of children. N. Siva Subramaniam, the secretary of the National Union of Teaching Professions, said, "This is the happiest news to a lot of parents. It will reduce social problems and truancy. It is the right decision and shows the government's commitment in dealing with social ills among youths." The Chief Minister of the state of Kelantan said, "A total ban is long overdue. PAS [his political party] has imposed a ban in Kelantan for a long time, due to the social problems they cause. Those addicted to the video games are not only involved in gang fights, but steal, including from their own parents, to get money to patronize the arcades."

Representatives of the "industry" protested, however, that they run law-abiding "family-based entertainment centers."

Taliban Shoot Russian Soldier on Tajik Border

A Russian soldier was killed and five Tajik soldiers were wounded in crossfire on the volatile Tajik-Afghan frontier, a Tajik Interior Ministry official said on Oct. 9. The spokesman told Reuters that the ministry had no further details about the incident, which occurred the night of Oct. 7 at the Kalay-Kumb border post, 180 kilometers east of the Tajikistan capital, Dushanbe. Tajikistan's frontier with Afghanistan is patrolled by over 10,000 Russian guards, in a bid to stop smugglers who transship narcotics through Central Asia and Russia into Europe, according to a report in the *Tehran Times* on Oct. 10.

Recent fierce fighting in northern Afghanistan has alarmed the Tajik government, which fears an influx of refugees. Another concern of Tajikistan and other Central Asian countries is the influx of militant Islamists from Taliban-controlled areas.

The killing could also be a provocation

JACQUES CHEMINADE, Lyndon LaRouche's best-known associate in France, announced on Sept. 30 that he is beginning his campaign for President in 2002 now. Cheminade told the annual conference of the Solidarity and Progress group, on whose slate he ran in 1995, that, unlike the "commando" action five years ago, which caught France's Anglophiles off-guard, his lengthy campaign this time will aim at building a mass presence under the banner, "Putting an End to Injustice." To celebrate his campaign, Cheminade has issued his new book, *Roosevelt, de Gaulle, Monnet: Taking Up Their Fight*.

THE SWISS government has proposed that parliament legalize marijuana and hashish under laws that regulate tobacco. Switzerland already provides heroin to registered addicts.

TURKISH National Defense Minister Sabahattin Cakmakoglu said on Oct. 3 that Turkish-Greek rapprochement, begun after earthquake disasters in both countries, forms a basis to solve problems. Cakmakoglu arrived in Athens to attend the opening of the "Defense 2000" fair, as the official guest of Greek Defense Minister Akis Tzohatsopoulos.

NATO officially sponsored a conference in Tbilisi, Georgia on Sept. 26-28, entitled "Caucasus Today: Prospects for Regional Cooperation and Partnership with NATO." The conference was attended by delegations from the Armenian, Azerbaijan, and Georgian Foreign Ministries, among others. NATO hopes to expand into the region, and possibly establish military bases there.

THE ROMAN Historical Society is training Baby-Boomers how to re-enact gladiatorial fights. "You are slaves, and that is how I will treat you," trainer Giuseppe Coluzzi tells his students, who pay \$100 a month for the privilege. They learn "how to choreograph combat in order to savor simulated savagery and . . . to perform gladiatorial combat the way it was done in the Colosseum."

to drag Russia into a new Afghanistan quagmire, thus leading to a regionalization of the war. Opponents of the Taliban have always accused Pakistan's Inter-Services Intelligence officers of running the military operations in Afghanistan.

Gore Allies Organize Semi-Coup in Italy

Italian Socialist Prime Minister Giuliano Amato publicly announced late last month that he would not seek reelection in Spring 2001 elections, and that he was leaving the way open for Rome Mayor Francesco Rutelli, a co-thinker of the "Third Way" of U.S. Vice President Al Gore, to run.

The question has been raised, whether Gore may have had a hand in Amato's decision to hand the reins over to Rutelli: According to sources, U.S. President Bill Clinton has offered Amato a job next year—Clinton, too, will be out of office—as secretary general of Clinton's "Third Way" Foundation, and Amato has accepted. The offer was made when Amato met with Clinton in Washington on Sept. 20. It is unusual for a Prime Minister to prefer such an offer over his current job, unless he has already decided to stand down. It is possible to interpret this report as pressure from Clinton for Amato cede the premiership to Rutelli: As the Italian daily *La Repubblica* wrote on Sept. 26, "During his U.S. visit, Amato understood the necessity of stepping aside." Amato's announcement was made five days later, in a television interview. Until that moment, Amato had been resisting Rutelli's efforts to succeed him, and the choice between them had remained open.

Rutelli is a Gore clone, and like the Democratic Presidential candidate, is a radical ecologist. Unlike Gore, however, Rutelli is considered by Rome's oligarchical radical-chic salons to be "telegenic," enough so as to successfully compete with conservative opposition leader Silvio Berlusconi, a media magnate and former Prime Minister.

Rutelli has announced that he will copy his election strategy from Gore's "triangulation" method, which relies on public opinion polling to make policy. The press re-

ports that he will even hire Gore campaign strategist Stanley Greenberg. Rutelli has studied both Gore's platform and the 1999 program of Britain's Prime Minister Tony Blair.

Rutelli's closest collaborator, Paolo Gentiloni, says that Rutelli will transform the Italian left to become "similar to Blair's New Labour or [Germany's Social Democratic Chancellor Gerhard] Schröder's *Neue Mitte*." Rutelli will base himself on opinion polls, because said Gentiloni, "the only person who didn't use them was Pol Pot," and he will take on Berlusconi "in responding to the demands of freedom," meaning the free market.

Thai Minister Discusses Myanmar's Role in ASEAN

Thailand's Deputy Foreign Minister Sukhumbhand Paribatra skillfully responded to provocative questions regarding Myanmar (formerly Burma) and its relation to the Association of Southeast Asian Nations (ASEAN), during his Sept. 25 press conference at Washington's National Press Club. "It is important that the problems of political transition in Myanmar be managed in a way that does not have adverse implications for the rest of the region," he stressed, adding that he has no pat, formulaic answer. "All I know is that if this political transition in Myanmar is not managed well, it will continue to have consequences and implications for the region, especially Thailand.

"One dimension of this problem of domestic political transition is the drug problem. By their own admission, the Burmese leaders say that they cannot exert central government control over certain areas of their own country, and these areas are areas where drugs, where both heroin and methamphetamines, are being produced.

"So until and unless Myanmar has a central government that can exert control over these areas and reduce or eliminate the production of drugs in these areas, domestic problems in Myanmar will continue to have consequences and implications for the rest of the region, especially where Thailand is concerned."

Battle Report: Electricity Deregulation Is Under Attack

by Anita Gallagher

Abraham Lincoln's famous saying, "You can't fool all of the people all the time"—although you can fool all of the people some of the time, and some of the people all the time—aptly describes how electricity deregulation got passed in 25 states so far (see **Figure 1**), as well as why it is now becoming "unpassed."

EIR has consistently exposed the fraud of deregulation—in trucking, airlines, and banking, to name a few. Our Aug. 18 issue contained a 20-page *Feature* on energy deregulation, including an exposé of the ties of Presidential candidates George W. Bush and Al Gore to the "robber" conglomerates that are buying up legislators and energy capacity, as well as the history of Franklin Roosevelt's successful fight against Wall Street to regulate energy in the 1930s. That package has been widely acclaimed as invaluable in the fight against energy deregulation.

At an Emergency Town Meeting on Oct. 7 in Los Angeles, attended by about 100 people and sponsored by Lyndon LaRouche's FDR-PAC, Nevada State Sen. Joe Neal (D) presented an unassailable study on the fraud of deregulation. Senator Neal came fresh from his victory a few weeks ago, in engineering the executive postponement of the electricity deregulation law enacted by Nevada's legislature. We present here the masterful study of the issue in Senator Neal's speech, which can be used as a primer by anyone fighting to repeal deregulation or stop it from being passed. Senator Neal is now drafting repeal legislation for introduction into the Nevada legislature's 2001 session. As he notes, at the time the legislation was enacted earlier this year, only he and one other legislator voted against it. Now, only few months later, a hue and cry has been raised against deregulation's effects which elected officials dare not ignore.

Repeal of deregulation is urgently needed in California,

as the doubling of electricity bills in San Diego, as well as the exponential increases in power costs that the utilities in northern California are now trying to pass on to consumers, clearly demonstrate.

In Montana, although deregulation is just beginning to be implemented, and will not be completed until 2002, its bad effects, such as layoffs in electricity-dependent industries, including mining, have already become manifest. But as the case of Nevada shows, the finality of "a done deal" can shift very rapidly. The following speech and interview offer the basis to "unfool" yourself and others.

It's Time To Reverse Deregulation Policies

by Joseph M. Neal, Jr.

The following "Address on Domestic Retail Electric Competition" was delivered by Nevada State Senator Neal (D) to an Emergency Town Meeting in Los Angeles, sponsored by Lyndon LaRouche's FDR-PAC, on Oct. 7. Subheads have been added.

The current rich man's rage sweeping the United States is competition in the electric generation sector. The only real competition is to see who can gouge the deepest and loot the most from consumers. Electric restructuring is merely the latest in a succession of industry deregulations that began in the late 1970s and early 1980s, starting with airlines, transpor-

tation, telecommunications, and financial institutions. Each time, the process was sold on the promise of lower prices and better service. The pledge has not been kept.

The savings and loan crisis, precipitated by government deregulation, and the subsequent bailout, is estimated to have cost \$200 billion. This amounts to roughly \$4,000 for every man, woman, and child in the United States. Imagine what could be accomplished if that sum were instead spent on education, health coverage for children and seniors, or to treat sufferers with mental illness.

The greed and corruption rampant in that deregulation experiment should have put policymakers on notice that market forces have no moral component and, in the absence of sound oversight, are a prescription for uncontrolled avarice.

The promise of better financial service has not materialized, either. Today, in many banks you cannot talk to a live teller, or else pay a fee for the privilege. Meanwhile, branch offices are closing nearly as fast as ATM fees are appearing. Folks in rural areas have to drive many miles just to cash a check or make a deposit. Poor citizens are left to the mercy of so-called "payday check cashing services," a fancy name for loan sharks.

In the telecommunications industry, while long-distance rates fell after the breakup of AT&T, local rates increased. Meanwhile, how many consumers have seen their cable bills decrease? In 1992, Congress determined that cable rates needed to be regulated. When price controls went into effect in 1993, rates initially dropped and the savings to consumers amounted to billions of dollars.

Later, the industry pressured Congress to repeal these provisions. In February 1996, Congress passed the Telecommunications Act, providing for the deregulation of cable rates commencing March 31, 1999. The act established an arbitrary three-year period during which it was assumed that increased competition from satellite broadcasters and telephone companies would cause rates to fall. Instead between the time Congress passed the 1996 act and the end of March 1999, cable rates increased 24%. During that same time period, inflation only rose 6%.

Airline deregulation has not been any better. It brought less leg-room, longer waits, loss of service in many smaller communities, and dangerous cutbacks in maintenance and safety procedures. A discounted fare was no comfort to the 83 passengers on Alaska Airlines Flight 261 who died after a terrifying plunge into the ocean, caused by the failure to replace a worn jack-screw in the tail.

The experience in transportation has been no different. A news article from a year ago, entitled "The Killer Trucks," described the death of a young family of four who were killed when three huge 30-foot concrete pipes that had been improperly secured, fell off a truck and crushed their minivan. A Nevada couple in a second car burned to death in the same accident when the 10,000-pound pipes crashed into their vehicle and it burst into flames.

The article went on to note that 5,302 people were killed

in truck-related accidents in 1998, and asked: "So what's going on? The evidence is clear that truck drivers are under more pressure than ever to keep their wheels moving in the wake of increasing competition. Meanwhile, the Federal government has actually reduced industry scrutiny."

Electric Deregulation Has Led to Extortion

Electric deregulation is on the same path as the other industries. In anticipation of competition, utilities slashed their preventive maintenance budgets instead of spending the money cutting tree branches. As a result, trees under high-voltage lines grew too close to the wires, causing them to arc. The short-circuits triggered two massive Western regional blackouts in 1996. In one event, over 5.5 million customers in ten Western states, and parts of Mexico and Canada, were without power for up to 16 hours in the height of a summer heat wave. In another incident in California, the sparks ignited an inferno that destroyed homes and caused millions of dollars in damage.

Electric rates have been red hot, too. Since June, wholesale electric prices in California have risen an average of 270% over the same time period the year before, resulting in more than \$1 billion in added payments for power. For example, on June 29, 1999, California used 763,000 megawatts (MW) of electricity and paid \$45 million; on June 29 of this year, Californians used 795,000 MW, but paid over \$340 million.

This Summer in San Diego, the first area in the U.S. to experience competition at the retail level, residential and small commercial customers got burned—and it was not by the Sun: They found their rates doubling and tripling. There were reports of some senior citizens and low-income families turning their refrigerators off to avoid bills they could not afford to pay. But just to be fair, deregulation does not always hurt individuals: The CEO of our electric utility in Nevada received a \$3 million golden parachute when he resigned in July!

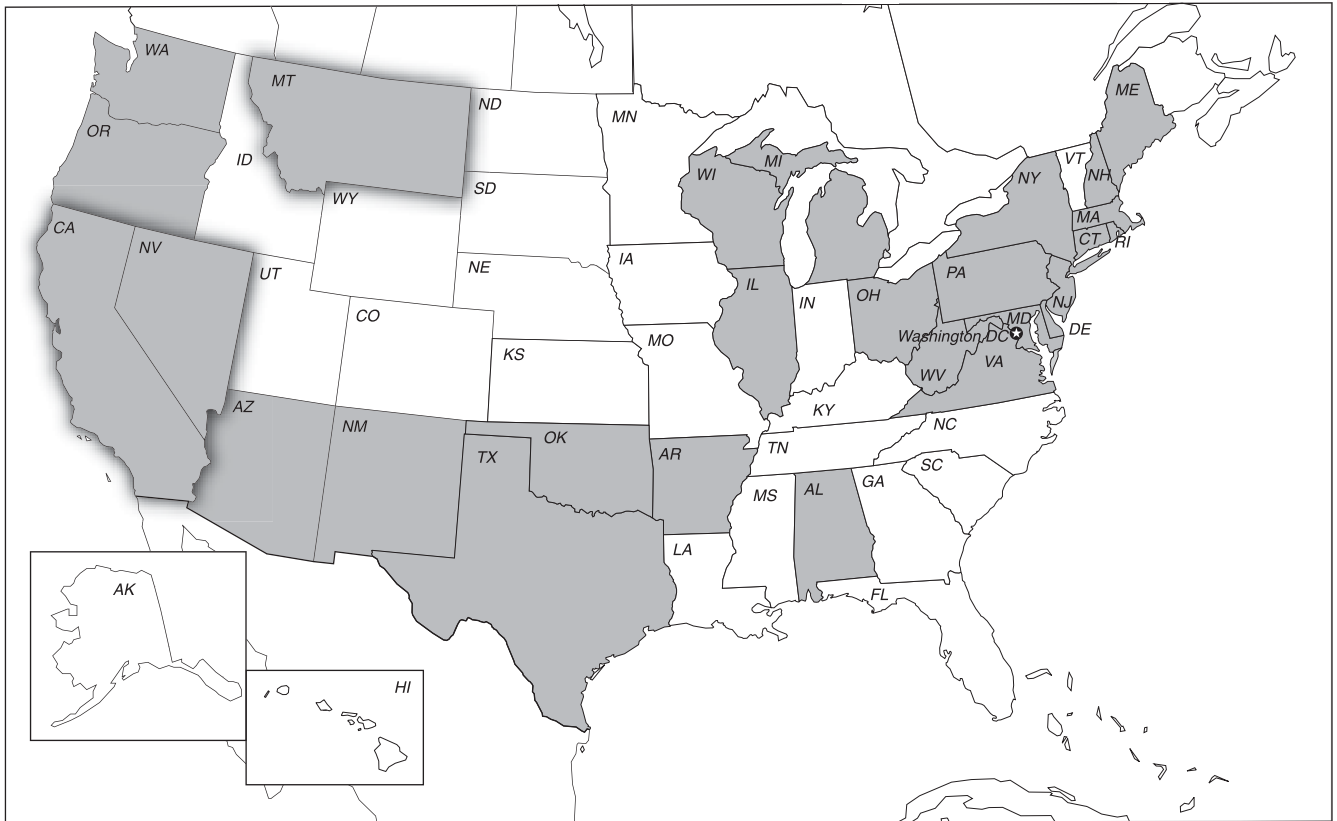
At the same time that ordinary folks were struggling to juggle their budgets, power plant operators were reaping record earnings. One company reported a 176% profit increase for the quarter ending June 30 of this year. Another large concern realized a 233% increase during the same period. It is obscene when poor people have to let their food spoil just so some captain of industry can improve the bottom line.

No one objects to businesses earning a reasonable profit. Prior to deregulation, our laws specifically allowed utilities an opportunity to earn a fair return on investments while providing customers with just and reasonable rates. However, what consumers are experiencing with deregulation is extortion. They are paying a ransom for a basic necessity that, in extreme weather, can mean the difference between life and death for the elderly and the infirm.

Business customers suffer as well. A 20-minute blackout at a high-tech manufacturing plant can cause a loss of \$30 million for one day's production. In July 1999, power outages

FIGURE 1

Electricity Deregulation: States Which Have Implemented Some Form, as of June 2000



Source: Electric Power Supply Association.

were caused by extreme heat waves in the Midwest, and along the East Coast. Outages occurred in Delaware, Long Island, Maryland, New Jersey, New York City, Virginia, and the South Central states. Downtown Chicago was without electricity for 19 hours.

A Department of Energy team was assigned to review the causes and make recommendations to prevent recurrence of these blackouts. In an interim report released on Jan. 4, 2000, the team noted that while the electricity industry is undergoing fundamental change, the necessary operating practices, regulatory policies, and technological tools for dealing with those changes are not yet in place to assure an acceptable level of reliability. A significant increase in electricity use, especially during times of peak demand, is stressing the electric system. As a result, prices spiked to new highs in the Midwest, with a megawatt of electricity sometimes selling for more than \$9,500.

In mid-June 2000, San Francisco suffered rolling blackouts due to unseasonably early hot weather and generating plant outages. Price spikes occurred throughout the Pacific Northwest; Kaiser Aluminum and Vinalco, in Washington, both laid off over 400 workers due solely to the cost of elec-

tricity. The Continental copper mine in Montana closed down for the same reason, idling nearly 325 employees.

The calamity in California has reached such proportions, that even public officials who previously championed deregulation are calling for its repeal, while others urge consumers to revolt and burn their utility bills. Some commentators say, "You can't put the genie back in the bottle." A more apt analogy might be that Frankenstein's monster has escaped from the lab, but, in either case, the process can and must be halted. I have requested a bill in Nevada to repeal deregulation and restore the consumer protections our citizens formerly enjoyed.

The Underlying Flaw

The underlying flaw in deregulation is the assumption that competition will drive energy prices down. In order for that to happen, there must be an adequate supply of generation facilities with non-discriminatory access to the transmission system for all suppliers; however, these conditions do not exist and will not for some time, if ever. In a deregulated environment, the system is characterized by weak oversight, manipulation by generators and transmission line owners, as

well as exploitation of consumers. It is no surprise that in some instances this summer, electricity that normally sells for \$30 to \$40 a megawatt-hour (mwh) has been going for more than \$1,400. As I noted before, evidence indicates that during the Summer of 1999, some prices on the spot market reached \$9,500/mwh.

The president of the California Public Utilities Commission recently observed that states have not deregulated electricity, they have Federalized it. Deregulation surrenders local authority over retail prices to the Federal Energy Regulatory Commission (FERC). As widely reported in trade journals such as *Natural Gas Intelligence* (June 19, 2000), even FERC's own staff has acknowledged the agency is "impotent in our ability to monitor, foster, and ensure competitive electric power markets," with the result that the electric generation and transmission markets have "run wild and unrestrained" over the past several Summers. Another fallacy underlying deregulation is that it fosters competition. However, experience has shown that deregulation promotes mergers and consolidations until, in the end, there are only a handful of oligopolies in each industry. Every time a new start-up company enters the market, it is either crushed or bought out.

This trend has already manifested itself in the electric industry, where dozens of mega-mergers have occurred and more are anticipated. At the beginning of the electric restructuring movement, there were several thousand local utilities, co-ops, and municipal systems in the U.S. Some observers forecast that eventually there may be as few as 50 power suppliers.

A New Wave of Colonialism

As their size grows, so does their economic and political influence. Historically, it has been difficult enough for state commissions and legislatures to regulate local utilities. The task will be even more daunting when faced with multinational behemoths, for these mergers are not restricted to service territories in the United States alone. Several of the large power companies are now worldwide, with interests in Latin America, Asia, and Europe. Like a giant octopus, the power industry is spreading its tentacles around the globe in a new wave of economic colonialism.

These countries are attractive targets, because as they strengthen, diversify, and modernize their domestic economies, they require tremendous additional quantities of electricity. It should come as no surprise that the rapacious multinational power firms have cast covetous eyes on these countries.

Nor are U.S. citizens immune; last year, Scottish Power Company purchased Pacificorp, which serves a large part of the inter-mountain west. Other English firms have taken over some East Coast utilities. How much traction will a customer, a commission, or a state legislature have with a corporate home office in London? By its own admission, FERC cannot even effectively police domestic firms, so how much can we expect when it confronts a foreign power company?

Another aspect of electric deregulation that is particularly offensive, is the political duplicity of the power companies. They exert all their considerable influence during the legislative process to have the program skewed as much as possible in their favor. Consumers wind up paying utilities billions of dollars in stranded costs, while the companies receive everything from property tax concessions to anti-competitive advantages, such as allowing non-regulated affiliates to use the utility's name and logo.

And yet, as soon as competition begins to work to the companies' disadvantage, they either challenge the statutes in court or plot to convince lawmakers to redo the deal to ensure that the companies do not suffer any loss. They want the benefits of deregulation, but insist on being insulated from any risks inherent in competitive mechanisms. They talk-the-talk, but won't walk-the-walk; the whole performance is pathetically hypocritical.

During the last session in Nevada, our utility actively participated in formulating the competitive retail market scheme enacted by our legislature, a bill that I voted against. That program included the abolition of deferred energy accounting and a three-year rate freeze. Company representatives even went so far as to formally sign a copy of the final bill draft. This was done at the insistence of one of my colleagues who wanted to symbolically confirm that the utility was on record as agreeing to the total legislative package. Less than a year later, the utility instituted legal action to have the legislation declared unconstitutional. The company had the audacity to publicly claim, it knew all along the measure was constitutionally infirm.

What caused the about-face? The company had been gambling that fuel prices would drop in the coming months. When fuel costs rose instead, the utility had to pay considerably more than it had anticipated, and needed a way to escape from the bargain it had struck with the legislature. The company used the legal action as leverage to negotiate a settlement in July that allows it to increase rates every month for three years to cover fuel costs. So far, the company has boosted rates four times for a cumulative increase of 8.4%. Potentially, the rate increases could total 64% by the time the settlement runs its course.

No One-Way Commitment to Market Mechanisms

There is no question that fuel prices have risen dramatically in the last year. However, if a company makes a business judgment about the future course of development in its industry, and negotiates a legislative compact based on that judgment, the company should be bound by its agreements even when its assessment proves erroneous. It would be just as great a breach of faith if the legislature were to revoke provisions of the program because fuel costs fell more than expected and the company reaped greater profits. It is this one-way commitment to market mechanisms that makes me skeptical about the wisdom of embracing competition.

A similar process appears to be under way in California. The electric utilities here were among the chief architects of deregulation. One of the key provisions in the California scheme was that, in exchange for utility recovery of billions of dollars in stranded costs through rate-payer financed bonds, there would be a multi-year rate freeze. The utilities assured legislators and the public that deregulation would bring lower rates after the freeze ended. Now, the utilities are floating the notion that they need to recover from rate-payers several billions of dollars in “unforeseen costs” for fuel increases that are accruing during the freeze. Apparently because these costs would be tracked in balancing accounts and assessed after the rate freeze ends, the utilities do not feel this violates the legislative compact.

Free markets are a two-edged sword; by their very nature they involve risk, as well as reward. There are winners and losers when there is competition. The power companies must be required to live with the consequences of normal market fluctuations and their own business miscalculations if they are going to insist on receiving the benefits of deregulation. They must not be allowed to always keep any gains, but pass losses through to ratepayers. Their persistent attempts to avoid the downside of a free-market philosophy exposes the hollowness of their competitive rhetoric.

Where have these policies and platitudes led us? There is an energy crisis spreading across the nation and the globe. Like a shadow of darkness in its wake, power blackouts, skyrocketing prices, business closures, and layoffs have appeared like plagues. Only decisive leadership will cause the blight to pass over us and spare our citizens the chaos befalling those who are currently shuddering under its influence.

We must prevent the specter of unrestrained greed from descending on consumers. Instead, we must restore and strengthen those principles which have produced reliable and affordable electric power for many generations, and that spread the benefits of energy to all classes, not just those in the boardroom.

Interview: Ted Anderson

‘You Can’t Rely on Private Industry’

Ted Anderson, of Billings, Montana, is a longtime observer of the state’s energy industry. He was interviewed on Oct. 9 by Anita Gallagher.

EIR: What’s the situation in Montana with regard to energy deregulation?

Anderson: Well, deregulation was passed by our state legislature in 1999, and will be fully implemented by the year 2002. The major supplier of power in the state of Montana was Montana Power, which, shortly after getting the legislature to deregulate, sold their generation to Pennsylvania Power & Light, and then subsequently sold their transmission and distribution to Northwestern Public Service—which was just recently sold—and it will probably take effect in January 2001. Deregulation takes effect in 2002.

EIR: What kinds of energy does Montana use?

Anderson: There are two, primarily: hydroelectric and fossil, which is coal production.

EIR: Have people seen an increase in the cost of their energy yet?

Anderson: Oh, yes. Electricity has gone up, and natural gas has gone up—from the standpoint of home heating. Both of those have gone up, but the price hasn’t gone up to the point where the public has really questioned it yet, because they haven’t seen the full impact—we haven’t had a bad Winter yet. And if we have a bad Winter, and the bills start coming in, you’ll see a major complaint, especially from the poor, and the population living at the poverty level.

EIR: Our publication exposed what a bonanza deregulation has been for the backers of George W. Bush and Al Gore, and also wrote about the history of President Franklin Roosevelt’s imposition of regulation [See “Deregulation Strikes: Buying Energy from Bush,” *EIR Feature*, Aug. 18, 2000.] Did you find that a useful set of articles?

Anderson: That was very well-written; it gave a complete history of the whole process, and the reasons for it, and in the time I’ve been looking at the energy issue, it was the best article that put the whole thing together—from the beginning to the end, and the complete reasons for it.

EIR: Do you think that action will be taken to reverse deregulation, or to study it further before it goes into effect?

Anderson: Not in Montana. If it is going to be reversed, it has got to be by an upswell of the people. And the way our legislature is right now—they meet every two years, unless there is an emergency session, and the governor has to call that. I don’t see that happening, not unless energy prices go so high, like they did in California this last year. It may be a done deal here in Montana in 2002, because there is that time lag between when it was implemented—the sales of the distribution, the transmission, and the generation facilities.

EIR: Could you go through the phases of what happened from the time it was enacted until 2002?

Anderson: Well, Montana Power came to the legislature and gave them a proposal to deregulate the electric utility industry in the state, and in doing so, they started donating money to

all of the candidates, or all of the legislature — the maximum amount to both parties, the Republicans and Democrats — and pushed through this legislation. It was voted on, passed, and within a few months from when it was passed, Montana Power then decided to sell its generation portion of it. They put that up for sale, and Pennsylvania Power & Light bought it, and then a few months later, they decided to sell their transmission and distribution aspects of it, and going over the bids, they decided to sell it to Northwestern Public Service, for about \$1.1 billion. Once that takes effect, which will probably be next year, after it has been approved by the Feds and the state, then you get two middlemen, basically doing what what one company did, and each of them will tack on their price increases, and then the public, in 2002, will suffer the consequences.

EIR: Would it surprise you to learn that the last new refinery in the United States was built in 1971?

Anderson: It doesn't surprise me, and I think the reason why one hasn't been built is because of the environmental regulations, and the ignorance on the part of the American public, taking for granted that their electricity, heating oil, natural gas, and fuel, are cheap. We have been so reliant on foreign crude, and foreign importation, we have become lax, and we've not educated ourselves.

EIR: What do you think should be done to ensure available and affordable energy this Winter in Montana?

Anderson: I think the government has to get in and regulate it. I think that it has to come from the Federal level. You can't rely on private industry to do it; they're out to make a profit, at whatever the cost — they're going to make a profit. It has to come from the Federal regulatory end of it.

EIR: Have there been layoffs in Montana as a result of the energy situation?

Anderson: Yes, this last Summer, some of the companies, early on, after the industry was allowed to go out and make contracts with the energy suppliers, had gone out and made commitments with other companies, thinking they could purchase power cheaper over a longer period of time. This Summer, when the prices went up, several of those companies were forced to lay off their employees because the price of power was too high. The contracts that they had entered into turned out not to really be a good deal, but have escalator clauses in them, that caused them to lay off people. Primarily, there was one in a copper-mining company in Butte, and I think some of the aluminum smelters, and in the timber industry also, in a lumber mill, I believe. But that has already started this Summer. Then, recently, 12 companies that had opted to go out and find separate power contracts, now want to get back in with Montana Power's power structure, having seen that it has been a failure when they have gone out and purchased power on their own.

DNA Testing Shakes Up U.S. Justice System

by Marianna Wertz

Two decisions with respect to post-conviction DNA testing in recent weeks — one by Virginia Gov. James Gilmore and the other by U.S. District Judge Albert V. Bryan, Jr. — have blown some holes in the Confederate-style control over the U.S. justice system; and the fitting irony is that the two decision-makers are among the leading flunkys of that system.

The power of DNA testing, that it can irrefutably prove either the innocence or guilt of the accused, has forced Gilmore — reportedly the top candidate for Attorney General in a George W. Bush administration and a staunch advocate of “tough-love” criminal justice in the former capital of the Confederacy — to grant Virginia's first pardon to a death-row inmate. It also forced Bryan — the man who railroaded Lyndon LaRouche and six associates into prison on trumped-up charges in 1988-89, and who presides over the Alexandria, Virginia “rocket docket” — to issue a ground-breaking decision, ruling that inmates who claim that they were wrongfully convicted, have a right to go into Federal court and request DNA testing, even if the state-mandated time limit for their appeals has run out.

Gilmore Faced ‘Utter Humiliation’

On Oct. 2, Governor Gilmore, faced with the prospect of “utter humiliation,” as attorney Gerald Zerkin says in the interview published below, granted an “absolute pardon” to former death-row inmate Earl Washington, a 40-year-old African-American with an IQ in the range of 69 (comparable to a child around 10.3 years of age), who has spent the last 17 years in a Virginia prison, ten of those on Death Row, for a rape and murder he didn't commit. As often happens under intense pressure, Washington had “confessed” to the crime in order to please his police captors, but, when he finally got competent legal help (as the interview with Zerkin indicates), the DNA evidence cleared him of guilt. Washington is the 88th person to be released from Death row because of innocence, since the United States reinstated capital punishment in 1976.

However, because Gilmore is who he is, Washington is still in prison, awaiting a decision by the parole board to free him, or till he “maxes out” his prior conviction next February. Gilmore not only didn't free Washington, after pardoning him, he refused even to admit publicly that Washington was

innocent, stating only that “a jury afforded the benefit of the DNA evidence and analysis available today would have reached a different conclusion regarding the guilt of Earl Washington.”

On Sept. 29, Judge Bryan ruled in the case of James Harvey, 59, convicted in 1990 of rape, that the 14th Amendment and U.S. code allow state prisoners to file Federal civil rights suits seeking DNA testing. Virginia’s 21-day rule, which prevents anyone from going back into court, even with new evidence, 21 days after conviction in the state court, had precluded Harvey’s attorneys from getting a DNA test on the evidence in his case. While a district judge’s decision is not binding on other courts, it may become a national test case. As Harvey’s attorney, Peter Neufeld, states in the interview below, Bryan was “recognizing the realities of the time” in making this decision, i.e., the power of DNA testing to unveil the truth.

The U.S. Congress, in its closing days, has the possibility of passing the Innocence Protection Act of 2000, which would make post-conviction DNA testing part of Federal law, and the nation would be spared this piecemeal approach to reforming the criminal justice system. These two decisions simply underscore the urgency of passing that law, to begin to bring America out of its judicial Dark Age.

Interview: Gerald Zerkin

Gerald Zerkin, a Richmond attorney who represents former death row inmate Earl Washington, spoke with Marianna Wertz on Oct. 10.

EIR: What’s your view of the situation around Earl Washington? Do you think it’s resolved adequately?

Zerkin: No. I think he should have been out a week ago. Plainly, he was eligible for parole many years ago. With the pardon and the new calculation, he was eligible for parole many years ago. He clearly would have been paroled many years ago. The state almost killed him, and he has virtually maxed out his sentence anyhow. The just and decent thing to do would have been to commute his remaining sentence to time served, and let him out.

EIR: I looked at this decision, which was obviously very painful for Gov. James Gilmore to do, together with the decision on Sept. 29 by Judge Albert V. Bryan, as people under extreme pressure from a political movement that wants to see a change in the death penalty law. Do you agree with that?

Zerkin: No, absolutely not. I have no knowledge of the basis for Judge Bryan’s decision. I’ve read the opinion, and it gives

very little insight into his analysis of the legal position. Whether Judge Bryan felt he was under pressure because of a political movement or not, I have no basis for determining. I’d be surprised, but I just have no knowledge of it.

Governor Gilmore clearly is not motivated by anything having to do with the death penalty. I think Gilmore was confronted with the potential for utter humiliation, for not letting someone go. After all, Earl Washington was no longer sentenced to death, so the death penalty was not an issue. This is a question of someone who had proven his innocence, whether you were going to keep him in jail or not, and whether you were going to recognize the fact that the state had made a mistake.

Indeed, the state has granted pardons in nine capital cases using DNA evidence, who’ve proved that they weren’t guilty. This is certainly not the first one of those. What I think is telling about Governor Gilmore’s position, is that, even in the face of overwhelming evidence, I’d say conclusive evidence, that Earl Washington wasn’t involved, he refused to concede the fact that he’s innocent. Instead, he insists that he’s granting a pardon simply because he wouldn’t have been convicted if this evidence were presented to a jury.

I don’t see how you can say he’s given in to anti-death penalty pressure, when it’s not even a death penalty case anymore. I don’t think he’s even given in to pressure at all. The pressure would have been to do the decent thing and let him out, and admit the state made a mistake. They won’t admit they made a mistake, maybe because it is a capital case. In fact, the exact opposite. Maybe if it weren’t a capital case, he would be able to admit the state had made an error. He’s refused to do so because it *was* a capital case.

EIR: But it can now be truly said, that you can no longer say Virginia has never erred in a capital case.

Zerkin: I think you can’t, but the spin that these people are putting on it is that Earl didn’t prove his innocence. The Commonwealth Attorney is sitting out there, he’s a new Commonwealth Attorney, but he’s sitting out there saying, we think he’s guilty. They just refuse to admit the fact that the system could make an error. They’re saying, this proves the system works!

Mind you, Earl Washington would have been dead, to which the senior Assistant Attorney General testified at one point—that Earl Washington would have been executed way back in the mid-1980s, without having a lawyer for post-conviction, without ever filing a *habeas corpus* petition. They would have executed him back then. The only reason Earl Washington wasn’t executed, was because of the involvement of [former death row inmate] Joe Giarratano, in obtaining a lawyer for him.

So for them to say they have a system and the *system* works is just horsesh—.

EIR: And Joe Giarratano is still sitting in prison.

Zerkin: Exactly.

EIR: How often does someone who's mentally ill or mentally retarded plead guilty to something he hasn't done; make a false confession?

Zerkin: First of all, I think people, whether mentally ill or, in Earl's case, mentally retarded, can falsely confess with some frequency, and not only because they're mentally retarded or mentally ill. With mentally retarded people, in particular, that is common, because of their coping mechanisms in their lives generally, which is very often to do what Earl did, which was to acquiesce to what people in positions of authority want. That's relatively common.

The fact is, that false confessions are given by people who do not suffer from mental retardation or mental illness, with surprising frequency. I have no numbers on how often that happens, but that is not that rare an occurrence. There are a host of reasons why people give false confessions, that have nothing to do with those factors.

Interview: Peter Neufeld

Peter Neufeld is the co-founding co-director of the Innocence Project at Cardozo Law School in New York City. The Innocence Project has been either involved directly or as of counsel in about one-fourth of the 74 post-conviction DNA exonerations to date. He was interviewed by Anita Gallagher on Oct. 10.

EIR: What do you think of the coincidence, or what was behind, Judge Albert Bryan's ruling that every person has a right to a DNA test if it might prove innocence, and Virginia Gov. James Gilmore's decision not to release the results of the DNA test on Earl Washington?

Neufeld: I don't think there is any coincidence between the two results. We have been trying to get DNA testing on a number of post-conviction cases in Virginia for a long time without success. What happened in the *Harvey* case, is that after I had personally tried for about three years to get the Commonwealth Attorney to agree to testing, without success, we went into Federal court to try to get relief there. We couldn't go into state court in Virginia, because they have a 21-day rule which prevents anybody from going back into court 21 days after a conviction in the state court. And Judge Bryan considered the issues, and felt that there is a Constitutional due process right to get testing which might lead to somebody's exoneration, and obviously that's the preferred approach in the country, and we think he did the right thing.

Governor Gilmore is a different story. Governor Gilmore would not have agreed to do any additional testing; he literally

has gone kicking and screaming into the 21st Century. But the public sentiment has grown in the last couple of years; certainly an overwhelming majority of the country now believe that everyone should have the right to post-conviction DNA testing if they ask for it, and their position was simply untenable. So, Governor Gilmore had no choice but ultimately to allow the testing. Once he had the testing, he sat on the result for a couple of months before going public with it, and, frankly, the only reason he did that is that he was again being pressured by the court of public opinion.

EIR: Do you think that either of these rulings might have been influenced by the Innocence Protection Act, which is pending in the Senate?

Neufeld: Well, if the Innocence Protection Act is passed, there would be no reason to go to a Governor Gilmore any more. People will not be at the mercy of elected political figures; they will be able to seek redress in a court of law.

EIR: Yes, but do you think these decisions might have been an effort to allow people opposed to that, to say, "We don't need it . . ."

Neufeld: No, I don't think so.

EIR: You were the attorney for James Harvey?

Neufeld: Our office represented Mr. Harvey.

EIR: Judge Bryan is not noted for being a progressive ruling judge.

Neufeld: I'm not that familiar with him. But his decision here was certainly appropriate, and I think it was realistic. It was recognizing the realities of the time, being that we now have the scientific tool which can indicate quite effectively whether or not somebody was unjustly convicted in the first place, and we would be foolish not to avail ourselves of that tool. I think that is what he is saying, fundamentally.

EIR: Do you have any idea of the future of the Innocence Protection Act?

Neufeld: I do not. I would hope that it will be passed, but I think, given the fact that Congress is about to shut down for the elections, it looks like its success is very doubtful, at least this term, and I think it will probably have to come back in 2001.

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A Tale Of Two Lawsuits

by Jeffrey Steinberg

A pair of Federal legal actions, both filed in U.S. District Court for the Southern District of New York, have revealed a tangled web of financial fraud, Mafia moves on Wall Street, and other bigtime criminal activity, all apparently linked to circles intimately associated with at least one of the major candidates for President of the United States, George W. Bush.

At the very center of what appears to be a major criminal conspiracy, are two investment firms ostensibly “above suspicion,” Gotham Partners, a New York City-based hedge fund, and Crescent Real Estate Equities/Crescent Operating, of Dallas, Texas. Gotham has been the largest minority shareholder in Crescent Operating, and has been steering investors to Crescent Real Estate Equities for years. (See Richard Freeman, “The Bush Mob Destroys America’s Psychiatric Hospital System,” *EIR*, March 3, 2000, for a profile of Crescent.)

Several years ago, the directors of Crescent took the highly unusual step of granting Gotham authority to purchase more than a 15% equity position in the firm without filing the papers usually required by the Securities Exchange Commission (SEC), assuring that they were not out to stage a hostile takeover. Gotham has had as much as a 22% stake in Crescent Operating. In the take-no-prisoners world of real estate investment trusts and hedge funds, that was tantamount to an announcement of marriage.

Gotham is currently the target of a Federal civil action, charging that they, along with several other real estate investment trusts and hedge funds, violated SEC rules, by concealing plans to engineer a hostile takeover of a Texas company, Hallwood Realty Partners. Gotham has been allegedly involved in similar kinds of illegal takeover schemes in the past, involving such major targets as First Union Real Estate Investments and Rockefeller Center. And, in every instance of this alleged illegal activity, Gotham has been partnered with firms that also have intricate ties to Crescent.

Crescent is the primary investment vehicle of Richard Rainwater, the Texas money-man who “made” Texas Governor, now GOP Presidential hopeful, George W. Bush. To this day, Rainwater personally manages Governor Bush’s blind trust. Governor Bush was, and may still be an investor in Crescent. He personally made well over \$1 million from his investments in Crescent, and there are allegations that Bush’s stake in the firm at one time may have been far greater.

Gotham’s legal woes stemming from the Federal civil suit, make up just a part of the picture. When Federal prosecu-

tors announced, in June of this year, that they had cracked a major organized crime move onto Wall Street, Gotham emerged as the “black knight,” bailing out one of the pivotal players in the alleged mob racketeering scheme. And Gotham now appears to be positioned to walk away with a handsome profit from the deal.

The Mafia and Wall Street

On June 14, 2000, one hundred and twenty individuals, including associates of the five La Cosa Nostra crime families in the New York area, were indicted on racketeering, securities-fraud, and money-laundering charges, stemming from a \$50 million scheme to manipulate the prices of a number of Nasdaq-traded “penny stocks” through a number of brokerage houses on Wall Street that were either penetrated by organized crime, or had been created as fronts for organized crime.

On the one hand, it is hardly surprising that the traditional La Cosa Nostra families would be interested in getting in on the biggest legalized gambling casino in the world—America’s hyperinflated stock market. Nor is it surprising that the mob resorted to the usual array of strong-arms tactics—from extortion, to death threats, to kickbacks, to corrupt union, pension fund, and even police detective benevolent association officials.

What did pique the curiosity of even the *New York Times*, was the presence on the list of those indicted, of Gene Phillips, a veteran of the Michael Milken/Drexel Burnham Lambert junk bond, savings and loan, and commercial real estate swindles of the 1980s and early 1990s. Phillips’ name was once synonymous with Arizona real estate fraudster Charles Keating, and the infamous Neil Bush/Silverado S&L fiasco.

Phillips’ Southmark Corp. and its San Jacinto Savings and Loan subsidiary went belly-up in the late 1980s, costing taxpayers more than \$1 billion. All told, Phillips had created—before it went up in smoke—a financial pyramid swindle with a paper worth of more than \$9 billion, making Phillips one of the biggest real estate Ponzi schemers in recent history.

But, unlike his financial “godfather” Michael Milken, and his partner in real estate and S&L scamming Charles Keating, Phillips managed to avoid criminal prosecution and time in prison, even though he was considered one of the central players in the entire Milken marauders apparatus.

In the indictment in the Southern District of New York, Phillips’ American Realty Trust (ARB) and Basic Capital Management (BCM) were placed at the center of the \$50 million scam. Preferred stock in ARB was to be sold by the mob-run brokers to a list of vulnerable clients and mob-tainted union pension funds, and, in return for artificially driving up the prices of the stocks, \$2 million out of every \$10 million “invested” would be kicked back by Phillips to the mob.

On the day the indictment was handed down, Phillips’ BCM offices in Dallas, Texas were raided. Phillips is now free on \$1 million bail, but he is restricted to his Dallas home, and cannot travel.

The Plot Thickens

The Wall Street-mob roundup by the U.S. Attorney's Office for the Southern District of New York grabbed headlines in the June 15 *New York Times* and *Wall Street Journal*. On June 18, the *Times* ran a short item, noting Phillips' unceremonious re-emergence in the public spotlight, briefly reporting his loftier criminal achievements in the 1980s and early 1990s.

On June 19, a curious financial transaction occurred, that could have dramatic ramifications. Gotham bought up a large block of shares in Phillips' Transcontinental Realty Investors, Inc. Ten days later, Gotham filed the required 13D report with the SEC, copies of which have been obtained by *EIR*.

Why, one must ask, would a legitimate entity buy into a company that has just been the subject of a Federal racketeering indictment, linked to the five New York City La Cosa Nostra families? True, following the indictment of Phillips and the identification of his companies as fronts for mob kick-back and stock manipulation schemes, shares in Transcontinental fell from \$15 a share down to the \$3 range.

However, the likelihood that Gotham was merely engaging in the Wall Street practice of "bottom feeding"—buying up depressed assets at a fraction of their true value—is probably somewhere near zero. In fact, Gotham's intervention, which, in effect, pumped urgently needed cash and credibility into Phillips' endangered operation, was a mirror image of Phillips' bailouts of mob-tainted Texas-Louisiana real estate and savings and loan figure Herman Beebe in the summer of 1984, when Beebe was about to be indicted by the U.S. Department of Justice. Phillips' Southmark bought up \$58 million of Beebe's assets in two deals that were not finalized until after Beebe had been indicted for defrauding the Small Business Administration. In the early 1990s, Phillips repeated the same favor for Keating, when he ran afoul of the law, and his Lincoln Savings blew out the real estate markets in southern California and Arizona.

According to the U.S. Attorney's office, the trial of Phillips et al. will not take place until September 2001. Sources close to the case suggest that evidence already in the hands of Federal prosecutors establishes that there were prior business ties between Gotham and Phillips. Indeed, Phillips' long-time partner in Southmark, William Friedman, held a large block of shares in a company, Excal, which was also, at the time, part of Gotham's portfolio.

In addition to the raid on Phillips' office, the FBI conducted more than 1,000 hours of wiretaps on the major targets, over a period of more than a year. These wiretaps could also turn up damning evidence, implicating Gotham and, perhaps, Rainwater, in the Phillips real estate and stock manipulations.

Further evidence that the Gotham buy-up of Transcontinental stock reflected a likely prior Gotham-Phillips alliance, surfaced earlier this month. On Oct. 6, Dow Jones Newswire reported that a deal had been struck between two Phillips entities, Income Opportunity Realty Investors, Inc. (IOT) and

American Realty Investors, Inc. (ARL), to buy 1.865 million shares in Transcontinental back from Gotham. IOT and ARL paid Gotham an option fee of \$4.50 a share, in effect, paying back Gotham *in full* for the June bailout, and agreed to pay an additional \$12 a share for the stocks themselves. ARL and IOT can execute their purchase options between Jan. 1, 2001 and April 4, 2001. Gotham's June buy-up of Transcontinental stock had helped drive their value back up.

In another unusual twist, Gotham's Oct. 4 SEC 13D/A filing on the stock option agreement, revealed that the deal had been struck in the context of settling a lawsuit between the various Phillips- and Gotham-linked entities. Curiously, in the suit, defendant Gotham was aligned with Basic Capital Management, one of the principal Phillips companies snared in the mob-Wall Street indictment. According to one experienced investigator, it cannot be ruled out that the filing of the legal action did not reflect a falling-out among thieves, but rather, was aimed at placing the entire transaction under attorney-client privilege, given the sensitive predicament in which Phillips now finds himself.

The Gotham Nexus

Gotham Partners is the private domain of William Ackman and David Berkowitz, who founded the hedge fund in 1992, shortly after they graduated from Harvard Business School. Seven wealthy investors pitched in more than \$6 million to the two inexperienced newcomers to Wall Street, to help launch Gotham, a highly unusual event in the notoriously inbred world of New York speculative finance. To this day, Gotham refuses to disclose any information about their investors and clients. However, it has been confirmed that the largest initial investors in Gotham were the Ziff family, and New York real estate magnate Andrew Farkas.

Dirk Ziff was a classmate of Ackman and Berkowitz at Harvard Business School, but, according to several news accounts, the Ziff investment only came after Martin Peretz, a former Harvard professor and longtime friend of Ziff's, gave his endorsement, and a chunk of his own money. Peretz, the owner of the *New Republic*, was also a Harvard mentor and friend of Al Gore, and is still today considered one of Gore's "kitchen cabinet" advisers, especially on Mideast policy. He reportedly continues to be a big booster of Gotham.

In addition to the Ziff family, one other initial investor in the Ackman-Berkowitz venture was Andrew Farkas, a household name in big New York real estate wheeling and dealing in the 1990s. Farkas got his start in real estate management through the financial backing of Steven Roth, the chairman of Vornado and Interstate Properties, and is a long-time business partner of Richard Rainwater. Roth put up \$5.5 million for Farkas's Insignia Financial Group, when it was launched in 1989.

Gotham not only has taken up an equity stake in Rainwater's Crescent Operating. In virtually every major takeover move that Gotham has launched since its initial capitalization,

Farkas, Roth, and Roth's various corporate entities, have been involved.

The incestuous dealings of Gotham, Roth, Farkas, and other Rainwater partners is already under a public spotlight, as the result of the civil action in the U.S. District Court for the Southern District of New York.

The Civil Case

Attorneys for Hallwood Realty Partners L.P., on Feb. 15 of this year, filed a civil court action against Gotham and a string of co-conspirators, charging that they were engaged in an illegal takeover plot, involving violations of SEC rules. Indeed, the methods used by Gotham, Interstate Properties, EFO Realty, Steven Roth, Private Management Group, and other Gotham-interlocked firms, parallels precisely the kinds of deceptive practices that Phillips used for decades to wage illegal takeovers, and then loot the assets once captured. The Hallwood case has revealed that Gotham engaged in similar practices in two high-profile earlier takeovers, of First Union and Rockefeller Center.

The civil complaint charged that "Under the leadership and direction of defendants Gotham Partners, L.P. and Gotham Partners III, L.P. (the 'Gotham defendants'), and acting with a common purpose, defendants have accumulated over 40% of the outstanding units of Hallwood, a publicly traded company, with the intent to acquire control of Hallwood and to substantially alter its business and operations. Pursuant to Section 13(d) of the Exchange Act and Rule 13d-1, thereunder, defendants were obligated to disclose, in public filings with the Securities and Exchange Commission, their true intent with respect to their acquisition of Hallwood Units and their collective efforts to take control of Hallwood."

Put in laymen's terms, Gotham, in conjunction with a number of other hedge funds and real estate investment trusts with which it had previous ties, launched a hostile takeover of Hallwood, and concealed that fact from the SEC by filing a dozen reports, claiming that the purchases of Hallwood shares were "for investment purposes only." In 1997, once Gotham had taken control of a little less than 15% of the Hallwood stock, it filed a civil suit in Delaware against the Hallwood management, a tactic they had used earlier in their successful takeover and looting of First Union. At that point, Gotham-allied investors began taking stakes in Hallwood, that eventually gave the group 40% control of the company, enough to mount a stockholders' revolt, to throw out the management of Hallwood, install their own people, and, ultimately, loot the company's assets.

The First Union affair was cited in the Hallwood suit as evidence of the *modus operandi* of the Gotham/Crescent group. "In or about the Summer of 1999," the complaint stated, "the *M&A Journal* published a comprehensive investigative report chronicling Gotham's battle to take over First Union Real Estate Equity and Mortgage Investments ('First Union'), a publicly traded real estate company based in Cleveland, Ohio.

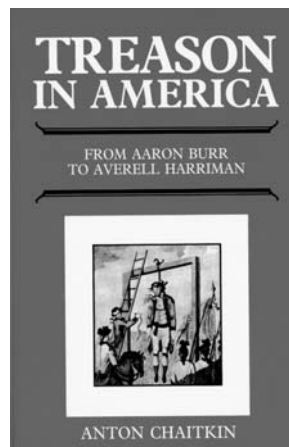
"The investigative report, entitled 'The Ugly Battle to the Death for the Last Paired-Share REIT,' . . . detailed Gotham's attack on First Union. That attack included an initial strategy of accumulating First Union's shares, the subsequent commencement of shareholder litigation against First Union and its management, and, ultimately, a collaboration with other First Union shareholders, whom Gotham had recruited to the deal to accomplish the takeover. Indeed, Gotham and its allies eventually took control of First Union. Under Gotham's management, however, First Union's stock lost over 60% of its value." The complaint concluded, "The *M&A Journal* provides an invaluable insight into Gotham's *modus operandi* and helps explain PMG's and Interstate's interest in Hallwood in 1998. On information and belief, Gotham had been planning a takeover of Hallwood from the beginning, accumulating Hallwood Units, suing Hallwood's management, and ultimately soliciting allies to accumulate Hallwood Units for a final push. . . . As it turns out, both PMG and Interstate have been actively involved in prior investments with Gotham or its principals."

The coincidence of the Hallwood civil suit and the Federal criminal prosecution of Phillips, et al., represents an unusual and unique opportunity to delve into the netherworld where apparent "citizens above suspicion," who have important political connections, intersect organized crime.

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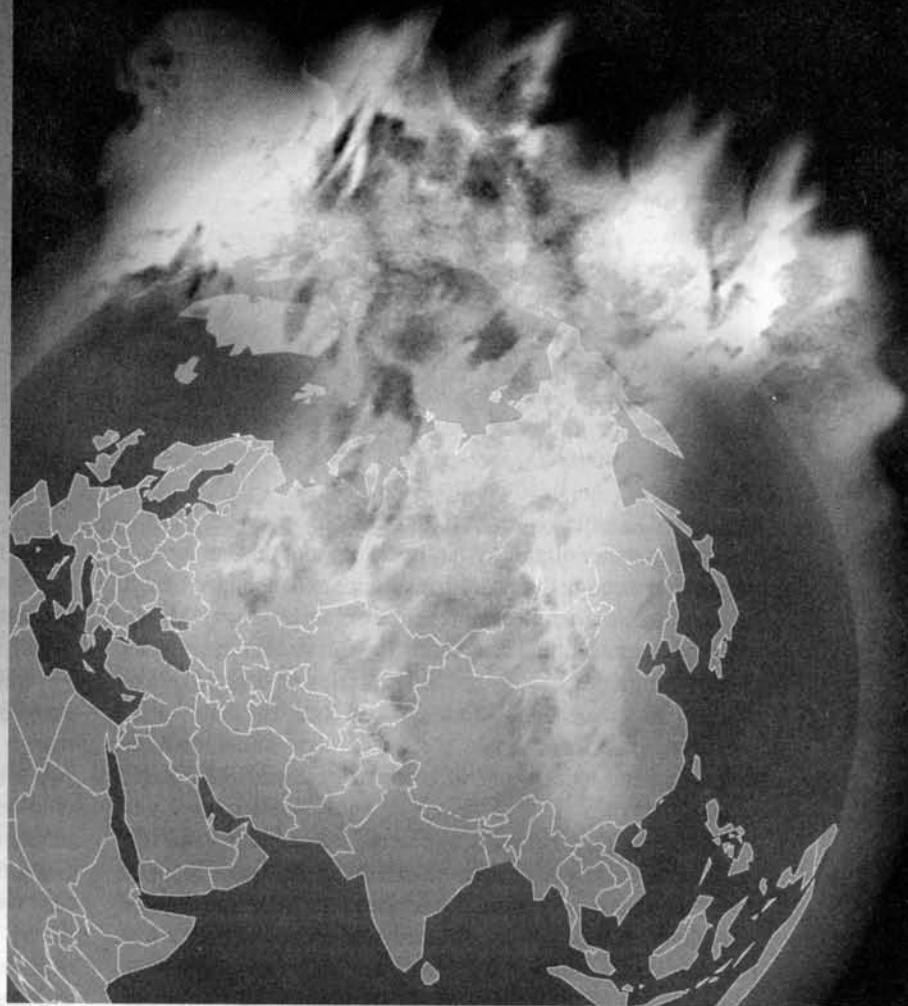
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Bush To Let Free-Market Wolves Run His Medicare Drug Plan

by Linda Everett

In 1965, the U.S. Congress created the Medicare program to assure that the most vulnerable people—older, disabled, and chronically ill Americans—had the health insurance necessary to procure critical, life-saving medical treatment and care. The Federal insurance program, once considered the largest in the world, was created precisely because private insurers refused to make health care coverage available to exactly that population who needed it the most.

Now, Republican Presidential candidate George W. Bush, should he become President, plans to “modernize Medicare”—actually privatize it, by having the Wall Street-London financier oligarchy “compete” to loot this vulnerable population through their health insurance and managed health care companies, health maintenance organizations (HMOs), and the pharmaceutical drug industry—all under the auspices of providing a desperately needed prescription drug coverage plan for Medicare beneficiaries. In essence, he plans to let the murderous “free market” wolves, already well known for scamming the elderly out of medical care and their lives, reign.

Although prescription drugs are now essential for managing chronic illnesses, the Federal Medicare program does not cover medications beyond those needed in hospitalizations. Beneficiaries must purchase extra insurance (Medigap) to pay for their prescription drugs. That insurance is so expensive that only 8% of 40 million Medicare patients can afford it. The issue has become a political football in the Presidential campaign, with Bush and Vice President Al Gore proposing vastly different approaches. While Democrats have always called for adding prescription drugs as an integral benefit for all Medicare beneficiaries, Bush unveiled his two-step program on Sept. 5.

Bush’s Plan

First, Bush claims he would immediately provide prescription coverage to the poorest elderly and those with catastrophic drug costs, by shifting partial responsibility for them to the states, giving the states \$48 billion in block grants to set up programs. Under the plan, coverage would be free for seniors who earn less than \$11,300 a year or for couples who

earn less than \$15,200. Right now, only 14 states have such programs. Since state participation would be voluntary, and the program would allow each state to set its own premium and benefit levels, there would be no uniformity in the program—exactly what is now the case with the Federal-state Children’s Health Insurance Program (CHIP).

CHIP was created in 1997 to provide health care coverage for low-income uninsured children whose families do not qualify for Medicaid. It took years to start the program in most states, and overall, states have yet to enroll some 7 million eligible children still outside this safety net. Some 40 states, including Bush’s own state of Texas, are now forfeiting billions of Federal dollars from the CHIP program because the states couldn’t be bothered with doing the paperwork or didn’t want to spend the necessary matching funds.

California and Texas account for more than half of the unspent money, \$590 million and \$446.3 million, respectively, according to a *New York Times* report. Together, the two states have 29% of the country’s 11 million uninsured children. When states severely limit or refuse to participate in such programs, it has life-long medical consequences for millions of children. The same troublesome and erratic pattern would occur in state prescription drug programs for the elderly. The association of state governors has already said that the states don’t want the responsibility that Bush is showing their way.

‘Piratization’ by Another Name

The Bush plan leaves out 48% of the 12 million seniors who cannot afford drug coverage now, and his catastrophic prescription drug coverage (see below) would help as few as 1% of Medicare beneficiaries.

Bush’s \$110 billion, ten-year Medicare modernization plan would have all insurance companies that participate in the Medicare program offer drug prescription coverage—but they, too, have repeatedly made it clear that they’re not interested. Private insurance plans and HMOs would compete against traditional fee-for-services Medicare. The Bush proposal, modelled on the Medicare privatization plan of U.S. Sens. Bill Frist (R-Tenn.) and “Blue Dog Democrat”

John Breaux (D-La.), would fundamentally change the Medicare program, from one which guarantees medical benefits to one in which the government simply hands seniors a voucher for 25% of the cost of monthly premiums for private insurance.

But, in the Bush plan, there are *no* limits whatsoever on what insurers and drug companies can charge the elderly or the government. The plan allegedly pays for all catastrophic drug costs over \$6,000 a year, but Bush never says what yearly deductible seniors will have to pay *before* his plan kicks in, nor how seniors would have to pay “out of pocket” for each prescription.

Medicare would become the most costly plan, under the Bush proposal, and the government would have to buy a separate drug-coverage plan on the private market. Most beneficiaries would be forced into the same murderous HMOs that have already “dumped” millions of Medicare patients, calling them “unprofitable.”

Drug Industry versus Seniors

While senior organizations and advocacy groups roundly slammed the Bush plan, the pharmaceutical industry, which contributed \$10.5 million to the Republican Party this year, hailed it. The Heritage Foundation says that it “will introduce market forces and efficiencies into the system.” Gail Wilensky, former administrator of the agency that runs Medicare (under President George Bush), drafted Governor Bush’s drug proposal—and serves on the boards of eight drug and managed health care companies. She owns stock and stock options in major pharmaceutical companies whose fortunes depend on the success of the Bush plan.

Note that according to the latest Fortune 500 data, the top seven pharmaceutical companies took in more profits than the top seven auto companies, the top seven oil companies, the top seven airline companies, or the top seven media companies. According to one Congressional office, one drug company, Merck, pocketed more in profits than all the airline companies on the Fortune 500 list; more than all of the entertainment and construction industries as well. The pharmaceutical industry’s 18.9% profit-to-revenue ratio is the highest margin of any “industry” in the nation.

Although prescription drugs are now essential to manage chronic illnesses, lack of drug coverage disproportionately affects the newly poor, the oldest, and those living in rural areas, according to “The Public and Prescription Drugs,” a Kaiser Family Foundation survey released in September. For example, 39% of beneficiaries with incomes between 100% and 150% of poverty (\$7,740 in 1996 for individuals and \$10,360 for couples) lack drug coverage. At least 38% of all older Americans say that they do not have any kind of prescription drug coverage; and, 12 million Medicare beneficiaries must pay for their medications out-of-pocket. Some 23% of the elderly say that paying for prescription drugs for themselves or their family is a “serious problem.”

Drug Re-Importation: Lower Drug Costs?

Congress, too, has a spotlight on the high costs of prescription drugs, and at least one bill has unleashed the wrath of the powerful pharmaceutical drug industry. A bipartisan bill, first proposed by Rep. Marion Berry (D-Ark.) in 1999, would allow wholesalers and pharmacies to re-import prescription drugs from abroad at a fraction of the cost of purchasing them outright in the United States, where prescription drug prices are completely unregulated. Although a medication is manufactured in the United States, Americans can procure it more cheaply—sometimes at monthly savings of thousands of dollars—by crossing into Canada or Mexico to purchase them. In Canada, a price review board oversees the costs of drugs to make sure prices never rise faster than the consumer price index. In Mexico, the government negotiates prices with manufacturers based on bulk purchases.

Buying prescription drugs, which have risen 48% in price since 1992, is increasingly unaffordable, if not impossible, for more Americans than ever. Twenty-five percent of Americans report that they do not have prescription drug coverage through their health insurance plan. According to the report cited above, three in ten Americans say they have not filled a prescription because of the cost; 25% say they have to give up other purchases in order to afford prescription drugs for themselves or their family; and 10% report having to give up basic necessities, such as food, to pay for medicines. More than one in ten Americans says that being able to pay for prescription medicines is a “serious problem.”

A Pitched Battle

Lawmakers see the drug re-importation measure as the most immediate way to contain, or even lower, soaring U.S. drug prices. The Pharmaceutical Research and Manufacturers Association, the lobbying organization for drug manufacturers, and the most powerful lobbying group in Washington (thanks to its 300 lobbyists), is in a pitched battle, using high-profile television commercials and newspaper ads nationwide, to block *any* government interference or regulation of drug prices.

The office of U.S. Rep. Bernie Sanders (I-Vt.), a co-sponsor of the re-importation bill, released a report in March that showed at least a 57% increase in pharmaceutical industry campaign contributions between 1995 and 1999, with a 47% rise in pharmaceutical political action committee contributions and 22% in contributions by industry executives and lobbyists. In terms of soft money, the pharmaceutical industry has increased its contributions by 121% during the same period.

On Oct. 6, the U.S. House of Representatives and Senate reached agreement on a very watered-down version of Representative Berry’s drug re-importation proposal, which would expire after five years. The bill, attached to an Agriculture Appropriations bill, is expected to pass the Senate and be signed by President Clinton.

Growing Strike Wave Engulfs Los Angeles

by Marianna Wertz

Organizers with the LaRouche political movement intervened in the growing strike wave in Los Angeles in the second week in October, presenting Lyndon LaRouche's solutions to the impending financial crisis to meetings of angry workers who are fighting for a living wage in a "New Economy" characterized by out-of-control financial speculation.

The months-long strike by 60,000 actors, and the 24-day-old strike by 4,400 United Transportation Union (UTU) county bus and rail operators, have now been joined by 47,000 striking Los Angeles County workers, who took to the streets for a one-day strike on Oct. 11 to "shut the county down." The county workers, represented by the Service Employees International Union (SEIU) Local 660, had been staging "rolling strikes" for the previous week, with different sectors, from nurses to clerks, striking one day at a time. Los Angeles' 40,000 teachers have also just authorized strike action.

On Oct. 10, leaders of the UTU and SEIU strikes spoke with *New Federalist*, the weekly newspaper of the LaRouche movement, who made clear that they are in it for the long haul, although they are facing difficult situations. Goldy Norton, spokesperson for the bus and rail strikers and a member of the union's bargaining team, said, "As long as our members can hold out, if they can hold out, they're going to win. But, it's tough. It's tough for them to exist."

Norton and Alejandro Stephens, president of SEIU Local 660, pointed out that the strikes are aimed at winning "my fair share" in "the greatest era of economic well-being in years" — or at least, that's how some of their members *perceive* the bubble economy. LaRouche's organizers took on this illusion at a strike rally on Sept. 30. With about 5,000 strikers from the bus drivers, teachers, county workers, and actors, the organizers, with signs reading "Gore and Bush, Dumb and Dumber — They Need Each Other" and "Oil Price Rise Kills, LaRouche Says Governments Must Cut Out Wall Street," peppered the responsive crowd with literature.

At an SEIU rally of about 3,000 striking county workers on Oct. 3, the theme of the speakers was also: "We are in the greatest boom in years," and "we want our fair share." When LaRouche organizers started speaking with strikers about the coming financial blowout, many of them agreed, and asked for literature.

Later in the week, a LaRouche organizer took the microphone at a strike meeting, where the same "progress and pros-

perity" line was being mouthed. She told the strikers that there is no real prosperity for the vast majority of American workers, and that we are heading into a huge financial blowout, with the oil price rise being only the leading edge of disaster. Many of the unionists were paying rapt attention to what LaRouche has proposed as a solution to this crisis.

A Livable Wage

One of the SEIU strikers attending the LaRouche movement's town hall meeting on Oct. 7 explained that the strike is really about the need for a livable wage. Indeed, most county workers are part of what LaRouche has called the 80% of the population that is not sharing in the instant cash that came with the speculative economy — and which is now fast disappearing, along with the Nasdaq.

On Oct. 10, the *Los Angeles Times* profiled three fairly typical county workers, who are earning so little that they can barely afford housing or other essentials, because of the real inflation in living costs over the last few years.

A health department worker who makes \$47,000 a year lives in a studio apartment and drives a five-year-old car, because "Los Angeles is an expensive town." A clerk had to drop out of night school so she can pay for her son's college tuition and the \$120 monthly parking costs for her job. A welfare-to-work graduate, who now works as a clerk in the welfare office, makes only \$300 per month more than the highest welfare check; she has \$50 left after expenses, to get her and her two children through the week. And these people have full-time jobs!

The leading issue in the bus and rail strike is the attempt by the County Board of Supervisors to gut work rules and cut overtime by 15%, thereby destroying the drivers' middle-class wage levels. In the county workers' strike, Stephens pointed to the many sacrifices which his union members have made since 1990, when a wage freeze was imposed. The SEIU wants a 15.5% raise over three years, which is just enough to bring members' pay back to the inflation-adjusted 1990 level, but the Supervisors are offering only 9%. The Supervisors are also attempting to introduce a \$10-15 health benefits co-pay for medical visits, which the union rejects.

Another sticking point for both unions is the \$15,000 pay raise which the Supervisors were recently granted by Gov. Gray Davis (D); this will raise their salaries to \$133,000 when it takes effect next year. These kinds of disparities — the result of the bubble economy — make the difficult task of raising a family and making ends meet that most working people confront, all the more bitter.

The other source of bitterness is the waning support for the strikers among the even more down-and-out Los Angeles population of bus riders and recipients of county services. As Norton said, "Basically the public's concern is, 'I don't give a damn about you or the other people. I want my bus.'"

The only solution to this lies in adopting LaRouche's fight for a real solution to the global economic crisis.

GOP Compromises on Sanctions Reform

Negotiations between the GOP leadership and the party's Cuban-American faction produced a compromise on sanctions reform that angered some Democrats, but left them with no leverage to do anything about it. The reform, inserted into the Agriculture Appropriations conference bill, reported out on Oct. 6, allows for exports of food and medicines to Cuba and other countries designated state sponsors of terrorism by the State Department. The *caveat*, however, is that no U.S. export assistance will be provided to help pay for such exports. This limitation can be waived for Iran, Libya, North Korea, and Sudan, but not for Cuba. In addition, the bill singles out Cuba for further restrictions on private U.S.-based financing for exports.

Sen. Chris Dodd (D-Conn.) objected to the compromise worked out by the Republicans. "It is rather ironic that those who rail against Fidel Castro's dictatorial behavior seem to have adopted some of his tendencies, namely, a willingness to abuse the democratic process and go against the will of the majority in the Congress." He particularly went after the travel restrictions. He warned that the restrictions will not prevent Cuban-Americans from visiting their relatives in Cuba, but rather will "encourage otherwise law-abiding individuals to break the law."

Dodd complained that "Cuba is singled out for even more restrictive treatment than countries that are far more of a potential threat" to U.S. interests. "Very little we do in Washington with respect to Cuba," he said, "has anything to do with winning the hearts and minds of the Cuban people. Rather, it is attempting to win the hearts and votes of the residents of some sections of the country, hardly a wise and moral way to make foreign policy."

The House passed the Agriculture Appropriations bill on Oct. 11 by a vote of 340-75. The White House indicated after the vote, that the President would sign the bill.

Drug Re-Importation Plan Angers Democrats

Senate Minority Leader Tom Daschle (D-S.D.) and House Minority Leader Richard Gephardt (D-Mo.) attacked the drug re-importation plan developed by GOP negotiators, at a press conference on Oct. 6. Gephardt accused the Republican leadership having decided "to defy the will of the American people and short-circuit a bipartisan effort to craft effective re-importation of prescriptions legislation that might have lowered the drug prices for millions of Americans." Instead, the GOP "went behind closed doors and came up with an ineffective, partisan half-measure that serves the needs of the pharmaceutical companies at the expense of the American consumer." Daschle said that the GOP plan "is a sellout to the pharmaceutical companies."

The provision would allow pharmacists and wholesalers to re-import U.S.-made prescription drugs sold abroad back into the United States and resell them at a discount. However, Democrats complain that it's full of loopholes. The bill would not stop U.S. drug manufacturers from contractually prohibiting its customers from agreeing not to resell drugs below U.S. prices. Democrats also maintain that the legislation would not require manufacturers to allow importers to use their Food and Drug Administration-approved product labels, without which the reimported drugs can't be sold in the United States.

Rep. David Obey (D-Wisc.) said that the bill's loopholes will mean that "drug companies will continue to

laugh all the way to the bank."

Republicans argue that the bill gives the Department of Health and Human Services the authority to counter attempts by the drug industry to undermine the bill. Sen. Slade Gorton (R-Wash.) advised Democrats to "accept this for the time being; let's take a shot at it."

Two More Spending Bills Go to Clinton

Congressional leaders and the White House finally found some agreement on the Transportation Appropriations bill and the bill funding the Department of the Interior and related agencies. Action on the bills was accompanied by a second continuing resolution to keep the government operating, extending the first one to Oct. 14.

Rep. David Obey (D-Wisc.) told the House on Oct. 3 that the reason why so little progress has been made on the appropriations bills, is because for the last ten months, instead of producing bills which were a "genuine reflection" of the will of the majority, the GOP leadership brought bills to the floor that were little more than political press releases "so that the majority party could continue to pretend that there was room in the budget to fund their huge tax packages." In order to do this, Obey argued, "they maintained the pretense that this Congress is going to spend about \$40 billion less than, in fact, it will wind up now spending." News reports now put that figure at \$50 billion.

Clinton signed the \$18.8 billion Interior bill on Oct. 11, bringing to three the number of appropriations bills that have been signed into law. However, with many intractable issues yet to be worked out, yet another continuing resolution has been mooted, this one taking the process to Oct. 21.

First Task for a New Bretton Woods

The brief “triumphalism” in Washington and London over the end of Milosevic’s regime in Yugoslavia, has already been overtaken by events. Not only is the Yugoslav situation far more dangerous and unstable than the media photos of a “peaceful revolution” to “popular democracy” had attempted to portray it. More importantly, the present world financial system is now hanging by threads, and a powerful and desperate London-Wall Street faction has deliberately set war into motion in the Middle East, even while the shift of power in Yugoslavia was under way. That same Anglo-American faction was, only at the end of September, pushing hard for another NATO military intervention into Yugoslavia as well.

Continental European nations resisted this, in collaboration with Russia; now they intend to meet in a Nov. 4 European Union summit to “bring stability” to the Balkans. They will do no such thing, unless they seize this opportunity to organize a New Bretton Woods monetary arrangement immediately—along the lines proposed by Lyndon LaRouche. If they attempt to keep following the bankrupt guidelines of the International Monetary Fund, a new Balkan war will erupt. But if they do seize this chance, the rebuilding of the destroyed Balkan economies could be the initial “Great Project” of a New Bretton Woods system, just as the Marshall Plan great projects of reconstruction initiated the old Bretton Woods system.

Already when the NATO bombing of Kosovo and Serbia ended in May 1999, this was clear. At that time, a call for “Peace Through Development for the Balkans” was initiated by Helga Zepp-LaRouche, founder of the Schiller Institute, and Faris Nanic, Secretary-General of the Party of Democratic Action in Croatia. It is urgent now, that the leaders of those nations which resisted the NATO intervention in Serbia, understand the principles which were expressed in that call:

1. There is no durable or permanent and just solution of the crisis without reaching a strategic consensus among leading NATO states and leading nations such as Russia and China;

2. Not a single regional crisis can be observed or treated separately from the global financial crisis and its consequences;

3. Only by reaffirmation of the concept based on the development of the real economy, can we have a solution for Kosovo, the Balkan region, and Southeastern Europe;

4. We greet and support the initiative for the regional development plan presented by U.S. President Clinton.

Therefore, we demand:

“1. To reach an urgent diplomatic solution for Kosovo, using UN Secretary General Kofi Annan’s plan as a basis, to be conducted through the UN Security Council, and with the full consent of Russia, China, India, and other key nations;

“2. To work out a ‘Marshall Plan’ for the region, using the already existing materials on postwar reconstruction plans for Bosnia-Herzegovina and the region as an integral part of the overall Eurasian development program;

“3. An approach to reform the world monetary and financial system by creating an architecture of the ‘New Bretton Woods’ with no delay (i.e., fixed exchange rates, protection of national economies, and sovereign credit generation for economic development);

“4. An urgent and sharp break with the IMF and World Bank practice of imposing austerity measures and unacceptable financial conditionalities on sovereign nations;

“5. Debt moratoria for the economies of the region, which have been ruined by war and enforced shock therapy;

“6. Use of the model of the Kreditanstalt für Wiederaufbau (Bank for Reconstruction) during the post-World War II period reconstruction of Germany;

“7. Joining the initiative for launching the project of the Eurasian Land-Bridge as a spine of Eurasian development in cooperation with all interested nations;

“8. Inclusion of all Balkan and Southeastern European states into the Land-Bridge project.”

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Wednesdays—7 pm

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Cox Ch. 33
Saturdays—3 pm
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- SANTA CLARITA
MediaOne/T-W Ch. 20
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- SANTA MONICA
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Fridays—5 pm
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2:30 am & 2:30 pm

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Thursdays—6 pm
- DEARBORN HEIGHTS
MediaOne Ch. 18
Thursdays—6 pm
- GRAND RAPIDS
GRTV Ch. 25
Fridays—1:30 pm
- KALAMAZOO
Cablevision
Thu-11 pm (Ch. 33)
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- LAKE ORION
AT&T Ch. 65
Alt. Weeks: 5 pm
Mon., Wed., Fri.
- LANSING
AT&T Ch. 16
Tuesdays—4:30 pm
- PLYMOUTH—Ch. 18
Thursdays—6 pm

MISSISSIPPI

- JACKSON
T/W Ch. 11/18
Mondays—3:30 am

MISSOURI

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Wed.-5 pm; Thu.-Noon

MONTANA

- MISSOULA—Ch. 13/8
Sun-9 pm; Tue-4:30 pm

NEBRASKA

- LINCOLN
Time Warner Ch. 80
Citizen Watchdog
Tue-7 pm; Wed-8 pm

NEVADA

- CARSON CITY—Ch. 10
Sun-2:30 pm; Wed-7 pm
- SATURDAYS—3 pm

NEW JERSEY

- MONTVALE/MAHWAH
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Thursdays—4 pm
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- TAOS
Adelphia Ch. 2
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MINNESOTA

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Thu.—11 am, 5 pm,
12 Midnight
- COLD SPRING
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Nightly after PSAs
- COLUMBIA HTS.
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Wednesdays—8:30 pm
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Fridays—5 pm
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HERMANTOWN—Ch. 12
Tue. btw. 5 pm - 1 am
- ST. LOUIS PARK—Ch. 33
Friday through Monday
3 pm, 11 pm, 7 am
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Sundays—10 pm
- ST. PAUL (NE burbs)*
Suburban Community
Ch. 15

MISSISSIPPI

- JACKSON
T/W Ch. 11/18
Mondays—3:30 am

MISSOURI

- ST. LOUIS—Ch. 22
Wed.-5 pm; Thu.-Noon

MONTANA

- MISSOULA—Ch. 13/8
Sun-9 pm; Tue-4:30 pm

NEBRASKA

- LINCOLN
Time Warner Ch. 80
Citizen Watchdog
Tue-7 pm; Wed-8 pm

NEVADA

- CARSON CITY—Ch. 10
Sun-2:30 pm; Wed-7 pm
- SATURDAYS—3 pm

NEW JERSEY

- MONTVALE/MAHWAH
Time Warner Ch. 27
Wednesdays—4 pm

NEW MEXICO

- ALBUQUERQUE
Jones Ch. 27
Thursdays—4 pm
- LOS ALAMOS
Adelphia Ch. 8
Sundays—7 pm
- MONDAYS—9 pm
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Adelphia Ch. 2
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NEW YORK

- AMSTERDAM—Ch. 16
Mondays—7 pm
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(E. Suffolk)
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- BROOKLYN—BCAT
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- BUFFALO
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Thursdays—12 Midnight
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2nd, 4th Mon.—10 pm

NEW YORK

- SYRACUSE—T/W
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Thu.—9 pm (Ch. 13)
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Adelphia Ch. 2
Sun: 7 am, 1 pm, 8 pm
- UTICA—Ch. 3
Thursdays—6 pm
- WATERTOWN—Ch. 2
Tue. betwn. Noon-5 pm
- WEBSTER—Ch. 12
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- WESTFIELD—Ch. 21
Mondays—12 Noon
Wed., Sat.—10 am
Sundays—11 am
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4th Wed.—1 am
- W. SENECA—Ch. 68
Thu.—10:30 pm
- YONKERS—Ch. 71
Saturdays—3:30 pm
- YORKTOWN—Ch. 71
Thursdays—3 pm

NORTH CAROLINA

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OHIO

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- OBERLIN—Ch. 9
Tuesdays—7 pm
- REYNOLDSBURG
Ch. 6: Sun.—6 pm

OREGON

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Tuesdays—1 pm
- PORTLAND
AT&T Ch. 22
Tuesdays—6 pm
- THURSDAYS—3 pm
- SALEM—ATT Ch. 28
Tuesdays—12 Noon
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Sundays—about 9 pm

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- ARLINGTON
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Mondays—4:30 pm
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Comcast Ch. 6
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