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Global Debt Bonfire Is Burning Argentina's House
Moynihan's Commission To Steal Social Security

Bush Energy Privateers Carry Out Global Power Grab

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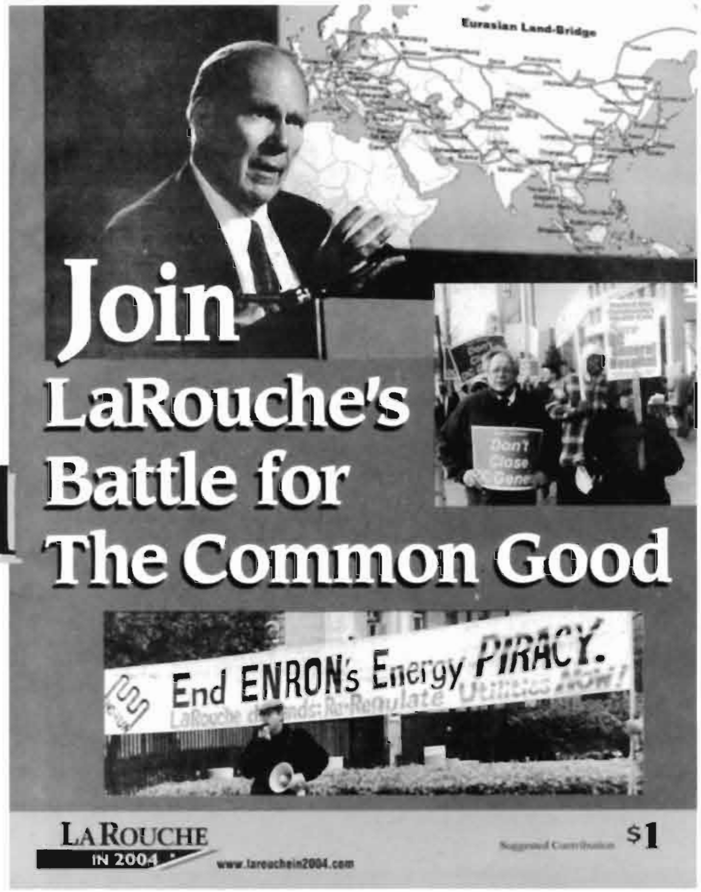

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EIR

From the Associate Editor

In a videoconference sponsored by Mexican public accountants on Aug. 2, Lyndon H. LaRouche, Jr. made the point that *leadership* consists of giving people a sense of optimism about the possibility of changing the world. Without well-founded optimism, they will not have the courage to face the horrors they see exploding around them.

Much of our issue this week presents a truthfully grim picture. The Bush League energy pirates and other privatizers are demolishing the sovereignty of nations, the better to loot their natural resources and populations. The speculative financial flows that have propped up the dollar and kept the U.S. bubble going, are beginning to dry up. Layoffs and industrial production cuts are mounting worldwide, as the U.S. market—the "importer of last resort"—contracts sharply. And President Doubleyou is backing the privatizers in their bid to steal your Social Security funds, as one more income-stream to try to keep the "party" going on the stock markets a little longer.

The good news is, that, globally, LaRouche's solutions are recognized, increasingly, as the only viable options. In this issue, see the report on the Southeast Asian tour by Michael and Gail Billington, for a sense of that. Next week, we'll feature LaRouche's Mexico videoconference, and also the intervention of a Schiller Institute delegation in China.

One of Europe's leading strategists commented to *EIR*'s Mark Burdman on Aug. 1, that he finds "increasing support for a rational debate of policy alternatives, because there is such a spectrum of confusion and possible disaster. Where this is clearest to me is in Russia, where I see Mr. LaRouche's ideas have more and more receptivity. I am convinced, that the Russians are applying the lessons of Mr. LaRouche, especially in the economic realm, but also strategically, and this is a factor, in why, in my mind, they will outmaneuver this current bunch in Washington. . . . It would be a mistake, for people in the United States to ignore the impact Mr. LaRouche is now having, in Russia and elsewhere."

Will our citizens discover in themselves the political wisdom and will to choose to survive this depression, against which LaRouche has warned? That is the question—and organizing task—facing readers of *EIR* now, as the storms of August hit.

Susan Welsh

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LaRouche campaign supporters demonstrate in Houston against the Bush League energy pirates at Enron.

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End in Sight: 'The Party Is Over for the Dollar'

by Lothar Komp

There is a red alert for the U.S. dollar. In July, for the first month this year, the dollar fell significantly against other leading currencies. And this is presumably only the beginning. There are increasing signs that the huge capital flows from abroad into the United States—a half-trillion dollars a year or more—that have protected the excessively indebted U.S. economy from collapse for some time, have slowed down in recent weeks. To quote the Danish financial paper *Börsen,* "The party is over for the dollar."

Börsen editorialized on July 31 that the dollar is now "on its way to collapse," and this "will totally destroy the already weakened world economy." Even the populist American economist Paul Krugman warns of the imminent bursting of the dollar bubble. Krugman, writing in the *International Herald Tribune,* referred to the recent statements by Treasury Secretary Paul O'Neill, that concerns about the enormous U.S. trade deficit were based on "trivial and wrong notions." "You know the end [of the bubble] is nigh," he wrote, "when white-haired executives reject old-fashioned accounting."

Every official statement on American economic policy is suddenly weighed carefully. When President George W. Bush expressed vague understanding for the concerns of American exporters about the high dollar exchange rate, the *New York Times* warned him against such debates, arguing on July 31 that it would be relatively easy to start a devaluation of the dollar, but then much more difficult to stop it. Thus, any change in the official "strong dollar" policy, could unleash turmoil on financial markets.

Household Debt: The Last Bubble?

However, such storms are coming anyway, because the problem of the overvalued dollar represents only one of many symptoms of a global financial breakdown crisis, which will end in a chaotic disruption, unless the economic policy madness of recent years is reversed. Another symptom of the systemic crisis is the accelerating shrinking process of the American economy, which accompanies the collapse of "New Economy" illusions and the crash of high-tech stocks. The most recent economic figures speak eloquently.

U.S. capital equipment spending fell 14.5% in the second quarter, compared to the first quarter, the biggest quarterly drop since 1982. Hardest hit were investments in "information-processing equipment and software," as well as industrial machinery of all types. The National Association of Purchasing Managers (NAPM) factory index in July fell from 44.7 to 43.6 for June, which represents an accelerating downward trend. The NAPM index for Chicago fell from 44.4 to 38 points, betraying a downward trend for the eighth month in a row, something that had not occurred for 11 years. Consumer confidence was also going down in July. The index of the New York Conference Board fell from 118.9 to 116.5.

The last bastion is the consumer spending of private households, which, at least according to doubtful official statistics, has managed to hold firm while corporate capital spending shrank rapidly. However, as the savings rate has collapsed into negative territory since last year, even maintaining the present level of consumer spending requires special efforts to further increase the indebtedness of U.S. private households. The most recent technique that has been developed for this particular purpose is the so-called "cash-out refinancing" of mortgage credits.

Since March 2000, when stock markets started to fall, many investors have transferred their funds from stocks into

Layoffs mount in Silicon Valley and nationwide, as the U.S. economy gives the lie to Wall Street's claims of a "turnaround." Here, lines of people looking for work in Alameda County, California.

real estate. Therefore, the $11 trillion U.S. real estate bubble is now bigger than ever, and its implosion is yet to come. Home prices in the United States last year rose by 8.9%, the largest yearly increase in home prices since 1979. And as real estate prices go up, banks are granting higher mortgage credits to their clients.

The "cash-out refinancing" scheme existed before but has become endemic throughout the United States in recent months. It means that a home-owner takes out a new, larger mortgage on his home, which then is used, first, to pay off the old, lower, mortgage. The rest is offered to him, by the banks, as a cash loan. According to estimates, for the first six months of this year, mortgage loans were refinanced to the tune of $495 billion, and of that amount, consumers extracted about $33 billion in cash, after paying off the old mortgages, and paying down other debt. Of course, the very same scheme further boosts the debt of private households, and will have devastating consequences for them once the real estate bubble bursts.

The Layoff Factor

But, besides trying to keep consumers spending there is another, even more important issue involved in such mortgage schemes. Usually reliable banking sources report that Federal Reserve Board Chairman Alan Greenspan, despite his "everything is going to be okay" statements in public, is staring hard at the potential for an out-of-control blow-up of the consumer debt bubble. This fear is based on the realization that, with the waves of layoffs sweeping through various economic sectors, the lowered available income is placing in immediate jeopardy trillions in credit card and other consumer debt.

Several banks are setting up special taskforces and others are increasing the size of operations in place to deal with this crisis, including attempting to negotiate write-offs and restructuring agreements on these unsecured loans, to prevent defaults. The problem is further compounded by the bundling of consumer loans into derivatives-based securities, which in turn have been used to prop up already weakened positions of effectively bankrupt banks, including mega-banks such as Citibank.

If there are too many write-offs, and if there continues the already accelerating trend toward defaults on this debt, Greenspan would be faced with the prospect of a quick-term banking collapse, and the need for bailouts that would make the Argentine crisis pale by comparison.

Greenspan and the Federal Reserve are thus encouraging an effort to pump, potentially, trillions into the banking system by encouraging people to take higher-valued mortgages in order to transfer the vast majority of the money back into the banks, as the old mortgages are paid off and the "cash out" is used to pay off credit card debt. The key thing here is a gimmick: In doing this, the unsecured credit card debt is converted into a "secure" real estate loan.

Euro Bank Loans Were Sucked into U.S.

Concerning the indebtness of American businesses, other methods are used. According to the quarterly report on international loans, published on July 30 by the Bank for International Settlements (BIS) in Basel, Switzerland, there was a real collapse in the first quarter 2001, of international credits by European banks to European businesses. These credits amounted to only $11 billion, compared to $224 billion in the whole year of 2000. In particular, the big telecommunications firms in Europe were affected. U.S. firms, at the same time, were able to increase their borrowings from American financial institutions by $200 billion; and from international (mostly European) banks by another $110 billion for the first quarter alone.

As the Bank for International Settlements stressed, it was the German and Swiss banks that were on the front line here, followed by French and Dutch banks. As a whole, the American non-financial businesses were able to contract three times more debt in the first quarter 2001, from all banks, than in any average quarter in the previous year. This is occurring at a time when bad loans in the U.S. banking system are piling up, and the rate of default on corporate loans is set to break all previous records.

When will the credit pyramid come down? According to the Jerome Levy Economics Institute in the United States, the "implosion" has already started. The Levy Institute belongs among those institutions that themselves offer no solution to the crisis—other than perhaps a little bit of dollar devaluation coupled with a little bit of protectionism—but nonetheless present some useful analysis. In an 18-page investigation entitled "As the Implosion Begins . . .," the institute notes that its warnings have been circulating for years, that the expansion of the U.S. economy would sooner or later end up in disaster, "because it relied upon a continuing growth of private spending in excess of disposable income, and thus created an enormous growth of debt." At the same time, the U.S. economy has produced increasingly large balance-of-trade deficits, becoming increasingly dependent on net inflows of foreign capital. The institute has been cautious, so far, about estimating "when the turning point would come." But in the last six to nine months, "it has become pretty clear" that the "process of implosion . . . has now begun."

Many things are converging now, states the Levy Institute: Increasing numbers of households are no longer able to keep up debt payments. The bad loans in the banking system are growing, so that even Federal Reserve Board Chairman Greenspan had to acknowledge the "deteriorating" health of the U.S. banking system. The net inflow of foreign capital into the United States cannot be maintained. In sum, "all the ingredients are now present, including rising unemployment and reduced or stagnant asset prices, which normally characterize the inception of a self-reinforcing credit implosion."

Global Debt Bonfire Is Consuming Argentina

by Cynthia R. Rush

In the early 1960s, with a highly skilled labor force and significant industrial infrastructure, Argentina was poised to replicate Japan's economic achievements. Today, after three decades of free-market looting, which especially intensified after 1990 under the direction of then-Finance Minister Domingo Cavallo, who occupies the same post today, what stands out to the thoughtful observer is the country's human and economic devastation, and the fear and despair of its citizens who have seen their country's potential squandered in criminal fashion.

Today, Ibero-America's third-largest economy is bankrupt, and its $212 billion in real foreign debt is unpayable. Every single lunatic scheme applied over the past six months—right down to the most recent July 30 passage in the Argentine Senate of Domingo Cavallo's murderous "zero deficit" austerity plan, or the $1.3 billion debt swap concluded the following day—has failed to do anything except worsen the country's dramatic breakdown crisis.

National disintegration is such, that the province of Buenos Aires, the country's largest and most populous, has followed smaller and poorer provinces in creating a new currency—the "patacon"—to be used to pay a percentage of provincial workers' wages.

This breakdown is not, as the pathetic U.S. Treasury Secretary Paul O'Neill initially tried to explain to the London *Economist,* the result of "local conditions. . . and they like it that way." It is a microcosm of the financial blowout occurring globally, a systemic crisis deepening by the day. Argentina's disintegration is also the world's, if not today, then tomorrow, or next week or next month. Brazil, Mexico, Turkey, Poland, could all become the next Argentina, at any time.

The sanest thing to do in Argentina, Lyndon LaRouche recommends, is what he also proposes for the world: write off a large part of the unpayable debt and embark on an orderly bankruptcy reorganization of the economy, based on protectionist measures and respect for the sovereign nation-state.

'The New Vampires'

But the Anglo-American financial oligarchs who have dictated policy for this nation in recent months, are not sane. Terrified that Argentina will ignite Ibero-America's, or the world's fragile debt bubble, they are going to extraordinary lengths, to maintain the myth that Argentina's crisis is "fixable"—that the debt is performing and will be paid they insist—so long as the government agrees to sacrifice enough human lives.

Because Argentina is shut out of international lending markets, and must come up with funds to cover $8.8 billion in debt due this year, the Anglo-American oligarchy demanded that the de la Rúa government get congressional approval for the "zero deficit" plan Cavallo and de la Rúa announced July 15. The plan, which subordinates all payments to tax revenues collected, and prioritizes foreign debt payment above all, mandates 13% cuts in state sector wages and pensions, and provincial budgets, purportedly to eliminate a deficit for the second half of the year which is much larger than the $1.5 billion figure cited.

President de la Rúa had already put through the plan by decree, but needed the vote in Congress, not only to get around the problem of local courts contesting the decrees' constitutionality, but also to send a message to "the markets" that the bill had broad support—a lie.

Passed in the House of Deputies during the third week of July, the bill exempted from the 13% cut, all monthly pensions and wages of $500 and below, although opposition Peronists and others tried to raise the ceiling to $1000. In the Senate, where the Peronists hold a majority, it took ten hours of tortured debate over the evening of July 29 and early morning of July 30, to get it passed. The Peronists only showed up long enough to provide a quorum, then left the room, giving the Alianza legislators the majority it needed. Even so, the bill passed by only five votes. It kept in place the $500 figure for pensions exempt from cuts, although the government promised to try to raise that to $1,000 as soon as "we start bringing in more money." The cost of the average monthly market basket in Argentina, is $1,500.

It Won't Work

"As soon as we start bringing in money?" The bill became irrelevant almost as soon as it passed the Senate. The economy is contracting so rapidly—July tax revenues dropped by 8.7% compared to July of 2000, and dropped 15.9% compared to June—that Cavallo would have to cut far more than the 13% his bill calls for, in pursuit of a goal that is financially and politically unattainable. In fact, Chief of Cabinet Chrystian Colombo admitted on July 30 that "there is no limit" to the cuts that can be made in state-sector wages.

On July 31, fourteen banks that had conditioned their participation in a new debt swap on passage of the zero deficit bill, did swap $1.3 billion in Treasury bills for longer-term paper, at a variable rate of between 17% and 21.5%. Local pension funds also agreed to refinance $2.3 billion in government securities, which together with the swap, covers $3.6 billion of the $4.3 bn. coming due this year. The government expects mutual funds and small investors will buy the remaining $1.02 billion.

Whatever signal this deal was supposed to send, "the markets" didn't get it. On August 1, all hell broke loose. The country "risk rate," the percentage above comparable U.S. Treasury notes Argentina must pay in interest when it borrows abroad, jumped to an unprecedented 17.5%. The Merval stock index dropped 4.3%. Bonds dropped by an average of 5.1%, and bank deposits and foreign reserves continued to flee the financial system unabated. A desperate Cavallo pleaded at an Aug. 1 press conference to "give us a chance" to show that his genocidal policies can revive the economy.

Since early March, foreign reserves have dropped by $11.6 billion. In a single day, Friday, July 27, they dropped by $965 million, while bank deposits dropped $291 million. In July alone, bank deposits dropped by almost $9 billion—the amount that left the banking system during a three-month period at the height of the 1995 "Tequila" crisis unleashed by the Mexican peso devaluation.

Fuelling panic, on July 30 Moody's rating service called for a further run on the banks, when one of its executives told Bloomberg wire service: "We believe that the authorities would probably have to impose a bank holiday or deposit freeze, in order to avert further drains on bank deposits." Terrified citizens, who recall the Carlos Menem government's seizure of bank deposits in 1989, continued to exchange their pesos for dollars and withdraw them from the banks.

Since according to the "convertibility" law Cavallo instituted in 1991, every peso in circulation must be backed by a dollar held in the Central Bank, the fear is that the continued outflow of foreign reserves would undo the one-to-one peso-dollar peg, leading to devaluation and certain default.

Jumping Into the Abyss

The evidence that Cavallo's strategy can only lead to further disaster is staring world leaders in the face, and some international bankers have drawn the correct conclusions from it. On July 28, the *Neue Zuercher Zeitung,* which reflects the thinking of Switzerland's conservative bankers, editorialized that a default were unavoidable, since Cavallo's zero deficit plan can't possibly work. Even were the federal and provincial governments to attain the zero deficit goal, the *NZZ* warned, deeper austerity would further undermine consumer spending in an already wrecked economy, where official unemployment is now at 16.4% and the potential for social conflict is great. A debt moratorium, although "painful," might be a "healthy step," the daily added, particularly were it accompanied by necessary reforms.

Other banking factions recognize that some form of default is inevitable, but are looking for ways to still "make a buck." JP Morgan is proposing a six-month "restructuring" scheme, consisting of a 35% debt writeoff by international creditors, but new pounds of flesh in exchange—application of deep austerity, and interest rates of 18-19% on restructured debt. Columbia University's Charles Calomiris, who runs in Mont Pelerin Society circles, proposes something similar, but demands that Argentina "do away with all protectionism" and impose "profound," nation-wrecking reforms.

But as we go to press, and Argentina's unravelling continues unabated, U.S. President George W. Bush, British Prime Minister Tony Blair, and former U.S. Treasury Secretary Nicholas Brady, among others, are engaged in frenetic, high-profile efforts to purportedly help Argentina avoid default, by demanding that it continue to kill people.

Bush put in a phone call to de la Rúa on Aug. 1, while the Argentine President was lunching with Brazilian President Fernando Henrique Cardoso and British Prime Minister Tony Blair in the city of Foz do Iguazú. Bush praised de la Rúa's "courage" and determination "to stay the course," reassuring him that the "reforms" embedded in the "zero deficit" plan would prove to the world that Argentina can "meet its foreign obligations"! He reported he was sending Treasury Undersecretary John Taylor to Buenos Aires on Aug. 3, to discuss possibly moving up some International Monetary Fund disbursements now scheduled for September.

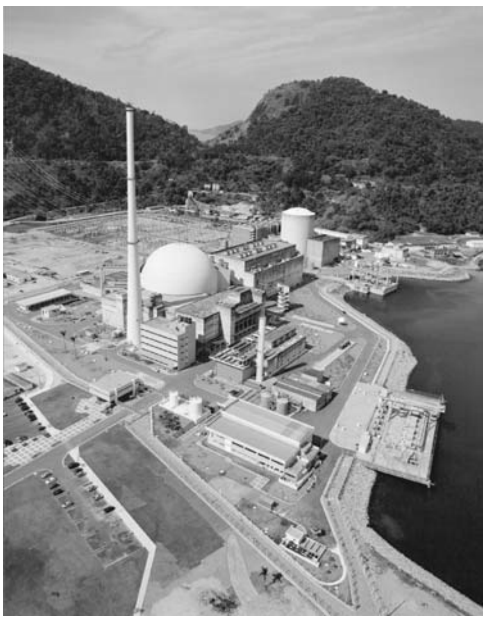
EIR
ENERGY CRISIS UPDATE

Prepared Aug. 2, 2001

Agenda for National Energy Emergency Action

I. Congress Goes Along with Cartel Grab for Energy Control

The net result of moves in both the Senate and House of Representatives at the close of July proceedings, was to further the process of control over national fuels, power systems, resources, and pricing by the notorious energy cartel companies Enron, Reliant, AES, Duke, El Paso, BP-Amoco, Mobil-Exxon, and a few dozen others. Despite denunciations of the "petroleum pirates," there was no effective action. Throughout the July hearings, in the draft legislation, and in side commentary, such as the July 20 Energy White Paper by Sen. Jeff Bingaman (D-N.M.), lawmakers shrank from confronting the basic issue posed by the energy crisis: Will the principles of the traditional U.S. *regulated energy system* be restored? Or, will economic destruction, in the name of "markets-based policy," be allowed to continue?



The Angra 1 and 2 nuclear power plants in Brazil. The United States must go nuclear, but the energy crisis won't be solved until the power of the energy cartels is broken.

House action. On Aug. 2, a 511-page energy bill, "Securing America's Future Energy Act" (H.R. 4), was passed by a vote of 240-189. In favor were 203 Republicans, 36 Democrats, and one Independent.

■ **Senate action.** Though under Democratic chairmanship, the Senate is advancing energy legislation based on the same underlying premises as the cartel-serving measures passed by the House.

The crucial point is that, despite particulars about physical constraints on supplies, *there is no "supply-and-demand" problem as such* in the current crisis. What is operative, is a grab for control by a band of financial/political interests—part of which is so infamous, it's called the "Houston cartel."

The mish-mash of recent Congressional actions fell right into the supply-and-demand delusion, point by point.

To "increase supplies," billions in tax breaks and other inducements were offered the energy pirates, totalling an estimated $33.5 billion.

To "reduce demand," dozens of conservation actions were promoted. Hours were spent on debating how much to lower sports utility vehicle (SUV) emissions levels. (Restoring the rail system would save more gas than even zero-level SUV emissions.)

On natural resources, no overview approach was taken, which would have mandated nuclear development, or an end to the current switch-over to utilizing more and more natural gas for baseline generation. (Revving up nuclear power, in a regulated, national-interest-serving pricing system, would eliminate any possibility of drilling in the Arctic Wildlife Refuge—a question dominating Congressional debate, and the airwaves.)

On pricing, no measures were taken to stop the gouging. New, unprecedented measures were passed to allow cartel interests to take over electricity-transmission systems, formerly run as public-interest logistics.

Most of these actions were taken under the banner of the "Big Lie" of national energy security. As praised by House Majority Leader Tom DeLay (R-Tex.), the newly passed bill has "initiatives that will allow us to produce more energy at home," "help to reduce U.S. dependence on foreign oil," and so forth.

In reality, the energy cartel firms are operating "at home" just as they are internationally: demanding total rights to take over, loot, gouge, speculate, and operate above any national-interest consideration. To document this point, this week's *Feature* reports on the international energy grab, showing the companies, the politics, and the patterns.

However, the problem is not one of information, but of political will to face what is happening. Before Congress resumes, a heavy dose of reality will hit in the form of financial and economic breakdown crisis.

■ **Reasonable pricing?** The one notable exception to the Congressional process of serving cartel interests, was the initiative by Rep. Henry Waxman (D-Calif.). He put forward an amendment to the House energy legislation that would mandate the Federal Energy Regulatory Commission (FERC), which regulates wholesale electricity prices, to enforce electricity price levels based on the *cost of producing the power, plus a just and reasonable profit*. This initiative was voted down 274-154.

II. Senator Bingaman's Energy White Paper

On July 20, Senate Energy and Natural Resources Committee Chairman Jeff Bingaman (D-N.M.) released an eight-page "White Paper on Electricity Legislation," and convened hearings in July on his proposed "Comprehensive and Balanced Energy Policy Act of 2001." Bingaman's paper gives a short history of electricity policy in the United States, beginning in the 1890s, with an implicit premise of government action for the public good. The paper reviewed President Franklin Roosevelt's actions to deal with the "electricity debacle" of the 1920s and early 1930s. But then, reaching the period of the past 30 years, Bingaman changed his perspective entirely, stating that the "business of supplying electricity has changed."

Bingaman stated that today, the "market" must determine policy. His proposed law would repeal FDR's 1935 Public Utility Holding Company Act (PUHCA) under the proviso that the situation will improve "only if FERC is given enhanced authority to address market power problems, and both FERC and the states are given greater access to the books and records of holding companies to prevent affiliate abuses."

Given FERC's glaring record of not even acknowledging that the energy pirates or price-gouging are a problem until politically pressed to the wall, this PUHCA-repeal proviso is worse than pretense.

Bingaman also left to a catch-all clause the issue of serving certain objectives for the "public good," that in 1996 he himself championed under economic development proposals called the Kennedy-Daschle-Bingaman bill. His new White Paper calls for a "Public Benefits Fund" for the poor, R&D, and "other public good programs that are being left behind by the transition to a competitive industry."

At the July 25 Senate Energy hearing, testimony was provided by representatives of key institutions, including the Rural Electric Cooperative Association and the North American Electric Reliability Council, all of whom went along with the general demoralized view that "markets" must prevail, so how can we "make the best of it?"

III. Energy Price and Supply Crises Worsen

As of Aug. 2, there have been no Western states electricity blackouts since July 2 (Nevada and Arizona), gasoline prices have sagged a bit, and new Winter fuel bills are five months away. But this does not mean the news headlines are telling the truth when they proclaim, "The energy crisis is over."

California is teetering on the edge of blackouts and financial insolvency; unpayable costs are hammering farming, manufacturing, and vital services; an unprecedented 4.5 million households face a backlog of old energy bills, with worse on the way.

On July 25, the New England Independent System Operator (ISO), which oversees electric supplies, declared a "power watch" for the second day in a row, because of high temperatures. Reserves fell below 1,300 megawatts (about 5%). The ISO lowered demand by 170 MW by cutting off large users which contract for interruptible power. A power advisory was also issued for the Mid-Atlantic states. The Pennsylvania-New Jersey-Maryland grid interconnection operator sought additional power for the afternoon. Customers were urged to conserve. Brown-outs hit New Jersey.

In California, Lady Luck and self-denial are "helping," but not solving anything. First, it has been relatively cool this year, with no record-setting hot days. Second, self-imposed cuts in electricity use have been major. As of May, electricity use in the state was voluntarily curtailed by 11% from the year earlier. Residential users were socked with bills up to 45% higher, under rate increases in January and June. More than one customer in three has cut use in recent months *by 20%!* The inducement was to qualify for lower rates on utility bills.

Obviously, praying for continued cool weather, and continuing to cut usage (forgoing refrigerators, stoves, lighting), do not add up to a viable "policy solution."

Pricing uncertainty continues in the Western states. As of mid-July, demand in California was about 8,000 MW less than had been projected, due to "savings" from cuts in usage. Because the state has made long-term contracts to buy supplies, it has been faced with the need to sell the "surplus" it can't use, for far less than the (long-term) purchase agreement. California has been selling for $15-30 per MW/hr, power for which it paid $130 on contract.

One of the beneficiaries is the Oregon-based Bonneville Power Administration, which is "owed" some electricity from barter transfers during the Winter shortage. Because of this unexpected turn of events, Bonneville anticipates it can ask for a custumer rate hike of "merely" 50% this October, not 250%, as it had feared.

London Underground at Center of Policy Fight

by Alan Clayton

British Prime Minister Tony Blair and City of London Mayor Kenneth Livingstone have locked horns over Blair's attempts to privatize parts of London's Underground. Blair, who has continued former Prime Minister Margaret Thatcher's privatization policies, has overseen the deterioration of Britain's rail system, and the concomitant increase in rail disasters. Livingstone is objecting to privatizations in particular on safety grounds.

On Nov. 8, 1987, at the very height of Thatcher's rule, 31 people died in a fire at the London Underground's King's Cross station. The fire had started below an escalating stairway which was more than 50 years old, and which, because of Thatcher's public spending cuts, had been given very little maintenance or even regular inspection. The blaze was caused by a lighted cigarette butt falling through a stair and igniting oily rags and junk, which had accumulated beneath over years.

Londoners recoiled in horror at the condition of what they call colloquially "The Tube," and there was a determination that such a thing should never, ever happen again. The appalling reality, 14 years later, is that it could happen anytime, because the Tube, which is the lifeblood of the London economy, suffers from massive and continuing underinvestment.

This is a paradox, in that countless thousands of London's operatives in the global casino, a world financial system that is almost totally removed from the physical economy, often cannot get to work as a consequence of underinvestment in the physical economy.

In light of this continuing crisis, the Blair government has decided to press ahead with its controversial Public Private Partnership (PPP) plans, in an attempt to modernize London's Underground network. This decision has been attacked by Livingstone, London's elected mayor, and Bob Kiley, his Transport Commissioner, who are seeking a judicial review of the government's plans. Under the PPP, the public sector (London Underground) would own and operate all train services, while train, track, and station maintenance would be contracted out to private companies.

Blair believes that the only way to raise the huge amounts of money to improve the Tube is via the private sector. If the PPP is given the green light, it would raise £13 billion, which would be spent primarily on new rolling stock and track. They also feel that private-sector values would introduce better managerial skills—which, they argue, have been lacking for a long time—to the London Underground. However, this has brought a question to everyone's lips: Who will be responsible for safety? The government says that although private companies will own the track, they have a duty to ensure that safety standards are met, and systems have been put in place to enforce that.

Livingstone and Kiley, however, disagree vehemently. They argue that the very structure of the PPP is unsafe. They say that by splitting the London Underground in two, there will be buck-passing, and no one will be responsible if anything goes wrong. Therefore, they forecast that the disasters that have struck Railtrack (Britain's intercity commuter railroad) over land, will be replicated underground.

In addition, the government's plans are opposed by 55 London Labour Members of Parliament, who say that the PPP has some "regrettable safety flaws." Similarly, the RMT union opposes the plans on safety grounds.

Judicial Review

Livingstone is convinced that he is right over the issue of safety. A judicial review of the government's plans is scheduled to start on July 23. They are going to ask a High Court judge to decide whether the government is impinging on Livingstone's legal duty as mayor to ensure that the capital has a safe transport system. They feel that the judge could rule either way.

Blair reacted against Kiley, who was locked out of his suite of offices at London Underground as a result, after being sacked from the board of London Transport by the Prime Minister. He had held the job for only ten weeks. Blair has simply not been prepared to countenance Kiley's hostility to the partial privatization of the Underground. His sacking came in a letter from Transport Secretary Stephen Byers, who said that the normal 30 days' notice was being waived. However, Livingstone and Kiley will continue the attack, giving their reasons why their plan to keep the Underground in the public sector provides better "value for money."

Byers accused Kiley of trying to use his board position to block negotiations with the bidders chosen to take over large sections of the Underground. Byers said that Kiley, "without authority from the board, issued instructions to senior management to halt these negotiations. This is unacceptable." Byers also said that he had received a letter signed by the majority of the London Transport Board, saying they could not work with Kiley, and that it was impossible for the board to function properly. Byers has replaced him with Sir Malcolm Bates, London Transport's former chairman, whom Kiley displaced.

Kiley, who used to run New York's subway, had been appointed chairman on a specific order from Blair, to try to reach an agreement with the bidders selected to take over the Underground on a 30-year lease. Kiley described Byers' action as "a transparent attempt to silence me and create a smokescreen, keeping vital information from the public and the London Transport Board."

Economic-Financial Breakdown Accelerates

by Richard Freeman

The shutdown of U.S. industrial production, across the spectrum of the economy, intensified during the second quarter, and continued into July. In addition to the production fall, the breakdown has concentrated in manufacturing, and erupted on the profit sheets of the biggest corporations. In parallel, the rate of default of junk bonds—high-risk, high-yield bonds—in the United States climbed to an all-time high.

As this breakdown intensified, 2004 Presidential pre-candidate Lyndon H. LaRouche, Jr., speaking via teleconference on Aug. 1 to an audience in Mexico, stated, "The world today is not on the edge of a depression. We are already *in* it!"

The wild money-printing by Federal Reserve Chairman Alan Greenspan, including six interest rate cuts since Jan. 3, has utterly failed to revive the physical economy, nor can it save the bankrupt financial markets. However, it has generated the emergence of Weimar-style global hyperinflation.

On July 19, the Federal Reserve Board of Governors released the U.S. industrial production index, including subindices for various industries, which shows a steep industrial decline. The gigantic surge in unemployment of manufacturing production workers by 727,000 workers since July 2000, had already accurately reflected the breakdown of U.S. core manufacturing. The Federal Reserve figures add new stunning confirmation of this process, although the Fed employed some fraud in constructing the industrial production indices. The indices *overstate* production. Conversely, when production falls, the indices *understate* the level of fall. That is, the level of production fall is even greater than is stated.

Table 1 reports production for the second quarter, showing the collapse across the board. For the second quarter, compared to the first quarter, U.S. total industrial production fell by 5.6%. The fall spread from machinery to intermediate goods and consumer goods. Electrical machinery production fell 21.3%, and industrial machinery and equipment fell by 12.2%. Fabricated metals fell by 10.1%.

It should be noted that production of Defense and Space Equipment fell by 3% (and in reality, probably by more), and that while the press tries to say that there is a defense build-up in the United States, for the last decade, inclusive of the first six months of 2001, the opposite has been the case.

Further confirming this process in a partial way, on Aug. 1, the National Association of Purchasing Managers (NAPM) announced that its its factory index for July fell unexpectedly to 43.6, from 44.7 for June; economists surveyed by the Bloomberg financial news service had predicted that the July level would be 44.5. An NAPM index figure of less than 50, signals sinking manufacturing activity; the index has been below 50 for 12 consecutive months.

TABLE 1
Plunge in U.S. Industrial Production Indices
(Change in Second Quarter 2001 from First Quarter 2001, on an Annualized Basis)

Industrial Production Index	–5.6%
Electrical Machinery	–21.3
Communications Equipment	–20.0
Semiconductors and Related Electronic Components	–27.3
Industrial Machinery and Equipment	–12.2
Fabricated Metals	–10.1
Defense and Space Equipment	–3.0
Stone, Clay, and Glass	–7.2
Chemicals and Products	–9.3
Printing and Publishing	–9.9
Rubber and Plastic Products	–6.4
Textile Mill Products	–15.9
Utilities	–11.3
Electric utilities	–6.0
Gas utilities	–25.3

Companies are experiencing this as a plunge in profits, or outright losses. In an Aug. 2 survey, the *Wall Street Journal* announced that in its preliminary tabulation of 1,138 corporations, net income for the second quarter plummeted to $32.4 billion, from $98.6 billion in same quarter a year earlier, a fall of 67%. For the second quarter of this year, compared to the second quarter of last year, the net income of commodity chemicals fell 94%; that of electronic parts by 77%; that of auto parts and equipment by 66%, and so forth.

Junk Bond Meltdown

In the financial realm, there is now the growing meltdown of junk bonds, often called "below investment grade bonds." Over the last five years, these bonds were issued in large quantities by the telecom industry to finance a wave of corporate takeovers. They can also be the bonds of companies that were once functioning and solvent, but now that these companies are teetering on the edge of insolvency, their bonds have fallen to junk bond status.

According to Moody's rating service, during the first quarter of this year, 93 U.S. companies defaulted on $34 billion worth of junk bonds, which is a record dollar volume. The July 23 *Wall Street Journal* reported that the recovery rate for all junk bonds is now just 12¢ on the dollar versus 25¢ on the dollar in 1999-2000. The market for U.S. junk bonds is valued at $690 billion, and it is part of a larger $10 trillion market of all U.S. corporate and Treasury bonds. The junk bond market failure could bring down this larger bond market, and thus the U.S. financial system.

Bush's Energy Pirates Are in Global Power Grab

by John Hoefle

In the latter half of June, I journeyed to Mexico City and Guadalajara as part of a U.S.-Mexico bi-national effort by the LaRouche movement to open up a southern flank against the spread of electricity deregulation, which the financial oligarchy is attempting to impose on that nation. My mission was to explain to the citizens of Mexico the perfidious nature of what is being done worldwide under the guise of privatization and deregulation, and to document for them the predatory nature of the energy pirates.

The essence of the message to Mexico was this: The oligarchs want your money, your natural gas, and your oil, and they will lie, cheat, and steal to get them. If you believe they will be fair to you, just look at what they did to California. Their global financial casino is collapsing, and they intend to maintain their power after its crash, through control over the essentials of life, such as food, energy, telecommunications, and other key infrastructure and commodity elements. Privatization and deregulation are looting mechanisms intended to bolster the oligarchs' bankrupt financial bubble, and to give them control of a post-crash world.

In the terms in which it has been pushed—lowering prices by increasing the supply and giving consumers the right to choose their supplier—electricity deregulation has been an abject failure. The case of California is exemplary: People were promised lower prices and more electricity, but what they got was vastly increased prices and a dramatic drop in supply, causing blackouts when demand was at only two-thirds of previous peak usage. Unable to hide the damage they did in California, the deregulation proponents have attempted to portray what happened there as something California did wrong, not something wrong with deregulation.

Deregulation works when properly implemented, they insist, pointing at Pennsylvania as the proof. However, deregulation is also failing in Pennsylvania, so much so that the state took the extraordinary step of involuntarily transferring

FIGURE 1
Bush's Energy Pirates Target Top Electricity Generators
(Percentage of World Generating Installed Capacity)

Source: International Energy Agency.

hundreds of thousands of utility customers to Enron's New Power Company, in a vain attempt to make it appear that its "choice" program was working. Even with that transfer, the number of customers of energy pirates in the state is plummeting, just as it is in Massachusetts.

The record shows that the pirates simply cannot compete on price with regulated utilities when it comes to providing electricity, and in fact require significantly higher prices in order to make money. That is why, as a part of deregulation, the regulated utilities are being broken apart; stability is being dismantled so that chaos and volatility can reign, and prices soar. The electricity markets are being remade in the image of the financial markets.

While deregulation is a failure from the standpoint of providing the consumer with lower prices, it is a huge success from the standpoint of the pirates and their oligarchic controllers. To them, deregulation is doing precisely what it was intended to do: spinning off huge profits which fund their worldwide asset grab, and the global restructuring not only of the electricity sector, but of the world economy, weakening nations and bolstering the empire.

World Electricity Generating Installed Capacity, January 1, 1999
(Thousands of Megawatts)

Nation	Generating Capacity	Nation	Generating Capacity
United States	775.9	Brazil	65.2
China	277.1	Ukraine	54.8
Japan	226.4	South Korea	46.4
Russia	203.9	Spain	44.9
Canada	109.8	Mexico	38.5
France	108.3	South Africa	38.0
Germany	107.8	Australia	37.9
India	103.4	Sweden	32.9
United Kingdom	69.9		
Italy	65.5	**World Total**	**3,180.1**

Source: International Energy Agency.

Britain's Global Grab

The headquarters for this global power grab is not Texas, but the City of London and Wall Street. After a pilot project in Chile in 1987, energy deregulation made its debut in Britain in 1989, under Prime Minister Margaret Thatcher. Britain began privatizing its national electricity system, selling off state-owned electric utilities to private companies, and opening its doors to domestic and "foreign" competition (we put foreign in quotes, because the British have a habit of using British-controlled, but foreign-domiciled, companies in such circumstances).

One of the first of these foreign companies to enter the British market was Enron, which had been formed four years earlier through a merger between Omaha's InterNorth and Houston Natural Gas. (Today, Thatcher's Secretary of State for Energy, Lord Wakeham, sits on the board of Enron.)

By 1997, seven of Britain's 12 regional electric utilities were controlled by U.S. firms. Those utilities included American Electric Power, Calenergy, Central & South West Corp., Cinergy, Dominion Resources, GPU, PacifiCorp, Public Service of Colorado, and Southern Co. Many of these companies, not surprisingly, were once part of the old J.P. Morgan electricity cartel. Morgan, in turn, was a U.S. agent for British capital (**Table 1**).

By 1997, the U.S. companies also moved heavily into the independent power-producing market in Britain. Notable in this regard were Enron, AES (the Prince Philip-connected firm which is now the single largest generator of electricity in Ibero-America), and Mission Energy, an unregulated subsidiary of Edison International, the parent of Southern California Edison.

The Commonwealth nation of Australia was also opened up, to British and U.S. companies. Among the U.S. companies active in Australia by 1997 were CMS Energy, Edison International, Entergy, GPU, Northern States Power, PG&E, PacifiCorp, Texas Utilities, and Utilicorp United.

The pirates also moved into India, via Enron's Dabhol power plant in the state of Maharashtra, engaging in activities that induced a former official of the World Bank to characterize the company as "the East India Company of the Twenty-First Century," a reference to the British Empire's infamous opium- and slave-running imperial overlord.

One of the characteristics of the pirates' move into a country (and U.S. states, as well), is that the privatization and deregulation bills are rammed through in a rush, giving lawmakers little time to debate the particulars of the bills upon which they are being asked to vote.

An example of how this works was recently documented by the LaRouche Society of the Philippines, which is fighting to stop the pirates from privatizing the National Power Company and deregulating the national electricity system. There, an attempt was made to ram through a long-stalled power bill in a special session of a lame-duck Congress. Among the promises made by the backers of the bill, was that it would cut electricity rates 27%.

Today these U.S.-domiciled energy pirates are active in nearly 50 countries, from Europe and Africa to Asia. The highest density of presence, as measured in terms of the number of companies active in energy generation or transportation, is in Britain and the Commonwealth nations of Australia and India, followed by China and the Ibero-American nations of Brazil, Argentina, Bolivia, Chile, Colombia, El Salvador, and Mexico.

TABLE 1

British Empire Leads Deregulation Movement: U.S.-Based Companies Acquiring Energy Assets in Britain and Australia as of 1997

British Regional Electric Companies

Acquired Company	Buyer
Yorkshire Electricity	American Electric Power & Public Service of Colorado
Northern Electric	Calenergy
SEEBOARD	Central & South West Corp.
East Midlands Electricity	Dominion Resources
London Electricity	Entergy
Midlands Electricity	GPU and Cinergy
Eastern Group	PacifiCorp
SWEB	Southern Co.

British Independent Power Projects

Project	Buyer
Barry	AES
Isle of Grain	AES
Medway	AES
Indian Queens	Destec
Dinorwig	Edison International
Derwent	Edison International
Ffestiniog	Edison International
Sponden	Edison International
Teesside	Enron
Sutton Bridge	Enron
Wallend	Enron

Australian Electricity Assets

Asset	Buyer
Loy Yang A, Victoria	CMS Energy
Loy Yang B, Victoria	Edison International
CitiPower, Victoria	Entergy
Solaris Power, Victoria	GPU
Queensland Power (Gladstone), Queensland	Northern States Power
Queensland Pipelines	PG&E
PowerCor, Victoria	PacifiCorp
Eastern Energy, Victoria	Texas Utilities
United Energy, Victoria	Utilicorp United

Notes: Includes purchases of partial interest in acquired companies. Company names are as of time of purchase. Only acquisitions by U.S. companies are listed.

Source: Energy Information Administration, U.S. Dept. of Energy.

The target list of the electricity pirates can be seen from looking at a map of national generating capacity (**Figure 1** and **Table 2**). The United States, with 24% of global electricity generating capacity as of 1999, is the juiciest target in the world, followed by China with 9%, Japan with 7%, and Russia with 6%. India, with 3%, and Brazil, with 2%, are immediate targets.

The Case of Mexico

Mexico is also a prime target. In addition to its 1% of global generating capacity, Mexico has two added benefits: a common border with the United States, and huge oil and gas deposits. Mexico is the world's fifth-largest oil producer, with reserves of some 28 billion barrels and crude oil production of about 3 million barrels a day (compared to 21 billion and 6 million barrels, respectively, for the United States); it exports $10.4 billion worth of oil a year, 93% of which goes to the United States. The nation also has 30 trillion cubic feet of natural gas reserves.

The energy pirates have plans to turn Mexico into a giant electricity *maquiladora,* using cheap labor and looser environmental restrictions to generate cheap energy in Mexico and sell it into the more lucrative U.S. market. Mexico will be forced to compete on price with the United States for its own electricity, jacking internal prices up significantly higher than current levels.

The problem in Mexico, from the standpoint of the pirates, is that energy is largely controlled by the national government. The Mexican oil industry was nationalized in 1938, and is controlled via the state-owned oil company, Petroleos de Mexico (Pemex). This makes Pemex one of the world's largest oil companies, the single most important entity in the Mexican economy, and a powerful symbol of Mexican sovereignty and independence. As such, Pemex is number one on the Anglo-American oil cartel's hit-list in Mexico.

Frontal assaults on Pemex having thus far failed (a Constitutional amendment would be required to privatize it), Bush's energy cartel has launched flanking actions against Mexico's downstream natural gas and electricity industries. The nation's Natural Gas Law of 1995 opened up the natural gas market, allowing private companies limited powers to engage in the transportation, storage, and distribution of natural gas, while retaining Pemex's control over exploration and production. In electricity, independent power producers and co-generators were allowed limited involvement through a 1992 law, but state-owned companies still generate a large majority of the nation's electricity.

Survival of the Nastiest

In surveying the damage done by energy deregulation, many people wonder why it is that such a destructive process would be allowed to continue, why it is that an obviously failed policy is not reversed. "Don't they understand that they are destroying the economy with their greed?" people ask.

To find the answer to that question, one must look at the issue from a higher perspective. The truth is that the economy has already been destroyed, by three decades of deindustrialization and financial speculation. Knowing that their bubble would ultimately collapse, the oligarchs and their servants have been consolidating their control over food, energy, telecommunications, precious metals, strategic minerals, and other essentials of life.

What they are now doing, is looking for a way to survive the consequences of their own folly—and ours, for letting them get away with it—by setting up looting operations for the post-crash world. That, ultimately, is the nature of deregulation.

The Bankers' Feeding Frenzy: 'Privatization'

by Dennis Small

In examining the way in which energy and other forms of *piracy* are functioning, it's useful to note that there are two distinguishable components of this looting process. The first, is the policy of *privatization,* under which public-sector companies in the developing sector and the former East bloc nations, are systematically sold off to private interests—usually foreign private interests. The second, is the *deregulation* of the victim economy, meaning that the government is instructed that not only may it not own any major enterprises, but it also must not try to regulate them—or the rest of the economy—in any way.

We will look at the second aspect, the direct loss of national sovereignty from privatization, in the following article; the huge quantitative expansion of this looting process will be analyzed here.

The underlying—if unstated—concept of both of these policies, is that there is no such discernible thing as the General Welfare of a society, and so it is pointless and counterproductive for the government to try to attain it, by any combination of direct ownership and regulation of economic factors. The more efficient approach, we are regularly informed by the advocates of piracy, is to let "market laws of supply and demand" set the price and quantity of all goods produced, and to interfere with those laws as little as possible—ergo, privatize and deregulate. Only when private interests are allowed totally free rein, will the sum of their individual greedy appetites add up to the greatest good.

Peruvian President Alejandro Toledo. His new government is handing Peru over to the privatizers.

Of course, this is all a giant hoax masquerading as cheap economic theory, and cheaper philosophy. The reality is that "privatization" is barely concealed robbery of government assets in order to pay the foreign debt. And "energy deregulation," it turns out, actually means the heavy-handed *regulation* of the market—not by the government, but by a handful of private energy pirates, such as AES, Enron, etc. Under *deregulation,* these companies get to use their dominant market position to impose their own highly *regulated* policy decisions, decisions which are set according to the political and financial interests of the international financial oligarchy, who are intent upon hijacking any and all financial flows in order to bail out their bankrupt global monetary system.

So the actual policy fight is not between regulation and deregulation, but rather over *who* is going to do the regulating: the sovereign nation-state, or a gang of global pirates. This point will come into sharper focus as we look, first, at the privatization process worldwide, and then at the energy sector in Ibero-America.

On Dec. 19, 1997, *EIR* published a world survey of privatization, which estimated that the cumulative dollar value of all privatizations internationally had reached about $242 billion. That was based on our estimate that total privatizations in 1997 would hit the record level of $55 billion. But we were wrong: The 1997 total turned out to be even greater, reaching a whopping $85 billion. And 1998 and 1999 were also "banner" years.

Ibero-America the Leading Victim

In fact, the Twentieth Century ended with a veritable orgy of privatizations, as can be seen in **Figure 1.** Loot-hungry

FIGURE 1
World: Total Privatizations
(Billions $)

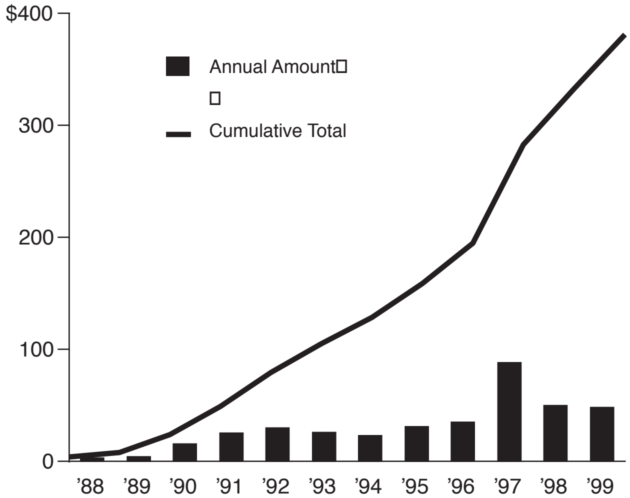


FIGURE 2
Ibero-America: Total Privatizations
(Billions $)

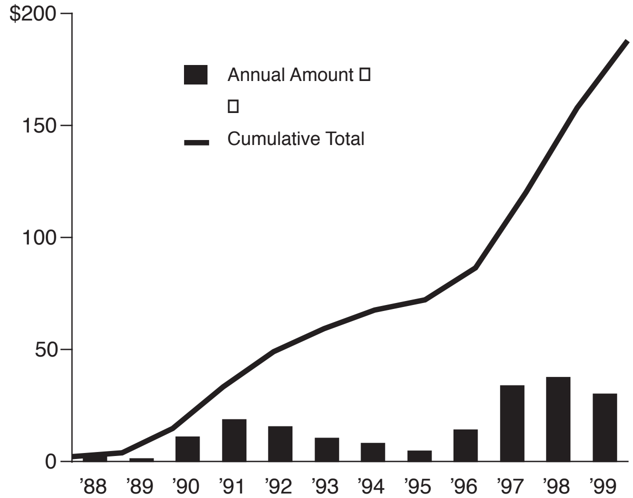
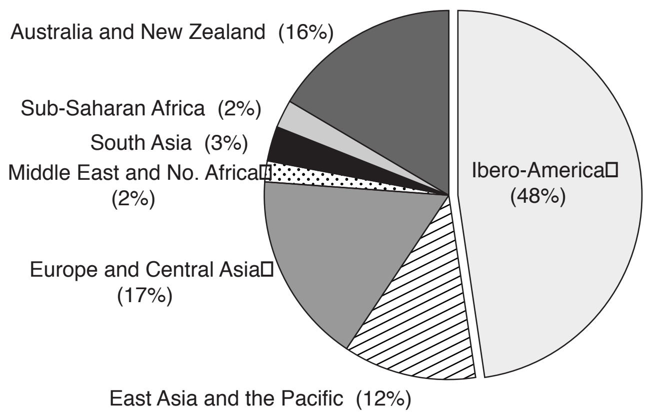


FIGURE 3
Privatization by Region, 1988-1999
(% of World Total)



Total = $380 Billion

bankers drove country after desperate country to sell off its national patrimony in order to pay its foreign debt. The world cumulative total of privatizations from 1988 through 1996 had reached about $190 billion; but in the next three years that amount *doubled,* to some $380 billion by the end of 1999 (figures for 2000 are not yet available). This frenzied pace of privatizations occurred in the same time frame (the late 1990s) in which the energy deregulation process—in the United States and internationally—also took off. And it was driven by the same global financial crisis which blew up in Asia in 1997, in Russia in 1998, and in Brazil in 1999.

Almost half of all privatizations to date have taken place in Ibero-America. The years 1997, 1998, and 1999 each saw more than $30 billion per year in privatizations in that region, bringing its cumulative total to date to about $188 billion (see **Figure 2**). Of these, the lion's share, especially over the last three years, have been in Brazil, which stepped up its privatization drive, especially in the telecommunications and electricity sectors.

As can be seen in **Figure 3,** Ibero-America accounted for about 48% of world privatizations over the last dozen years. The second largest share (17%) was Europe and Central Asia, reflecting the sell-off of government assets in Russia, Hungary, and other former Soviet bloc countries.

In all of these cases, the driving force behind the privatizations was pressure to generate foreign exchange, in order to pay the foreign debt. And yet, despite the flood of privatizations, and ensuing debt service payments, the foreign debt of these nations only grew bigger and bigger, as a result of the rigged game in the international financial system which we have often referred to as "Bankers' Arithmetic." In a nutshell, "Bankers' Arithmetic" means that forced devaluations and deteriorating terms of trade are used to ensure that the payment of the foreign debt is as perennial as the punishment of Sisyphus: The more you pay, the more you owe.

For example, Brazil's official foreign debt at the end of 1996 was $178 billion. Over the ensuing three years, about $70 billion in government assets were privatized, with the

FIGURE 4

Top Ten Countries in Privatizations

(1988-98, Bilions $)

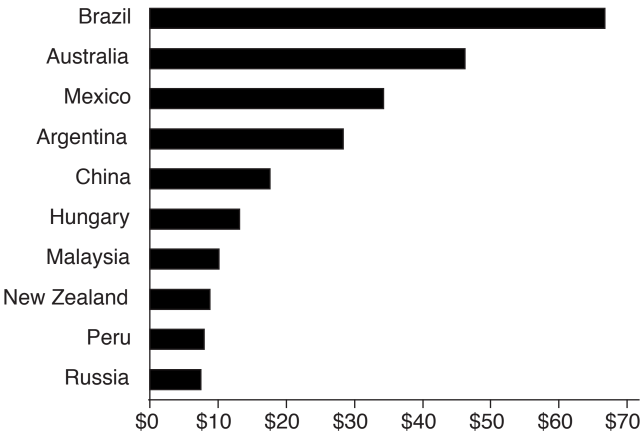
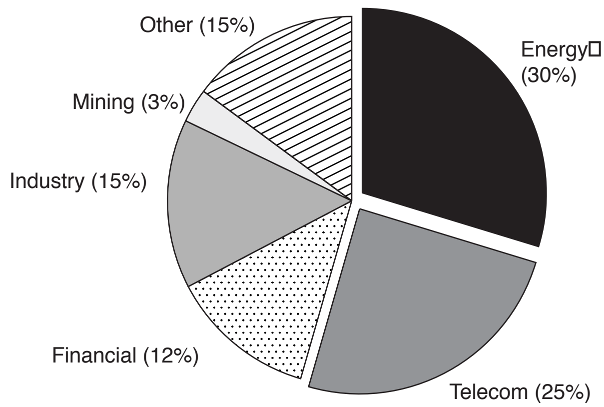


FIGURE 5

World Privatization, by Sector

(% of Total)



Total, 1988-1999 = $380 Billion

majority going to foreign buyers. The foreign exchange thus generated presumably helped Brazil service its foreign debt, with about $48 billion being paid in interest alone over that same three-year period. And yet, Brazil's official foreign debt *rose* by $54 billion during this period—from $178 billion in 1996 to $232 billion in 1999.

So it should come as no surprise that Brazil is *both* the Third World's largest debtor, and also the number-one country in total privatizations, by far and away, with $67 billion in state assets sold off between 1988 and 1998 (see **Figure 4**). Australia was an early British Commonwealth model, and was the world's largest privatizer, until Brazil's binge of privatizations in the late 1990s left Australia and every other country far behind.

Nothing Left To Steal

Mexico and Argentina are also major privatization victims, based on large sales early in the 1990s, but with little activity of late. In fact, it is often ruefully noted in the international financial press that part of Argentina's current debt crisis, is due to the fact they have *already* privatized everything available, and so they can't generate any more foreign exchange from that source, with which to pay off their debt. This is like the thief who robs your house of all its valuables, and then curses you when he comes back the next week, and finds there's nothing left to steal.

Peru and Russia are two cases that show a different trajectory. After a wave of privatizations in the mid-1990s, President Alberto Fujimori balked at continuing the process in the latter part of the decade, looking instead to a process of South American integration to break globalization's stranglehold over Peru. (However, the incoming Toledo government's Economics Minister-designate Pedro Pablo Kuczinsky, a Boston banker for the past couple of decades, has announced that Peru will be returning to the fold of privatizers, and intends to sell off some $3 billion in assets as a way of keeping Peru's creditors happy.)

And in Russia, privatization slowed to a crawl in the aftermath of the August 1998 debt crisis, and President Vladimir Putin has shown no intention to capitulate to bankers' demands that he pick up the pace of the sale of national assets. As the World Bank's year 2000 review of global privatization moaned, in 1998 Russia "earned only an estimated $909 million, partly because of the collapse of the Russian financial system in August 1998. . . . The sales of Rosneft (oil and gas) and Svyazinvest (telecommunications), along with the 1998 planned sale of Rosgosstrakh (financial), were all delayed."

If we look at the sectoral breakdown of world privatization over the last dozen years, a crucial fact emerges: The energy sector leads the way, with about 30% of the total (see **Figure 5**). The sale of telecommunications companies is the second largest area, with 25% of the total; and financial, industry, mining, and others have significantly smaller shares. Thus it is the most nationally strategic areas of the Third World's countries' economies which have been bought up, and bought up by banks and energy or telecommunication conglomerates which loom huge in the currently exploding international debt bubble.

Electricity generation and distribution companies comprise most of the energy sector, but oil and, increasingly, natural gas companies also play an important role. The significance of the fact that nearly one-third of all privatizations worldwide have been in the energy sector, will become evident as we proceed with the remaining sections of this study.

Profiles in Piracy

by John Hoefle

U.S. independent power producers, including unregulated affiliates of regulated U.S. electric utilities, are among the world's leading buyers of electricity and natural gas assets outside the United States. In looking at these companies, one thing stands out: a British connection. Many of these companies on the prowl internationally were part of J.P. Morgan's electricity cartel or otherwise connected to the British-front Morgan and Harriman interests, and are today part of the corporate assault force we call Southern Strategy, Inc. Here we profile three of these companies—Enron, AES, and Reliant—in depth.

Enron Corp.
1400 Smith Street
Houston, Texas, 77002-7369
www.enron.com
Standard Industrial Classification (SIC):
Security brokers, dealers & flotation

Selected officers and directors:

Chairman: Kenneth Lay. Lay is a director of pharmaceutical giant Eli Lilly and Company, Compaq Computer, and the Trust Company of the West. Lay serves as a virtual ambassador for the energy pirates, directing Enron's propaganda and lobbying operations, and has been a key adviser to the Bush family.

President/CEO: Jeffrey Skilling. Skilling is also a director of the Houston Branch of the Federal Reserve Bank of Dallas.

Directors of note: Lord John Wakeham, former U.K. Secretary of State for Energy and deregulation czar under Margaret Thatcher; Dr. Wendy Gramm, former head (1988-93) of the Commodities Futures Trading Commission, who deregulated derivatives (and wife of Sen. Phil Gramm); Ronnie Chan, director of Britain's Standard Chartered Bank, which was identified by *EIR*'s book *Dope, Inc.* as a top opium-trade bank; John H. Duncan, a key player in the Schlumberger/Lazard/King Ranch nexus which helped create the energy pirates and the Bush League; Paulo V. Ferras Pereira, former president of the State Bank of Rio de Janiero; Herbert Winokur, Jr., an investor and director of DynCorp, a "private" spook outfit.

Scope of activities:

Enron is active in most of the major and semi-industrialized nations, buying and selling various energy products and commodities, and is the largest energy trader in the United States. Its EnronOnline website is the world's largest e-commerce operation, executing 548,000 trades totalling $336 billion in gross value in 2000. Enron owns a regulated electric utility, Portland General Electric in Oregon, and an extensive natural gas pipeline network in the United States. Enron also plays a major role in the energy derivatives business, both through its own operations and through its steering role in the International Swaps and Derivatives Association.

Enron is a highly political company, with deep ties to the Bush family. The company hired a number of top officials of the first Bush Administration, including Secretary of State James A. Baker III and Commerce Secretary Robert Mosbacher, and former President Bush himself accepted a number of lucrative speaking assignments for the company; the company repaid the favor by becoming the single largest contributor to the political campaigns of Bush's son, President George W. Bush. With its deep pockets and political pull, Enron has taken the point in pushing deregulation around the world.

Looting magnitude:

Enron, the world's leading energy trader, was number seven among all U.S. corporations in terms of revenue in 2000, with $101 billion in revenue, a 151% increase over 1999's $40.1 billion. The company made a killing in the natural gas market with $50.5 billion in revenue, more than it made in all of its businesses in 1999, and pulled in $33.8 billion in the electricity market, more than its entire revenue of $31.3 billion in 1998. The firm added $9.2 billion from its nascent metals business in 2000.

Brief history:

The company known today as Enron was created in 1985, by the merger of two natural gas pipeline companies, InterNorth (née Northern Natural Gas) of Omaha, and Houston Natural Gas (HNG), creating what was then the nation's largest gas pipeline network. InterNorth, the acquirer, was one of the builders of the Northern Border Pipeline, which linked Canadian gas fields with U.S. markets, while HNG operated the nation's only transcontinental gas pipeline. Shortly after the merger, HNG's Ken Lay, a former Exxon executive, took control of the company and moved its headquarters back to Houston.

In 1989, when the U.K. began its electricity privatization and deregulation under Margaret Thatcher, Enron set up a 400-person office in London. Enron expanded in Europe as national markets privatized, and expanded into Ibero-America with the 1992 purchase of an interest in a 3,800 mile pipeline in Argentina. In 1997, Enron established a joint power generation venture with Italian utility ENEL, and bought Portland General Electric, an Oregon electric utility. The firm began power trading in Australia in 1998 and became the first electric power marketer in Brazil.

Enron also entered the private water market in 1998, with the acquisition of Britain's Wessex Water; in 1999, it spun its water holdings into a separate company, Azurix, which it later reabsorbed.

While it still owns significant production and distribution assets, Enron's focus on energy trading has transformed the company into an investment bank with global trading operations (in its filings with the Securities and Exchange Commission, Enron lists its Standard Industrial Classification as "Security brokers, dealers & flotation companies," the same as Goldman Sachs and Merrill Lynch). Enron is also attempting to create the first national electricity reseller, through its New Power Company.

AES CORP.
1001 N 19th Street
Arlington, VA 22209
www.aesc.com
SIC: Cogeneration services & small power producers

Selected officers and directors:

Chairman: Roger W. Sant. Sant, who cofounded AES with Dennis Bakke in 1981, is a member of the board of Prince Philip's World Wide Fund for Nature (WWF, a.k.a., the World Wildlife Fund), and the head of the WWF's U.S. branch. Under the cover of protecting wildlife and the environment, the WWF steers narco-terrorist and indigenous groups as tools of the British Empire's assault against nation-states. Sant is also chairman of the Summit Foundation, which is involved in the "Negro removal" operations in the District of Columbia. Sant was Assistant Administrator for Energy Conservation and Environment at the Federal Energy Administration (forerunner of the U.S. Department of Energy) from 1974 to 1976, and director of the Mellon Institute's Energy Productivity Center from 1977 to 1981.

President/CEO: Dennis Bakke. Bakke, who cofounded AES in 1981 with Roger Sant, was Sant's deputy at the Federal Energy Administration and the Energy Productivity Center. Bakke cites Margaret Thatcher as his inspiration for getting into the electricity business.

Directors of note: Alice F. Emerson, senior adviser of the Andrew W. Mellon Foundation, and a director of the World Resources Institute, FleetBoston Financial, and Eastman Kodak; Frank Jungers, retired chairman of the Arabian American oil Company; Philip Lader, senior adviser to Morgan Stanley International, a former U.S. Ambassador to the U.K., a former executive vice president of the late Sir James Goldsmith's U.S. holding company; John H. McArthur, retired dean of the Harvard Business School, is a senior adviser to the president of the World Bank, and a director of Cabot Corp., HCA Healthcare, Glaxo Smith Kline, and Rohm & Haas; Hazel R. O'Leary, Secretary of Energy from 1993 to 1997, and a director of the U.S. branch of the World Wildlife Fund and UAL Corp.; Thomas I. Unterberg, managing director of the investment bank Unterberg, Tobin; and Robert Waterman, an author and consultant who sits on the board of the U.S. branch of the World Wildlife Fund.

The pirates seize the economy. ("The Pedlar," woodcut by Hans Holbein.)

Scope of activities:

AES, which describes itself as the largest independent generator of electricity in the world, is active in 32 countries, including most of the Western Hemisphere and large chunks of Southeast Asia. With operations in Mexico, El Salvador, the Dominican Republic, Panama, Colombia, Venezuela, Brazil, Bolovia, Chile, and Argentina, it is the largest power generator in Ibero-America. AES is also active in Australia, China, India, Bangladesh, Sri Lanka, Pakistan, Georgia, Kazakstan, Oman, Turkey, Bulgaria, Hungary, Poland, Spain, the Netherlands, the U.K., Nigeria, Uganda, Tanzania, South Africa, and Canada. It owns all or part of power plants with a generating capacity of 58,000 megawatts, with another 800 MW under construction, putting it roughly even with Brazil, Italy, and the U.K. in generating capacity.

Looting magnitude:

AES saw its revenues more than double in 2000, to $6.7 billion, and its net income increase 76% to $665 million. Thirty-nine percent of its revenue came from North America, 38% from Ibero-America, 14% from Europe, and 9% from Asia; 52% of its income comes from the distribution of energy, and 48% from generation. AES also owns two U.S. utilities, Cilcorp (Central Illinois) and IPALCO (Indianapolis Power & Light). AES generates electricity in California; that energy is marketed by Williams, and Williams and AES have been accused of manipulating the supply of electricity in the state in order to maximize the price.

Brief history:

AES was founded in 1981 by Roger Sant and Dennis Bakke, two former Federal Energy Administration officials affiliated with the Anglophile Mellon financier/intelligence apparatus. The firm is virtually an extension of Prince Philip's anti-human World Wildlife Fund: Sant sits on the WWF's board of directors, and heads its U.S. branch, and two other WWF-USA directors sit on the AES board. With funding arranged by Thomas Unterberg, AES got its start building a cogeneration facility for Atlantic Richfield at its Houston refinery, then expanded into Pennsylvania and California, and by the late 1980s was an established second-tier cogeneration firm. After Bakke met with British Prime Minister Thatcher circa 1989, AES launched an international front, winning a 1991 bid with partner Tractabel of Belgium, for a coal plant in Northern Ireland.

AES went public in 1991, selling 10% of the company for $90 million, and has been on a buying and building spree ever since. By 1995, it operated 19 plants in six countries, including Argentina, Brazil, China, and Pakistan, and soon added Hungary and Kazakstan. In 1999, AES bought its first utility, Central Illinois' Cilcorp, and began retail sales of electricity through its NewEnergy subsidiary; it also bought the 4,065 megawatt Drax coal plant in England, Western Europe's largest coal-fired plant. In 2000, AES acquired EDC in Venezuela, and IPALCO, parent of Indianapolis Power & Light, in the United States, and ended the year with some 18 million customers in 32 countries.

RELIANT ENERGY

1111 Louisiana
Houston, Texas, 77002
www.reliantenergy.com
SIC: Electric Services

Selected officers and directors:

Chairman/President/CEO: Steve Letbetter, has been with Reliant Energy since 1978. He also serves on the Advisory Board of Chase Manhattan Bank Texas.

Directors of note: James A. Baker III, former U.S. Secretary of State, Secretary of the Treasury, Bush family consigliere, senior partner of Baker Botts (the Schlumberger/Bush League law firm), and senior counselor to the Carlyle Group; Linnet F. Deily, vice chairman of Charles Schwab Corp.; Richard E. Balzhiser, Ph.D., president emeritus of the Electric Power Research Institute.

Scope of activities:

While Reliant is primarily a regulated electric utility (Houston Lighting & Power), it is in the process of transforming itself into a full-fledged energy pirate, by buying plants from other utilities in deregulated states. Reliant owns six power plants in California, with a generating capacity of 4,658 MW, and 21 power plants with 7,132 MW of generating capacity in the Mid-Atlantic states, mostly in Pennsylvania. These plants enabled the company to become a major player in the electricity trading market in the United States, and one of the most hated companies in California. Reliant also owns the Dutch utility UNA, which has five plants with a generating capacity of 3,476 MW, and plans to expand its European electricity sales and trading businesses. Earlier this year, Reliant spun off its Reliant Resources unit as a separate company, as it continues its piratization.

Looting magnitude:

Reliant Energy saw its revenues rise 93% in 2000, to $29.3 billion from $15.2 billion in 1999, moving it up to 55th from 114th on the Fortune Revenue 500. Much of that increase came from the company's 80% increase in its electricity trading business. While the company will not disclose its profits from California, they appear to be significant; California Gov. Gray Davis has publicly denounced Reliant for "obscene" price-gouging, charging the state as much as $1,900 a megawatt-hour to avoid blackouts. Workers at Reliant's Etiwanda power plant have charged the company with adjusting the plant's power output in order to create shortages and thereby manipulate prices upward.

Brief history:

Houston Electric Lighting & Power was formed in 1882, and by 1901 was part of J.P. Morgan's electricity cartel. Thanks to Franklin Roosevelt's Public Utility Holding Company Act of 1935, Morgan's National Power & Light was forced to divest the utility, then known as Houston Lighting & Power (HL&P). In 1976, Houston Industries was formed as the holding company for HL&P. In the 1980s, the company entered the cable-television business, selling it in 1995 to Time Warner.

Houston Industries moved into Ibero-America in 1992, joining a consortium that bought 51% of Argentine electric company EDELAP, acquired 90% of Argentine electricity EDESE in 1995, was part of a consortium which took a controlling stake in the Brazilian utility Light in 1996, bought a

A demonstration of LaRouche supporters in Chicago against Enron's piracy.

stake in the Colombian utility EPSA in 1997, and bought interests in three El Salvador utilities and developed and operated a natural gas system in Mexico in 1998; the company has since sold most of its Ibero-American holdings in order to concentrate on Europe.

In the United States, the company bought natural gas dealer NorAm in 1997, and in 1998 bought five California power plants from Edison International, the parent of utility Southern California Edison, and announced plans to build power plants in Arizona, Illinois, Nevada, and Rhode Island.

In 1999, Houston Industries changed its name to Reliant Energy, and bought Dutch utility UNA. In 2000, it bought 21 power plants in the Mid-Atlantic from Sithe Energies, most of which Sithe had bought from Pennsylvania utilities. In May 2001, Reliant Energy spun off its Reliant Resources unit as a separate company, still controlled by Reliant, to expand its unregulated activities.

Other Companies of Note

Southern Company/Mirant Corp., Atlanta, Georgia. Southern, once part of J.P. Morgan's Commonwealth & Southern holding company, is the holding company for five Southern utilities (Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric), and spun off its independent power operations into Mirant Corp., which it controls. Southern is active worldwide, with operations in the Bahamas, Brazil, Chile, China, Denmark, Finland, Germany, Hong Kong, the Netherlands, Norway, the Philippines, Sweden, Trinidad & Tobago, and the United Kingdom.

Entergy Corp., New Orleans. Entergy, another former Morgan company, owns five regulated electric utilities in Arkansas, Louisiana, and Mississippi, and owns and/or operates more nuclear power plants than any other U.S. company except Exelon. Entergy is active in Argentina, Australia, Bolivia, Bulgaria, China, India, and the U.K., often in joint ventures with Spanish power company Endesa.

PPL Corp., Allentown, Pennsylvania. PPL, formerly known as Pennsylvania Power & Light, is yet another former Morgan company buying assets overseas. PPL is active in Bolivia, Chile, El Salvador, Portugal, Spain, and the U.K.

American Electric Power Corp., Columbus, Ohio. Formerly known as American Gas & Electric, AEP was part of Morgan's Electric Bond & Share holding company. AEP, which has been buying utilities in the United States as well, has expanded into Australia, Brazil, China, Mexico, and the United Kingdom. AEP shares a director with Schlumberger, the oil-services company/intelligence unit which, with investment bank Lazard Frères, plays a key role in organizing and steering Southern Strategy, Inc.

Duke Energy Corp., Charlotte, North Carolina. Duke Energy was formed out of Duke Power, a Carolina utility which bought natural gas pipeline company PanEnergy of Houston in 1997. Duke bought three California power plants from Pacific Gas & Electric in 1998, and charged the state $3,880 per megawatt-hour for electricity earlier this year.

Bush's Energy Pirates Get Ready to Turn Off the Lights

by Dennis Small

A national currency, armed forces, food production, electricity generation and distribution—four critical areas which any nation-state must control and develop, if it actually intends to retain its sovereignty. And yet, during the decade of the 1990s, under the Thatcher-Bush "New World Order" so beloved of the bankers, nation-states around the world fell victim to the forces of globalization—the new feudalism—on each of these fronts.

The loss of sovereignty is most advanced, perhaps, in the case of the dying continent of Africa, or in the ongoing shattering of Indonesia, today partially occupied (East Timor) by an invading foreign army of blue-helmeted UN troops. But nowhere is the process more clearly evident, on all four of the above fronts, than in Ibero-America.

In all four areas, the cynical argument wielded by the globalizers to justify their assault, is always the same: "What do you need your own — for, when you can more cheaply use ours?" In order to fill in the blank, just survey the battlefield:

Currency: Give up your national currency, and you are abandoning all hope of running your own credit and monetary system. Today, *dollarization* is sweeping across Ibero-America, as one country after another has been driven, by financial warfare, to seek monetary "stability" by turning the reins of its economy over to the U.S. Federal Reserve board and its madman chairman, Alan Greenspan. To date, Panama, Argentina, Ecuador, El Salvador, and Guatemala have adopted one form or another of dollarization, while other countries (such as Mexico and Colombia) are being pushed closer and closer to that precipice.

Military: Under the senior George Bush, a pervasive plot was launched to annihilate the armed forces of Third World nations, and thereby hold their very territorial existence hostage to the rampage of narco-terrorist armies run by London and Wall Street bankers, and/or to supranational military forces also deployed by these same financial centers. Argentina is the classic case of a once-proud, technologically progressive military, which was lured into the Malvinas War trap in 1982, and subsequently humiliated and dismantled. Colombia's armed forces are being subjected to similar treatment, at the hands of the Wall Street-sponsored FARC drug cartel. And Peru's military, since the November 2000 overthrow of the Fujimori government, is now also on the chopping block.

Food: Mexico is a good case study of what comes from the globalizers' siren song about the glories of "free trade." Mexico was largely self-sufficient in food for most of the postwar period, especially in staples such as corn (used to make tortillas) and beans. But with Bush's North American Free Trade Agreement (NAFTA), Mexico was told that it was "inefficient" and retrograde to grow its own corn, when this could be imported from the United States at a cheaper price. So corn production was sharply cut back over the 1990s, making Mexico increasingly dependent on imports. But now the lion's share of Mexico's foreign exchange earnings goes to pay the country's foreign debt, making corn imports a "corner" that can be cut, as the financial crisis demands. *Mexicans now eat by leave of the oligarchy's global grain cartels—just like in feudal times.*

'Stranglehold' on Electricity

Electricity: Energy, like food, is at the very heart of a nation's physical economy. What happens when you no longer own and regulate your own electricity, and someone else—for example, Bush's energy pirates—can turn off your lights at their whim? Just ask the residents of California. Or consider the case of Brazil, where the government is imposing across-the-board rationing to cut back electricity use by 20-30%, over a one- to two-year period. This is knocking the stuffing out of that economy, heretofore the eighth largest in the world.

As we will demonstrate below, the international energy pirates, in just a few short years, have seized control over more than a quarter of Ibero-America's total electricity installed capacity. In a number of countries, such as Argentina, Chile, and Bolivia, they have such huge holdings—*strangleholdings* is perhaps a better word—that their control exceeds 50% of the national total (see **Figure 1**). Will the energy pirates use their dominance to actually pull the plug? They are already threatening to do just that, if they don't get their way.

Riding shotgun for the energy pirates, is the Bush Admin-

FIGURE 1
Electricity Installed Capacity, Percent Controlled by Foreigners*

* Foreign control considered here as ownership of 25% or more of a generation company. Those listed are foreign companies which control 10% or more of the total installed capacity of the country.

istration. The recently released Bush-Cheney *National Energy Policy* advocates total energy privatization and deregulation in Ibero-America and elsewhere, starting with a "North American Energy Framework" for the NAFTA partners, the United States, Canada, and Mexico. "There will be a need to ensure compatible regulatory frameworks with our neighbors," the plan notes—meaning California-style deregulation everywhere. "Free markets allow prices to reflect changes in demand and supply, and avoid subsidies, price caps, and other constraints," the report insists ideologically, against all evidence. To the degree countries comply with such demands, "the U.S. should actively encourage the U.S. private sector to consider market-based investments." If not, then. . . . The threat remains implicit.

A Mafia Modus Operandi

Before proceeding to survey the damage caused by the privatization and deregulation drive against the energy sector in Ibero-America, we must first briefly identify the *modus operandi* which the pirates have repeatedly used there and elsewhere. In all essential respects, it is the same *modus operandi* perfected by the mafia loan shark, who first throws a large rock through your storefront window, late at night, before coming around the next morning—all smiles—to offer to sell you protection against any future vandalism.

Here's how the shakedown has worked in nation after nation in Ibero-America.

First, financial sharks such as George Soros launch a speculative assault against your currency; they force you to devalue; they wreck your banking system; and then drive you into the waiting arms of the International Monetary Fund (IMF).

Second, the IMF imposes its conditionalities on you, including forced privatizations, to get foreign exchange to pay the debt, and a sharp reduction in the government budget deficit. They insist that you cut everything (except debt service), but especially investment in infrastructure.

Third, since you now lack the resources to invest in infrastructure, you are told that you must attract foreign private investment to fill the gap—for example, to generate the electricity you now desperately need.

Fourth, these foreign investors (the energy pirates) then make their investments conditional on the total deregulation of the energy sector, so that they can charge astronomical rates. (This is sometimes known as "the California clause.") If you don't agree, they blackmail you by threatening to pull their investments out completely.

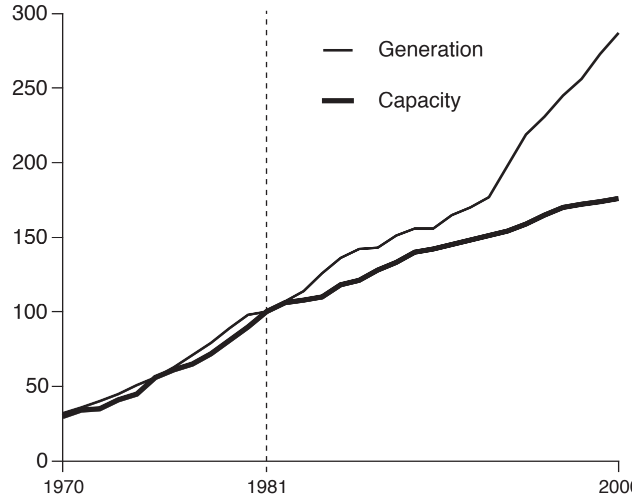
Fifth, if you foolishly bow to the blackmail and deregulate, everything gets much worse very fast: Prices soar; consumers are unable to pay their bills; bankruptcies ensue; living standards fall; and little or no real new investment occurs, despite all the promises. Chaos prevails—in other words, *the deregulators regulate the market*.

The pirates then proceed to asset-strip the sector, bankrupt

FIGURE 2

Brazil: Electricity Generation and Installed Capacity

(Index 1981=100)



it—and then pull out, leaving you with no additional installed capacity to show for it, but with a multibillion-dollar new debt which is added to the government's existing unpayable load.

Sounds far-fetched? Then you've probably never heard the real story of Mexico's banking privatization.

An 'Energy Fobaproa'

After Mexico sold the country's nationalized banks to the private sector for a song, beginning in 1992, those privatized banks engaged in capital flight, and proceeded to run up an unpayable foreign debt of their own, on which they eventually reneged. The Mexican government—generous to a fault, when it comes to doing what Wall Street demands—then bailed out the privatized bankers, to the tune of over $100 billion, which it assumed as new public debt. This was done through an agency the government established for that purpose, called Fobaproa.

Today, an "Energy Fobaproa" is in the making in Mexico, and the rest of Ibero-America.

One reflection of this process is shown in **Figures 2-4,** which compare the growth of electricity installed capacity and actual generation of electricity, in Brazil, Mexico, and Argentina. In all three countries, installed capacity and generation grew pretty much in tandem between 1970 and 1981. But beginning in 1982, when the debt bomb first exploded in Ibero-America and IMF austerity policies began to be imposed with a vengeance, the construction of needed new plants began to fall off, which resulted in a slowing of the growth of installed capacity, and a widening gap with the

FIGURE 3

Mexico: Electricity Generation and Installed Capacity

(Index 1981=100)

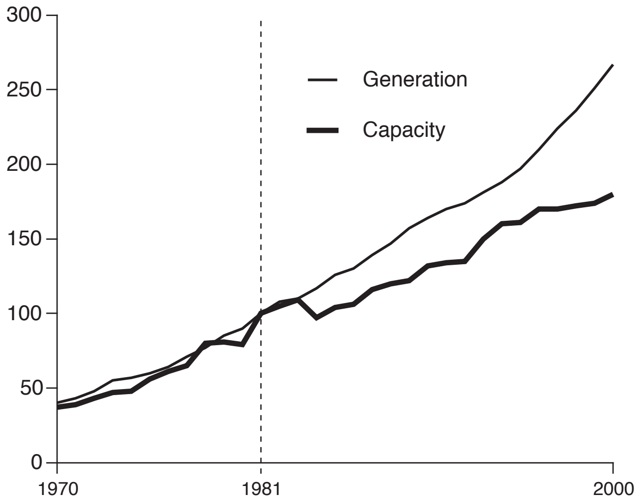
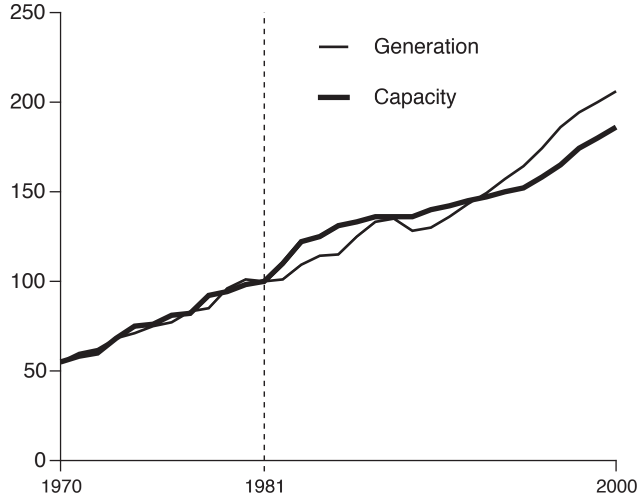


FIGURE 4

Argentina: Electricity Generation and Installed Capacity

(Index 1981=100)



actual yearly generation of electricity.

In the case of Brazil, both generation and capacity grew at a healthy average annual rate of about 11%, between 1970 and 1981. But from 1982 to the present, the average annual growth of electricity generation dropped to 5.7%, while installed capacity grew at an even slower 3.0% per year, on average. The widening gap between Brazil's electricity generation needs (even at the current low rate of growth), and the installed capacity that is in place to do that, is unmistakeable (see Figure 2). After 19 years of banker-dictated, criminally low investment in building new generating plants, that gap now amounts to 63% of current installed capacity. In other words, installed capacity would have to be 63% greater than it is today, just to catch up with the rate of growth of generation. Instead, it has stagnated, creating a time bomb of disinvestment in energy plants which, sooner or later, was bound to explode. This explains far more about Brazil's current energy crisis than the transient problem of low rainfall for its hydroelectric plants.

Mexico displays a similar profile. Both installed capacity and generation were growing at about 9% per year between 1970 and 1981, and generation then fell off to 5.3% per annum over the next two decades, and installed capacity grew by an even slower 3.1% (Figure 3). The predictable drumbeat can already be heard about how Mexico needs to "attract foreign investment by privatizing and deregulating," if it ever hopes to narrow that gap, which today is 48% of installed capacity. This is another time bomb of dangerous disinvestment, which could detonate at any moment.

In the case of Argentina, the results are similar, if somewhat less dramatic. There, generation and capacity both grew by 5.5% per annum during the 1970s, and then fell off to 3.9% and 3.3%, respectively, from 1982 until the present (Figure 4). This gap is now 11% of installed capacity; but it would of course be much larger if Argentine electricity generation had grown, over this 19-year period, even at annual rates like those of Brazil and Mexico (5.7% and 5.3%, respectively)—let alone at the 10-12% per year that is actually required in a healthy developing economy.

Small wonder, then, that the media is full of warnings that Argentina, Chile, Mexico, and other countries are all facing Brazil-style shortages over the next few years.

The Great Drooling Sound

Having created the energy crisis in the first place, the international financial oligarchy is now deploying their Bush League energy pirates to move into the breach and take advantage of it. Beginning gradually in the late 1980s, and then proceeding frenetically from the mid-1990s onwards, all of the well-known names in energy piracy have moved into Ibero-America: AES, Enron, Reliant, Duke, El Paso, and so on. If you look just beneath the surface of these companies, as we do in the profiles included in this survey, you can readily see that all strings lead to London—i.e., that British financial interests play the determining policy role, in nearly every case.

AES for example—whose chairman of the board, Roger Sant, was chairman of the U.S. branch of Prince Philip's wildly anti-development Worldwide Fund for Nature (WWF), from 1994 to September 2000—today singlehand-

TABLE 1
Foreign Strangleholdings over Ibero-American Electricity

	AES		Endesa		Other Foreign*		Sub-Total, Foreign		TOTAL
	Megawatts	% Total	Megawatts	% Total	Megawatts	% Total	Megawatts	% Total	Megawatts
Argentina	4,264	21%	4,292	21%	1,943	10%	10,499	52%	20,350
Bolivia					964	96%	964	96%	1,000
Brazil	9,606	15%	658	1%	7,572	12%	17,836	27%	65,800
Chile	1,632	16%	4,614	46%	1,350	14%	7,596	76%	10,000
Colombia	1,404	11%	3,055	24%	875	7%	5,334	42%	12,580
Mexico	484	1%			4,100	11%	4,584	13%	35,900
Peru			1,693	31%	520	9%	2,213	40%	5,500
Venezuela	2,265	11%					2,265	11%	21,500
Other	1,079	3%			870	3%	1,949	6%	31,000
Total	**20,734**	**10%**	**14,312**	**7%**	**18,194**	**9%**	**53,240**	**26%**	**203,630**

* Duke, Iberdrola, Enron, PPL, GPU, Mirant, AEP, NRG, Fenosa, Alliant, EDP, CMS, EDF, Tractebel

edly controls[1] close to 21,000 megawatts of installed capacity in Ibero-America, which is more than 10% of the continent's total of 203,630 MW (see **Table 1**). They have huge *strangleholdings* in Argentina, Brazil, and Chile, in particular.

In Argentina, AES has taken advantage of the environment of total electricity privatization and deregulation, which has been in place there since 1991, to gain control over 21% of the country's total installed capacity. This includes the large thermal plant San Nicolás and the 1,000 MW hydroelectric generator Alicura.

AES was frozen out of the Chilean market until December 2000, when they succeeded in a hostile takeover of Chile's second-largest generator and distributor, Gener. This gave them control of 1,632 MW of capacity, about 16% of Chile's total.

AES controls nearly 10,000 MW of installed capacity in Brazil, which is about 15% of the national total. They made their big move on Brazil in May 1996, joining with fellow pirate Reliant and others to buy a controlling interest in the strategic Rio de Janeiro-based electricity generation and distribution company, **Light,** which was Brazil's first privatization in this sector. A year later, AES was part of another foreign consortium that bought into **Cemig,** the regional power company of the state of Minas Gerais, with over 5,600 MW in capacity. And then in October 1999 they began their takeover of São Paulo state's **Tiete,** with its 2,650 MW of capacity.

More recently, AES has resorted to overt thug tactics to try to force Brazil to fully deregulate electricity prices *immediately,* something which is not slated to occur until 2003. In May of this year, AES President Dennis Bakke deployed to Brazil, just as the country's electricity crisis was exploding, to announce that AES was suspending $2 billion in electricity investments in the country. He then delivered an explicit threat: "What is happening in Brazil is the total collapse of the system, and the cause is simple. . . . [The government] preferred to keep prices low to protect the consumer, but ended up ruining the population by provoking rationing and cuts." The pirate continued: "If that behavior is not changed, it will be an enormous disaster for the country. It is going to ruin the economy, and ensure that new investors don't enter the country."

This display of arrogance emboldened Enron to follow suit one week later, announcing that they were also suspending $600 million in investments in Brazil: "The current regulations are preventing investment," Enron Vice President for Brazil Orlando González told *Jornal do Brasil* newspaper bluntly.

After AES, second place in Ibero-America goes to the Spanish energy company **Endesa,** which has used privatization poster-boy Chile as their springboard for assaulting the rest of the continent. Endesa now controls 7% of the region's total installed capacity, with large holdings in Argentina, Colombia, and Peru, in addition to Chile.

As in the case of the large Spanish banks—such as Banco Santander Central Hispano (BSCH) and Banco Bilbao Vizcaya Argentaria (BBVA)—which have taken up major positions across Ibero-America, Spain's Endesa turns out to be a front for Anglo-American financial interests. For example, each of Endesa's major moves in Ibero-America has been orchestrated and bankrolled by Banco Santander (and then by BSCH, when Santander merged with Banco Central Hispano at the end of the 1990s). As *EIR* documented in a study published Aug. 22, 1997, "British Banks Establish

1. Foreign control is considered here as ownership of 25% of more of a generating company, although in the vast majority of the cases reflected in Table 1, foreign ownership was upwards of 75-80%. By comparison, the Energy Information Agency (EIA) of the U.S. Department of Energy defines "foreign-affiliated" as meaning a 10% or greater holding by a foreign company.

Death Grip Over Ibero-America," Banco Santander is run out of London:

"In 1988, Santander forged what they have called 'a long-term and fruitful alliance' with the **Royal Bank of Scotland** (RBS), and with **Metropolitan Life Insurance** of New York, controlled by the British Morgan financial interests," *EIR* wrote at the time. After documenting the interlocking directorates of Santander and RBS, and the latter's direct link into the British royal household, *EIR* elaborated:

"The Morgan role in Santander is not limited to the Met Life connection. Santander's rising young star, and CEO of its Santander Investment division, is the 38-year-old Ana Patricia Botín, daughter of the bank's chairman. After graduation from Harvard with a bachelor's degree in economics in 1981, Ms. Botín joined the Madrid office of J.P. Morgan. Rising through the Morgan ranks, by 1986 she had been appointed vice president and head of their Latin American unit. In 1988, her apprenticeship with Morgan apparently over, Ms. Botín returned home to work for daddy at Santander."

Other foreign companies with substantial electricity-generation holdings in Ibero-America, include Enron, Duke, CMS, Entergy (mostly in joint ventures with Endesa), Spain's Iberdrola, Belgium's Tractebel, Electricité de France (EDF), and others. Overall, foreign interests now control major portions of installed capacity in Ibero-America: 76% in Chile, 52% in Argentina, 42% in Colombia, and 27% in Brazil (see Figure 1). In Mexico, howevever, whose electricity sector has not yet been privatized or deregulated, foreigners so far control only about 13% of the national total. This in part explains why Mexico is today the primary target of the energy pirates, along with Brazil, whose pace of privatizations slowed down after the 1999 debt crisis.

When the energy pirates talk about these holdings in Ibero-America, you can almost hear a great drooling sound as they survey their prey. One company waxed eloquent about how "the creation of a vast area of free exchange and the reorganization of the power sectors have given rise to investment opportunities" in Ibero-America. Another reported that they were "building substantial critical mass in infrastructure, positioning the company for a leading role as these regions move towards deregulation." Reliant Resources, however, announced in December 1999 "the company's plan . . . to divest its Latin American investments, which are primarily regulated energy delivery businesses," and head to the greener pastures of Europe where they expected even less regulation than in Ibero-America. AES and other companies quickly snapped up Reliant's holdings in the region.

It All Started in Chile

According to a May 2001 monograph by the Energy Information Administration of the U.S. Department of Energy, "Chile's electricity sector has served as a model for subsequent privatizations throughout the world." What has made it so exemplary is that, for the past 20-25 years, Chile has served as the beachhead for Spanish-domiciled—but British-controlled—companies, which have taken over entire chunks of the Ibero-American economy and financial system.

The heyday of Chile's privatizations occurred during the 1985-89 reign of Hernán Bucchi as the last Finance Minister of the Pinochet dictatorship (1971-89), when 30 companies were privatized in four short years, including the strategic electricity sector. But Bucchi, along with a handful of cohorts, in particular José Piñera and José Yuraszeck, had carefully laid the groundwork years earlier.

In the 1970s, Chile's electricity sector was dominated by two large, state-run companies: the generator **Endesa** (not to be confused with Endesa/Spain), and the distributor **Chilectra.** These companies had been founded by nationalist forces in the early 1940s, with the express mandate of developing the country by bringing cheap electricity to its remotest regions.

Bucchi, a follower of the ultra-liberal economic doctrines of Milton Friedman and the Mont Pelerin Society's Friedrich von Hayek, was appointed vice president of Endesa (1979-82), and then became president of the company (1982-83). During this same period, he also served as Deputy Secretary of Economics (1979-81) and of Health (1981-83). It was from these official posts that he laid the groundwork for the later privatization frenzy, with two critical 1981 measures:

1. In May 1981, he privatized Chile's pension funds, creating the famous AFPs, which have since become a model for privatizers the world over. Bucchi adviser José Piñera played a particularly prominent role in designing the pension privatization program, and he is today trotted around the globe to push "the Chilean model"—including before the U.S. Congress—courtesy of the Mont Pelerinite Cato Institute of Washington, D.C. President George W. Bush recently made Piñera his adviser on pension reform.

2. In July 1981, Bucchi split up Chilectra into three regional affiliates: **Chilmetro, Chilgener,** and **Chilquinta.**

By 1983, Bucchi was on top of Chilean electricity (all still in the hands of the state): He himself was president of Endesa, and his close allies were running each of the new distributor affiliates. Chilgener was headed by Bucchi adviser Bruno Philippi; Chilquinta's general manager was Richard Bucchi (Hernán's brother); and Chilmetro's general manager was José Yuraszeck.

In July 1987, Finance Minister Bucchi put the three distributor affiliates up for privatization. In the case of Chilmetro, Yuraszeck himself bought 20% of Chilmetro's stock—with capital loaned to his newly formed holding companies (the **Chispas,** otherwise known as **Enersis**), by the Chilean government's State Bank! In other words, Chilean government money was used by a group of government officials to purchase government assets on their own behalf, which thereby became their private property. Such are the wonders of privatization and free-market economics: pure piracy.

Six months later, José Piñera was named president of the newly privatized Chilmetro, and Yuraszeck stayed on as its general manager.

Chilmetro was then used by its new owner, Enersis, as the staging ground to move on the rest of the electricity sector. In December 1989, when the country's number-one generator, Endesa, was put up for privatization, Yuraszeck's and Piñera's Enersis/Chilmetro snapped up a dominant 12% interest. Four months later, in April 1990, they consolidated their control by buying an additional 25% share of Endesa. This time, *they used capital from the AFPs, the very pension funds which Piñera himself had conveniently established back in 1981!* Controlling this dominant share, Piñera was named Endesa VP and Yuraszeck became a director of the company.

In 1992-93, Enersis, which now owned the lion's share of Chile's privatized electricity generation and distribution infrastructure, began its expansion drive into the electricity sectors of other Ibero-American countries, by purchasing Argentina's Costanera and Chocón plants. The deal was set in motion and financed by none other than Spain's Banco Santander. Syndicate financing for Enersis' mid-'90s expansion into other Ibero-American markets, such as the purchase of Colombia's Codensa, was headed by Spain's Banco Central Hispano (BCH), Banco Santander's subsequent merger partner.

'Crimes in the Transactions'

But the biggest move of all occurred in August 1997, when Endesa Spain purchased 32% of Enersis, and mopped up an additional 32% in April 1999, giving the Spanish company control over Enersis's vast holdings in Chile, Argentina, Peru, Colombia, Brazil, and elsewhere. The media dubbed this "the deal of the century." But it also quickly turned into "the scandal of the century," when Yuraszeck was accused of insider trading and arranging a sweetheart deal with Endesa Spain. Those criminal charges are still pending before Chilean courts. Also questioned for his role in favoring Endesa Spain, was the then-head of Chile's Santiago Stock Exchange, Pablo Yrarrázaval. Within days of the deal's consummation, Endesa Spain named him president of their new Chilean affiliate.

But this is "standard" corruption. The real question is, whose idea was it in the first place for Endesa Spain to forge such a "strategic alliance" with Chile's Enersis? It was the brainchild of Spain's Banco Santander—specifically the Santander Investment division which Morgan's Ana María Botín was to head only months later. In fact, Santander was also the formal intermediary for the buy-out.

As Chile's *Diario Estrategia* put it in August 1988, in the heat of the scandal: "If [Chilean] justice starts to investigate the existence of crimes in the transactions of the Chispas during . . . the whole operation, it will inevitably have to establish the role played by Endesa Spain, as buyer, and Santander Investment, as intermediary."

Neither has yet occurred. Were it to happen, the trail would quickly lead through Banco Santander to the House of Morgan, the Royal Bank of Scotland, and from there into the Queen's household, itself.

It should come as no surprise that British interests would employ a Spain-Chile connection as a convenient cut-out to further their own financial and geopolitical purposes in Ibero-America—as we have here documented for electricity, and previously for banking.[2] Such operations date back at least to the 1879-83 War of the Pacific, in which London used Chile as its surrogate to destroy neighboring Peru's emerging alliance with anti-free-trade, American System forces in the United States, linked directly to the Lincoln tradition.[3]

More recently, in this century, London deployed its agents of influence on *both* sides of the Spanish Civil War of the 1930s, to transplant religious left-right conflict and even warfare into the Hispanic Americas, and Chile in particular (to wit, the 1971 Pinochet coup against Salvador Allende). Although this topic takes us beyond the scope of the present study, it is worth taking note, for example, of the striking preponderance of members of Opus Dei—the conservative Catholic order, with strong roots in Spain, and which has been heavily penetrated by British free-market economic theories—in the circles immediately surrounding Pinochet, and Hernán Bucchi in particular.

Pipelines and Choke Points

The piracy may have started in Chile, but it surely didn't stop there. In the mid 1990s, the U.S. energy giants AES and Enron, in particular, made their moves on South America. As we previously noted, AES's drive began with its 1996 purchase of a major share of the Brazilian generator and distributor, Light, and its most recent acquisition was Chile's **Gener** (previously Chilgener, one of the three affiliates split out of Chilectra back in the 1980s).

Enron has concentrated on natural gas, especially the pipelines that transport it from one country to another, and on energy-related "financial services," i.e., speculation and market-rigging of the sort they are charged with in California and elsewhere. In fact, Enron's own web page proudly promotes its Direct Sales group, which has "the intent to execute commodity and financial transactions in Brazil." Sounding more like a Wall Street hedge fund than an energy company, they explain:

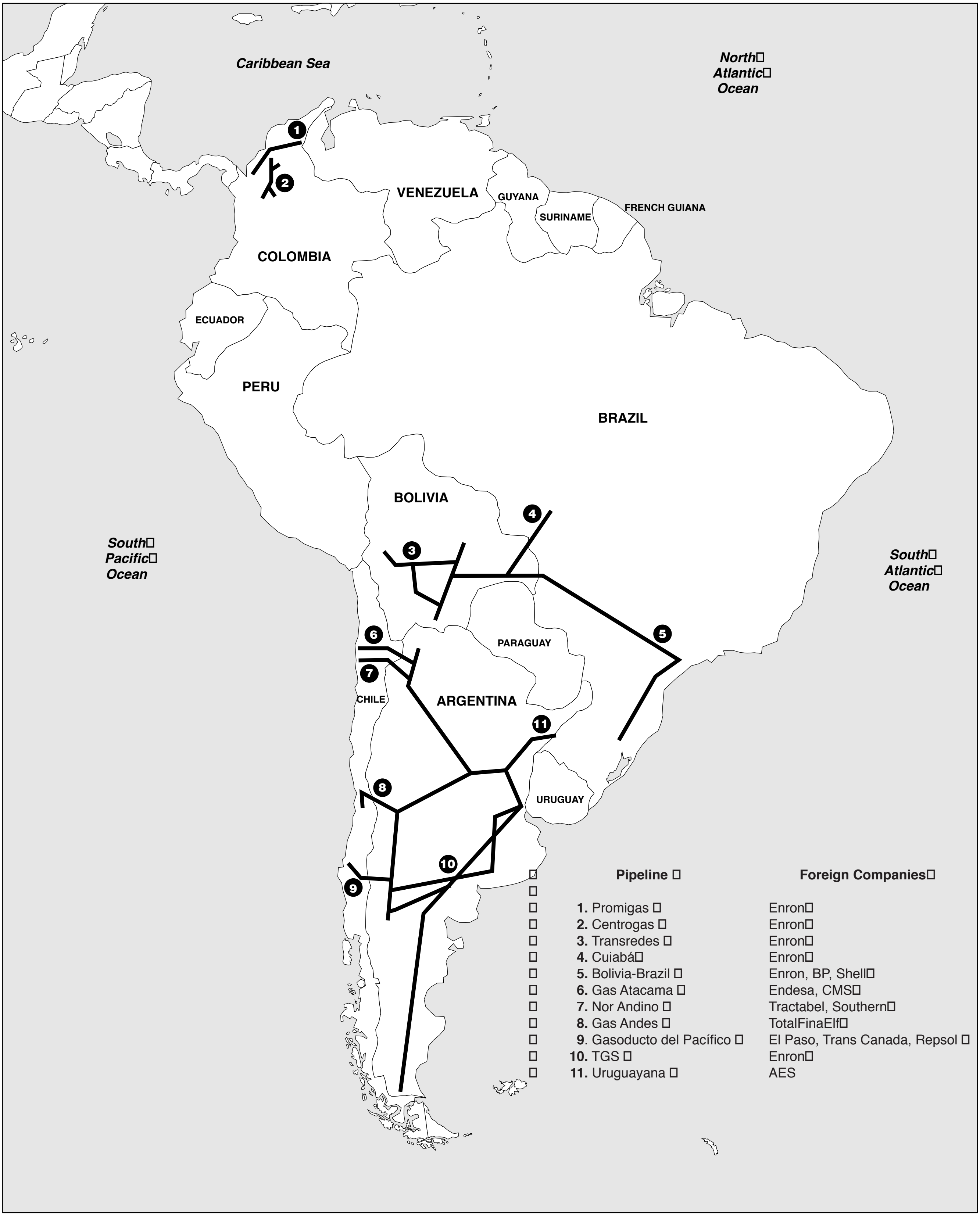
"The Direct Sales group offers a flexible combination of financing products, proposals for the purchase and sale of electricity and other select commodities and energy outsourcing services. Direct Sales is positioned to help to maximize a customer's power asssets through the outright purchase of capacity or surplus generation or through various swap structures designed to leverage national, rather than regional sup-

2. *EIR*, Aug. 22, 1997.

3. Luis Vásquez Medina, unpublished manuscript.

FIGURE 5

South America: Foreign-Controlled Natural Gas Pipelines



Pipeline	Foreign Companies
1. Promigas	Enron
2. Centrogas	Enron
3. Transredes	Enron
4. Cuiabá	Enron
5. Bolivia-Brazil	Enron, BP, Shell
6. Gas Atacama	Endesa, CMS
7. Nor Andino	Tractabel, Southern
8. Gas Andes	TotalFinaElf
9. Gasoducto del Pacífico	El Paso, Trans Canada, Repsol
10. TGS	Enron
11. Uruguayana	AES

FIGURE 6
South America: Great Rail Projects

TABLE 2
Privatization and Deregulation

		Electricity		Natural Gas	
Date	Country	Privatized	Deregu- lated	Privatized	Deregu- lated
1987	Chile	Yes	Yes	Yes	Yes
1991	Argentina	Yes	Yes	Yes	Yes
1994	Peru	Yes	Yes	Yes	Yes
1994	Bolivia	Yes	Yes	Yes	Yes
1995	Colombia	Yes	Yes	Yes	No
1999	Venezuela	Yes	Yes	Yes	Yes
2001	Brazil	Partial*	No	No	No
2001	Mexico	No	No	No	No

* Beginning in 1996

ply and demand opportunities, or through the monetization of the facilities themselves"—i.e., through speculation.

Enron's natural gas pipeline projects must be evaluated with this speculative focus clearly in mind at all times.

Over the years, Enron has taken a dominant position in natural gas pipelines in Ibero-America (see **Figure 5**). Their first big step was their 1992 purchase of Argentina's **Transportadora de Gas del Sur.** TGS is South America's largest pipeline company, delivering two-thirds of the nation's total gas consumption (to southern Argentina and greater Buenos Aires) through its 6,600 km grid.

Argentina has the second-largest proven reserves of natural gas in South America (after Venezuela), concentrated in its Neuquén basin in western central Argentina. Argentina is a significant exporter of natural gas to neighboring Chile, Uruguay, and Brazil, through pipelines controlled by Endesa, El Paso, Tractabel, AES, and other foreign companies.

Venezuela's natural gas (and electricity) were opened up to privatization and deregulation only recently (1999), under the mantle of revolutionary rhetoric emanating from the Chávez dictatorship in that country. **Table 2** provides a thumbnail chronology of the opening of the major nations of Ibero-America.

Enron's next big move occurred in 1996, taking a controlling share in two Colombian gas pipeline companies, **Promigas** and **Centragas.** In 1997, they bought a 25% share of **Transredes,** a Bolivian natural gas and oil pipeline company. In 1998, Enron acquired **Elektro,** Brazil's sixth-largest electricity distributor serving the state of São Paulo. "Elektro is an essential component of Enron's energy strategy for the Southern Cone," Enron reports. São Paulo is the site of Enron's South American headquarters, both because of Elektro's importance, but also because the company intends to use São Paulo's emerging speculative markets, including the spot market Mercado Atacadista de Energia (MAE), for its financial ventures.

But by far and away Enron's most ambitious and strategically significant move in South America came with their late 1990s decision to join British Gas, Brazil's Petrobras, and others in the construction of the Bolivia-Brazil natural gas pipeline. This 3,000 km pipeline stretches from Bolivia's natural gas fields eastward to São Paulo; has a second spur to the Cuiabá 480 MW plant also in Brazil; and connects to Pôrto Alegre in the south. It is the largest transborder energy project on the South American continent, and it came on line in April 2000.

The Bolivia-Brazil pipeline raises a crucial, concluding consideration.

Observe **Figure 6,** a map published by *EIR* in August 2000. The joint website of the Inter-American Development Bank, the Andean Development Corporation, and Fonplata today carries a similar map, which portrays a unified series of transportation and other infrastructure projects, which were the central subject of discussion at the historic September 2000 summit of South American Presidents held in Brasilia, Brazil. The physical integration of the continent, through such projects, was posed as an economic strategy for the region, in opposition to the destruction today sweeping the region under globalization and liberal free market policies, such as privatization and deregulation.

Both maps make use of the idea of natural development corridors, proposed for more than two decades by Lyndon LaRouche and this magazine, including such features as the interconnection of South America's three major river systems, and their linkage with major north-south and east-west railroad lines. Particularly fascinating is the fact that the IADB presents these not as simple transport routes, but as the backbone of what they call "areas of influence," which closely echo LaRouche's emphasis on the need to build 100 km-wide "development corridors" on either side of the transport arteries.

Now, look back at the map of foreign-controlled natural gas pipelines (Figure 5), which operate in precisely those areas of densest proposed infrastructure projects—i.e., the chokepoints. Certainly, there is nothing wrong with the *sovereign nations* of Bolivia and Brazil, for example, cooperating around a joint natural gas project. But there is something very wrong, and very dangerous, if a speculative pirate such as Enron is the actual owner of that connection. Thus is Brazil becoming increasingly dependent, not on Bolivian natural gas per se, but on *Enron's decision,* taken in a Wall Street boardroom, over whether to transport such gas from Bolivia to Brazil.

It is not surprising that, earlier this year, the Presidents of Brazil and Bolivia met to discuss the idea of building a second natural gas pipeline between the two countries—one controlled by the two sovereign nations, rather than a Wall Street-run energy pirate.

This is exemplary of a far healthier aproach to economics than the destructive frenzy of privatization and deregulation which has swept the world of late.

Turn On the Lights! Here Come the Thieves!

This statement on "the piratization of the national power industry" of Mexico, was issued June 18, 2001 by Marivilia Carrasco, president of the Ibero-American Solidarity Movement (MSIA) in Mexico.

In September, Mexican President Vicente Fox will send a bill to Congress, asking for a constitutional reform that will allow for the deregulation and privatization of the power industry and of gas production in the country. It is obvious to everyone that this is a foot in the door to also handing over the national oil industry.

The bill is a long-standing demand of the global financial oligarchy, which should and can be stopped in its tracks, by a patriotic mobilization in favor of Mexico taking back sovereign control over the development of its own economy. . . .

The unstoppable disintegration of the international financial system, as forecast since 1994 by U.S. economist and 2004 Presidential pre-candidate Lyndon H. LaRouche, Jr., is behind the urgency with which the oligarchy is seeking to impose constitutional reforms that will permit the seizure of energy wealth—oil, gas, and electricity—and put these into the hands of the rogues and gamblers who control world speculation, at a moment when everything is going downhill fast. The deregulation of the energy sector is the cornerstone of the Free Trade Agreement of the Americas (FTAA), whose objective is the impossible task of keeping the Wall Street/City of London financial bubble afloat, thus preserving the economic disaster of the past years, while simultaneously doing away with the very concept of the sovereign nation-state and its responsibility to the general welfare of the population.

Nonetheless, with all the blackmail and aura of power that they deploy, the government of George W. Bush, the International Monetary Fund, and the World Bank are all acting with a desperation that cannot hide their terrible vulnerability.

Even before Fox presented the Congress with his constitutional reform proposal to deregulate the energy sector, the World Bank and the Bush government had already dictated what Mexican policy should be, making it clear that they not only want the electricity, but also the oil and natural gas. . . . In a sort of confession, President Fox repeated that the World Bank's recommendations "are very much in line with what we are considering," and that these are strategic guidelines "which the country must follow, to truly enter into a process of sustainable development." On the proposal to open up the electricity sector to private investment, President Fox said: "That is the path. Everything having to do with energy generation [should go to] private investment." . . .

The truth is that the plans under discussion in the government have nothing to do with the development of Mexico. Rather, they are identical to the policies being applied in California, only in Mexico they would be on a nationwide scale. They want to carve up the Federal Electricity Commission (CFE) and make the Central Light and Power Company disappear altogether, to be able to hand over piecemeal, first, control of electricity, and later, of Pemex and oil, to the globalization pirates. . . .

In Mexico, hospitals and schools are shutting down for "lack of resources." Necessary billion-dollar investments in urgently needed projects of power and water infrastructure, or in health and education, which would give jobs to millions of Mexicans, are being challenged, while the fact is hidden that in a mere three years, from 1998 to 2000, the country has been looted of nearly $100 billion through the servicing of public and private debt. . . .

What is at issue, is the concept of the general welfare of the people, as the touchstone of the existence of the sovereign nation-state. Energy resources for Mexico, as for any other nation, represent not only quantifiable assets, but the very essence of the nation-state. These resources need to be developed to meet the needs of the country, and for trading for technology, capital goods, and intermediate goods for industrial production, etc. Oil can be exchanged, for example, for investments in nuclear energy plants, which not only generate electricity, but which create the bridges toward other necessary levels of science and technology. This would enable the country to leave behind the abject conditions of life created by the practices of Wall Street and the City of London.

Our abundant energy resources are our national patrimony, and will be properly exploited only when Mexico recaptures sovereign control over its money and credit, to direct the development of the great infrastructure projects the country needs. Great infrastructure projects, and corridors of economic growth from north to south and east to west throughout the Republic, should be guided by the principle that electricity, water, education, health, and so forth, are a general necessity of the economy, are the right of the population, and constitute the obligations of the state. They are not merchandise subject to speculative ventures. The state cannot abdicate such obligations, because this would spell its own extinction as well as genocide against the population. . . .

Therefore, the most urgent task, in the face of the disintegration of the financial system, and of the economic depression in the United States, of which Mexico is today a mere assembly-line appendage, is Mexico's participation in international efforts for a New Bretton Woods system, as has been proposed by Lyndon H. LaRouche, Jr., and as has begun to come into being under the coordination of Russia, China, and various Eurasian countries in the recent period. This defines a new era of possibilities, under which nations can rid themselves, once and for all, of the usury pirates.

The Ruin of Mexico's Electricity Sector

by Ricardo García Rosas

In 1936, when Mexican President Lázaro Cárdenas decreed the creation of the Federal Electricity Commission (CFE), as a body charged with unifying the national electrical system, he was looking to the future. He could anticipate that the expansion of private electricity networks, alongside those of the state, would eventually require an agency to regulate the distribution and sale of energy in Mexico.

The nationalization of the electrical industry in 1960 accelerated the process of integration and, finally, in 1972, the two largest existing networks at the time were united through the Committee to Unify Frequencies (CUF). The two networks had been operating at different frequencies: one in the center of the country, at 50 hertz, and one for the rest of the states, at 60 hz.

With the system now unified at 60 hz, work became easier for the planning department of the CFE, which prepared a Program for Works and Installations of the Electrical Sector, guaranteeing:

- That energy demand be satisfied by an adequate margin of operating capacity;
- That rural electrification plans be carried out;
- That the stability of the electrical network be guaranteed, by building plants in sites that would strengthen it; and
- That the use of fuels be diversified: fuel oil, diesel, coal, and uranium, in a good balance with hydroelectric power.

Although the last goal was not met, primarily because of economic and political pressures, both domestic and foreign, the first three objectives were largely achieved. In fact, the present-day coverage of electricity demand is due to these policies, which were implemented between 1936 and 1982. In the last year, there were even plans to build 20 nuclear power plants, of which only one has actually been constructed.

Thus, we could say that the Mexican government's electricity policy was based on coverage of service, diversification of energy sources, and the impulse to technologically develop the country, since the company that offered the greatest national integration was awarded the contract to construct the electricity plant, providing employment to hundreds of thousands of Mexicans, who acquired skills and knowledge in the most diverse areas of the energy sector.

Another characteristic that was incorporated in this period, and which took as its model Electricité de France, was that of the standardized plant. All thermoelectric centers had the same base design, and so their design, construction, and modification were carried out almost in a modular fashion.

The Crisis of 1982

When the debt crisis of 1982-83 erupted, the pressures of the International Monetary Fund and World Bank began to alter the picture. The Miguel de la Madrid government shared with the IMF the vision of a privatized energy industry, such that its very first measures were:

- Suspension of the nuclear development plan;
- Dismantling the construction department of the CFE;
- Contracting all future projects under the "turn-key" approach, such that the CFE would no longer intervene in the design and construction of its own electric plants; and
- Hiring private companies to supervise all projects.

Even so, many Mexican companies continued to participate in the construction of electricity plants, although Siemens AG, Mitsubishi Heavy Industries, Inc., CG Alsthom, and the Spanish companies Mecánica de la Peña and Empresarios Agrupados were granted the largest number of contracts. The "Samurai" credits from Japan and from the Spanish "Fondos del Rey" gave a great advantage to the companies of those countries, since they were the lowest-cost credit available, designed precisely to benefit the Japanese and Spanish firms.

Thus, plants were bought under schemes like Build-Lease-Transfer (BLT), which involved transferring the main generator to the CFE through a 15-year rental arrangement, and through Build-Operate-Transfer, which was a concession granted to the construction company, to build and operate the plant and to sell energy for 17 years, after which it would be transferred to the CFE. Under both schemes, the CFE reserved the right to decide the type of generating plant required, as well as its general specifications, although not the detailed design.

The Consequences of NAFTA

In 1994, when the North American Free Trade Agreement (NAFTA) went into effect, two concepts came into play which, although already known in Mexico, were usually only applied when strictly necessary. Under NAFTA, these became virtually mandatory. These were international bidding for all CFE projects, and Independent Energy producers, or PIEs.

The NAFTA chapter on "government purchases" indicates that all bidding carried out by the signator governments had to be submitted to international bidding, and that the specifications of the equipment to be bought or the projects to be carried out, should only refer to the "functions" of the equipment, and not the specific technologies. Of course, it prohibits taking into consideration as a criterion the national origin of the companies, since "even construction workers" could be hired from other countries.

Although it does not belong to the energy sector, the example of the expansion of the refinery of Cadereyta, Nuevo León, is typical of these "turn-key" projects, with all the basic engineering carried out in Korea by Sunkiong Engineering Company. Ninety percent of the components were purchased abroad and 1,200 Korean engineers lived at Cadereyta, carrying out the engineering tasks, and supervising the construction, purchases, and plant start-up.

As a result, of the 20,000 Mexican engineers employed on engineering projects in 1985, only some 2,000 remain, with an average salary of $900 a month. The engineering schools, both public and private, have become machine administration schools, since graduates no longer require the advanced academic level needed when they were designing and constructing plants, or when a development plan called for Mexico's third nuclear plant to have 70% of its components made in Mexico.

The PIE scheme has brought about the near total death of the Mexican electrical industry. The first PIE plant to be built was Mérida III, which began operations in 1996. The PIE plants were the property of private companies which operated them on the basis of agreements that favored the owner, since the CFE was committed to buying the largest quantity of energy possible. If demand were to decline, the CFE still had to pay the amount stipulated in the contract.

According to privatization and deregulation plans, the cost of PIE-produced energy sold to the CFE would be determined by the U.S. energy market, and would be paid in dollars. For the moment, the government has been forced to remain the owner of the national electricity grid, in order to guarantee that the PIEs would receive payment for energy generated, even at high costs, so that the generating companies could be guaranteed payment, while electricity rates to the consumer were quintupling.

Meanwhile, the Mexican government is subsidizing the PIEs. It is not out of the question that the government, at some point, will have to resort to an "electricity bailout," as is already ongoing in California.

Privatization Plans

On its website (www.energia.gob.mx), the Mexican Energy Department describes its privatization and deregulation plans in a document entitled "Proposal for Structural Change of the Mexican Electrical Industry." The document proposes the "segmentation of vertically integrated companies, to achieve real competitiveness"—that is, dismember the CFE. It adds that "different generators will compete, offering their energy through postures (offers of available energy quantity and cost), so that buyers can make their energy purchases from those offering the lowest prices. The market is operated, in real time, by an autonomous agency that orders the generators, from small to large, according to their posture prices, until the energy demand at each given moment is satisfied."

The Mexican government's proposal for operating the electricity system under this deregulation and privatization scheme, is identical to the scheme in California. It proposes that the PIEs "would fight" to offer the cheapest energy to network operators, so that they in turn can offer "competitive" prices to users. However, in the real world, this turns out to be one more speculative scheme, in which only energy pirates Enron and Duke come out as winners, while the network operators can only hope that the government has sufficient money to come to the rescue, when their accumulated debts threaten to bankrupt them.

The Future

The privatization and deregulation of the energy sector implies a 180-degree turn in Mexican energy policy, since the turn-key projects have led to total dependence on foreign engineering and construction companies. Privatization implies the fragmentation of the productive structure of the national electricity system.

Thus, the same characteristics that were once considered positive, such as vertical integration, adequate balance of supply and demand, and stability of electricity rates, are now viewed as negative aspects to be eliminated by means of the "free market."

Worst of all is that the real problems of the energy grid, such as energy theft, excessive dependence on fossil fuels, deficiencies in the network in the country's southest, and linkup with the peninsular systems (Baja California and Yucatán), are not even mentioned in the government's plans.

Our forecast, thus, is that if the "energy reform" the government proposes is approved, it will take but a few short months to destroy what it took decades to build, and we will hear, as occurred in Santiago, Chile, some high-level executive of a foreign energy company tell us: "The company cannot guarantee the continuity of supply under the current rate structure, so we will have to suspend electricity flow for three hours a day in various parts of the country." Of course, there was a significant hike in electricity rates as the result of this blackmail.

We are not against the participation of the private sector in the energy sector. The construction and operation of generating plants is urgently needed, in that it would not only help the state to guarantee electricity supply, but would also generate high-skilled and well-paying jobs. But it is the height of lunacy to encourage the disintegration of the industry, the "auctions" of energy, the lack of control over supply, and the "laundering of kilowatts" that we have seen in the deregulated networks. This only creates a chaotic situation, in which the winners will not be the consumers, but the companies with the greatest speculative power.

Enron's Raiding India Backed by Washington

by Ramtanu Maitra

An Enron Corp. team, led by Chairman and Bush-moneybags Kenneth Lay, arrived in New Delhi in early July, backed by two public threats to India by U.S. officials. The threats were delivered in support of the disastrous Dabhol private power project which Enron has foisted on India and its western state of Maharashtra. The super-profitable Dabhol Power Company (DPC) has rapidly turned into a leech fastened on Maharashtra's public budget by Enron.

U.S. Undersecretary of State for Economic, Business, and Agricultural Affairs Alan Larson, speaking before the U.S.-India Business Council in Washington on June 21, said: "I do want to underscore that it will be hard for foreign investors to look seriously at India until this dispute is resolved in a satisfactory way"—meaning, clearly, satisfactory to Enron. A week later, U.S. Assistant Secretary of State for South Asia Christina Rocca, visiting her newly acquired turf on a familiarization trip, told Indian businessmen that "the ongoing dispute between the DPC and the Maharashtra state government casts a cloud over India's entire investment climate." She also met with India's Minister for Power, Suresh Prabhu. Media speculations are that the Bush Administration is putting full-court pressure on Delhi to get a "satisfactory" solution to the dispute.

FIGURE 1

At Exhorbitant Cost

In 1993, the Maharashtra State Electricity Board (MSEB), a public sector undertaking, signed a Power Purchase Agreement with Enron's creation, Dabhol Power Company. This agreement was later renegotiated on Nov. 19, 1995. In the final agreement, DPC undertook to build and operate a 2,184 megawatt electricity generating unit at Dabhol. MSEB committed to making certain recurring payments over 20 years, commencing with the commissioning of Phase 1 of the plant.

The DPC plant is being built in two phases; 740 MW is already operational. Fixed payments by Maharashtra state to Enron on Phase 1 amount to Rs. 10.2 billion (about $220 million) a year. Phase 2 is due to be commissioned in 2001, at which point fixed payments will triple, and so amount to at least Rs. 30 billion ($650 million) a year.

In addition, Maharashtra is paying a variable payment for power generated and drawn; as of last November, this amounted to Rs. 3.72 per kilowatt-hour, or roughly 8 cents. Thus, an Indian state is paying Enron more than the average price paid for electricity by retail customers in the United States, and paying fixed costs for the construction of the plant as well! Maharashtra's Board, the MSEB, is free to purchase as much power as it desires from Phase 1, but must pay for a minimum of 90% of the power generated in Phase II, whether it uses that power or not. MSEB will be paying Enron-DPC Rs. 70 billion (or nearly $1.5 billion) per year as soon as Phase II starts.

Moreover, both the Maharashtra state government, and India's national government, have had to sign guarantees to pay and make good any default by MSEB, indemnifying Enron-DPC "against any loss sustained or incurred by the Company by reason of the invalidity, illegality, or unenforceability of any of this Guarantee."

MSEB supplies power to all of Maharashtra, excepting the Greater Mumbai Metropolitan Area. MSEB runs several power-generating units which produce 74% of all the power it supplies. It purchases the remainder from private power generators, including DPC. Between April 1999 and January

2000, MSEB purchased 12.3 billion units of power from private power generators, for a net payment of Rs. 26 billion—an average rate of *Rs. 2.11 per unit*. But of this, the 3.04 billion units purchased from DPC, cost Rs. 12.06 billion, or Rs. 3.97 per unit—*double the price*. In essence, MSEB got only 25% of its private power purchase from Enron, but gave Enron 46% of its total payments to private generators.

Between April and October 2000, MSEB purchased power from DPC at an effective rate (fixed and variable payments combined) of Rs. 6.13, or more than 13 cents, per unit—"California rates."

Thus, MSEB is being dragged toward bankruptcy. In 1998-99, the year just prior to the commissioning of the DPC, MSEB had net revenue from the sale of power of Rs. 116.5 billion, and after expenditures, a surplus of Rs. 3.76 billion. But once the DPC came on line, MSEB faced losses. In January 2001, MSEB defaulted on payments due to DPC for the month of November 2000. DPC invoked the counter-guarantee clause, at which point, the MSEB and the government of Maharashtra cleared the bill. Subsequently, MSEB has not paid DPC monthly bills. The power plant has been shut down and the dispute has now reached its full-blown stage.

In Defiance of National Authorities

As mentioned earlier, when Phase 2 goes on stream, MSEB would end up paying DPC about 60% of its 1998-99 revenue level, in return for about 28% of its net energy supply. The payments would comprise about 30% of the state of Maharashtra's total annual budget. Thus, it is evident that the Enron deal was not only to bankrupt the MSEB, but also the government of Maharashtra.

The World Bank had turned down financing of the project in 1993, as not economically viable. More importantly, India's Central Electricity Authority (CEA) inspected and flunked the project. The CEA, whose approval is a must for building any power plant, concluded that the "entire Memorandum of Understanding is one-sided" in favor of Enron and its partners. But in an unprecedented development aided by Enron bribes, the project got built and plugged into Maharashtra's finances anyway. Financial irregularities involving the Enron officials and the Maharashtra state politicians made headlines regularly in the Indian media. Then-Enron CEO Rebecca Mark had said that Enron had earmarked $20 million as "educational gifts."

Some of the other accusations:

- There was no competitive bidding for the project and the deal was exclusively negotiated between the Maharashtra state government and Enron.
- The project costs and power tariffs were higher than for any other power project in India, and inflate prices elsewhere in the economy.
- The DPC was assured a post-tax return of 16% on capital investment, and there was no limit to the capital expenditure. In fact, calculations showed that the annual Enron profit would be close to 32%—three times the average rate in the United States.
- Despite financial guarantees from the state and national government, Enron is shielded by the contract from Indian law and jurisdiction! All disputes must be settled under English law in England.
- An assurance was given that the project will not be nationalized.
- The power purchase agreement between the DPC and MSEB was initially kept secret from the public. In May 1997, the Indian Supreme Court dismissed a petition calling for its re-examination, holding that it was not in the public interest to go into the validity of the project and related contract. However, the court did not address the petitioners' main plea, on whether the project's promoters had obtained the CEA's statutory clearance as required under the Electricity Supply Act.

In fact, the CEA never cleared the project. The CEA handed it over to the Ministry of Finance, but that ministry did not issue any statement on the project. No one cleared it, not even when it was renegotiated in 1995.

On its part, Enron issued the following statement: "We were not surprised that people would have questions and concerns. This was the first foreign private sector power project in India and so we expected that there would be a good deal of debate concerning the project. However, we have worked hard to advise interested parties about the plant, its benefits, and Enron, and feel that now there is significant support for the project."

Playing on Power Shortages

Despite Enron's assurances, the project was widely considered a boondoggle and an epitome of corrupt practices. Power shortages in India, however, have created an environment in which the maxim that "no power is more expensive than the lack of power" has come to rule the roost. Moreover, New Delhi made it clear at the outset of its economic reform and liberalization, that foreign direct investment would be a key input for upgrading India's ramshackle infrastructure. The general view at that point was that so long as the power tariff does not rise sharply to affect industry, commerce, and domestic consumers (India's agriculture sector enjoys virtually free consumption of electricity), more power is what the country needs.

Maharashtra's unscrupulous politicians and Enron formed a perfect alliance; but reality has brought them down, and the Dabhol project is now embattled. Maharashtra's Power Board's bankruptcy, which will eventually force New Delhi to step in, and the potential impact of the Phase 2 of the DPC in the coming years, are hard realities Delhi will have to address.

There is no doubt that Enron has made a bagful of money already, and it is not going to walk out. It is backed by Washington, and it has too much going on in its favor in India.

Enron made it evident that building power plants is not its only economic interest—it was more of a convenenient way to enter India. Enron has already received clearances for the following projects in India, giving it the potential capability to loot, perhaps to bankrupt broad swaths of western India on the DPC model:

- LNG terminal at Dabhol: In 1993, the Indian government approved Enron's $250 million development of a Liquid Natural Gas terminal at the DPC site. In 1997, Enron received permission to expand the terminal, which will process 5 million metric tons of LNG per year. DPC will receive some of it and Enron has been given license to sell to other customers. Enron plans to use the terminal as a base to develop an LNG distribution business through industrial western India via a pipeline network. Enron currently has 20-year contracts for 2.1 million tons per year of LNG with Oman and Abu Dhabi Gas Liquefaction Company Ltd. (ADGAS). Deliveries will begin by the end of this year.
- MetGas Pipeline Project: Enron is in the early stages of developing a natural gas pipeline project in Maharashtra. Through its marketing and pipeline affiliates, MetGas will import and re-gasify LNG into the Dabhol terminal. The proposed pipeline is then supposed to transport natural gas from Dabhol to industrial and commercial users in Maharashtra.
- LNG tanker construction: In January 1999, an Enron affiliate and Mitsui OSK Lines, Ltd. (MOL), signed a joint venture agreement to construct, own, and operate a 135,000 cubic meter LNG carrier. The Shipping Corporation of India (SCI) acquired 20% equity in the venture in January 2000. The vessel will be used exclusively for transporting LNG from the Middle East to Dabhol.
- Gas Authority of India Ltd. (GAIL): In November 1999, Enron purchased 5.1% of GAIL. GAIL operates India's sole long-distance gas pipeline, which runs from the offshore gas fields in the Bombay High area to the capital, New Delhi.
- Broadband Services: This involves joint-venture projects to gain access to lay fiber-optic cables delivering broadband applications countrywide. It is presently engaged in a joint venture with the MSEB and Global Telesystems to bid for a 5,000 km fiber-optic backbone in Maharashtra.
- Offshore fields: Enron has a 30% stake in three offshore gas and oil fields in Panna, Mukta, and Tapti. Enron India operates three offshore oil and gas fields in a joint venture with Oil & Natural Gas Commission (ONGC) and Reliance Petroleum Ltd. Recent news reports indicate that Enron wants to sell its equity in these gas and oil fields to Indian buyers.

The Dabhol Crisis

While India's Power Minister is meeting with Lay and Rocca, speculations are rife about the nature of the solution to the DPC dispute one would expect. Some claim the cost structure will be renegotiated. Options include: reducing the interest rates on loans, as these have fallen after the loans were given; changing the tariff formula to remove the linakge to the dollar-rupee exchange rate; reducing MSEB's requirement to take or pay for 90% of the plant load; removing the padding in project costs as exposed by the Godbole Committee, which has looked at the project documents; sourcing naptha from domestic suppliers, instead of importing from Middle East; using LNG, instead of naptha, to bring down costs; and separating the LNG plant and power plant.

Or, India could buy out Enron from DPC. Enron, it appears, is not averse to this. Alternatively, Enron can be encouraged by Delhi to sell to private players, such as AES Transpower, which has evinced interest. But also, Reliance, a huge Indian outfit, has the resources to buy out the $3 billion project, or at any rate, the LNG terminal.

It should be clear to New Delhi by now, that the foreign direct investment (FDI) will not materialize in India's infrastructure development, without dishing out huge profits to the multinationals, thus crippling the infrastructure itself.

Secondly, LNG plants are unviable in oil-starved countries such as India. With capabilities to build nuclear power plants for power generation, India, unlike some Asian countries, must not get into building LNG-fired power plants. LNG prices remain linked to the volatile crude oil market. The per-unit cost of LNG remains significantly higher than the coal-based units.

Deregulation Fails In Its 'Model States'

by John Hoefle

All over the world, deregulation is being pushed on the basis of its purported success in the United States, when in fact deregulation here is a colossal failure, at least as measured by its publicly stated goals, rather than its hidden agenda.

When deregulation blew up so spectacularly in California last year, the spinmeisters of deregulation launched a propaganda campaign to blame California's problems on that state's government, and to claim Pennsylvania as the "success story" which proved that deregulation works. This Pennsylvania "success story" has been touted around the world, everywhere the energy pirates are trying to lure countries into their privatization and deregulation scams. The problem with this story is, that it is simply not true. Deregulation is a failure in Pennsylvania; the state's electricity system is inexorably breaking apart, like a slow-motion train wreck.

The problems in Pennsylvania are several. First, only a small percentage of the state's electricity customers were willing to switch from their regional utilities to the power marketers, and many of those who did switch have now jumped ship and returned to their original utilities. The level of participation was so small that the state took the extraordinary step of forcing one major utility to give 20% of its customers to an alternative supplier, the Bush-connected Enron. Second, some utilities in the state have sold off their generating capacity, leaving themselves and their customers at the mercy of predatory market prices. Third, the utilities themselves are being restructured through mergers with out-of-state companies, reducing even further the state's ability to regulate its own electricity system, should it return to its senses.

Customers Not Switching

Under deregulation, the state's electric utility customers are not bound to their regional electric utilities, but are supposed to become "free" to select alternative suppliers. The process was implemented in three stages in Pennsylvania, with one-third of the state's electricity customers being allowed to select their suppliers at the beginning of 1999, another third at the start of 2000, and the rest at the beginning of 2001.

The selection of a supplier is mainly driven by price. Since all of the electricity generated in the state is essentially fed into a common pool from which all customers draw, consumers cannot chose whose electricity they use, only who sends them the bill. The supplier who offers the lowest price gets the business (the supplier has to generate, or buy, enough electricity to cover what its customers draw out of the system, but such actions are hidden from the consumer).

To help sell deregulation politically, the state mandated that existing utilities cut their rates and impose a multi-year cap on the rates they could charge their customers. People could either stay with their existing utilities and take the mandated rate cut, or accept an offer from an alternative supplier if the price was lower.

In the initial phase of deregulation, the alternative suppliers did offer competitive prices, and customers signed up in significant numbers. After the first three months of 1999, nearly 396,000 customers—23% of the 1.8 million who were eligible—had switched. Overall, that amounted to just under 8% of the state's total 5.3 million electricity customer base.

One year later, on April 1, 2000, the number of customers of the energy pirates had risen to 535,000, but out of an eligible pool of 3.5 million, double that of the year before. Of the 1.8 million potential new customers, a net of only 140,000 had signed up with alternative suppliers, dropping the retail penetration of the alternative suppliers to 15% of the eligible customers. Despite the rise in overall customer numbers, deregulation was actually in decline.

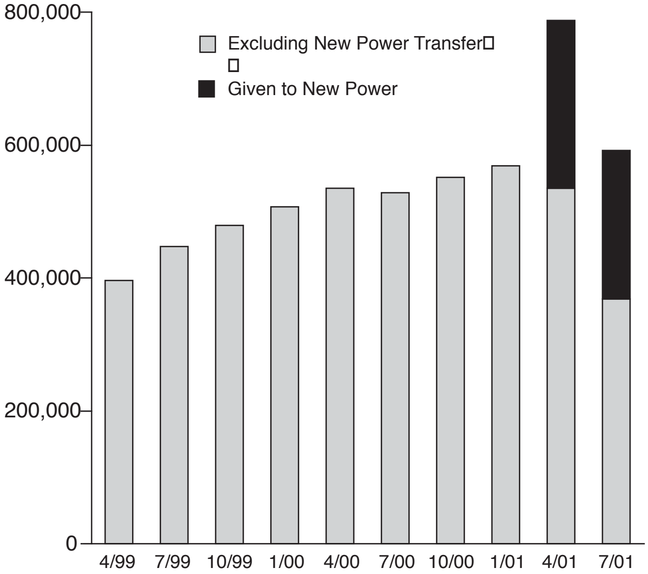
The decline became more pronounced during the first three months of 2001, when the final third of the state's customers became eligible.

On the surface, the first quarter of 2001 was successful, with the number of alternative supplier customers rising by 219,000 to an all-time high of 788,000, or 15% of all electricity customers in the state. However, according to the Pennsylvania Office of Consumer Advocate, the first quarter figure included 253,000 customers who had been arbitrarily switched from the utility PECO Energy to alternate supplier New Power Company (Enron). Factor out those customers, and the number of alternative customers would have actually declined slightly from the year before, despite an additional 1.8 million customers becoming eligible (**Figure 1**).

The bottom fell out in the second quarter when, even with the New Power transfer, the number of alternative customers dropped to 592,000; factor out the 224,000 PECO customers who still remained with New Power on July 1, and the alternative suppliers would have been left with just 368,000 customers, 7% of the total and the lowest quarterly figure since deregulation began in 1999.

The dramatic decline in interest in alternative suppliers that was already evident to the pirates and their champion, Pennsylvania's Republican Governor Tom Ridge, during 2000, put the deregulation crowd in a difficult spot. With the pirates increasingly unable to compete with the utilities on price, their customer base was evaporating, something which the pirates and Ridge considered unacceptable. So they came up with a plan: If the public wouldn't switch to the pirates on their own, the state would switch them. All, of course, in the

FIGURE 1
Electricity 'Choice' Failing in Pennsylvania
(Number of Customers)



Source: Pennsylvania Office of Consumer Advocate.

Customers flee in droves, even with New Power giveaway.

FIGURE 2
Pirates Fail to Gain Retail Foothold in Massachusetts
(Number of Customers)

Source: Massachusetts Division of Energy Resources.

name of protecting the public's right to choose.

The switch took the form of an order by the state's Public Utility Commission directing PECO Energy, the Philadelphia-area utility, to give up 20% of its customer base, some 300,000 customers, to an alternative supplier. The company selected to receive these customers was New Power Company, a spinoff of Enron. Neither the PUC nor New Power asked these customers if they wanted to switch, they just switched them.

As New Power put it in a Jan. 12, 2001 press release, the "customers will be switched from PECO to New Power at no cost, without having to fill out forms. Those who decide to opt out must do so by signing and returning a postage-paid card by January 25, 2001."

In Pennsylvania, it appears, the "right to choose" belongs to the pirates, not the citizens. Choice, like the benefits of deregulation, is an illusion.

Worse in Massachusetts

The situation with deregulation is even worse in Massachusetts, in terms of the numbers of customers who choose alternative electricity suppliers. As of April 2001, a mere 2,800 of the state's 2.5 million electricity customers were using alternate suppliers, giving the power marketers a minuscule 0.1% of the customers.

In Massachusetts, electric choice failed right off the bat. In its first month, April 1999, only 5,600 customers signed up; the number of customers peaked at 9,471 in January 2000, a mere 0.4%, and has declined by 70% since then (**Figure 2**). After two years of deregulation, the level of participation is half what it was in its first month.

In Massachusetts, the deregulation law provided for a 15% rate cut for customers who stayed with their utilities, a price the alternative suppliers simply cannot match and stay in business.

De-Structuring the Industry

While the pirates have not made much headway in the retail side of the business in Pennsylvania and Massachusetts, they have made significant progress on the wholesale side, due to the divestiture of electricity generating capacity by utilities in the states, and a series of mergers.

During 1999 and 2000, Pennsylvania utilities divested 44 power plants with a generating capacity of 21,016 megawatts (equivalent to 57% of the state's total generating capacity of 36,563 megawatts in 1998). These divestitures largely took one of two forms: transfers of generating assets from regulated to unregulated subsidiaries within the same holding company; or sales to unrelated companies, including in some cases to unregulated subsidiaries of the parent companies of other regulated utilities.

In Massachusetts during 1998-2000, regulated utilities divested 31 power plants with a generating capacity of 8,401 megawatts, equivalent to 81% of the state's 1998 generating capacity of 10,328 megawatts.

A demonstration by LaRouche supporters at the State Capitol in Harrisburg, Pennsylvania, calling for re-regulation of energy.

The effects of these divestitures are already being felt, especially by some of the utilities which sold all of their generating capacity and now find themselves having to buy electricity on the open market, at prices higher than they expected.

One such company is GPU, a New Jersey-based utility which owns two Pennsylvania utilities, Pennsylvania Electric and Metropolitan Edison. During 1999 and 2000, GPU sold off 25 plants with a generating capacity of 10,736 megawatts. Many of these plants were sold to Sithe Energies of New York, which later sold them, at a healthy profit, to Reliant Energy of Houston.

In mid-February of this year, just a month and a half after deregulation went into effect for all residents of Pennsylvania, GPU asked the state PUC to exempt it from the rate caps, so it could pass its cost of energy on to its customers. This is energy it used to produce, but was now buying, at inflated prices, from the unregulated owners of its former power plants. GPU is also in the process of an attempted merger with Ohio's First Energy, which owns several utilities in Ohio, and Pennsylvania Power in Pennsylvania. Should the deal go through, the majority of the state's major utilities would be owned by out-of-state firms (PECO Energy, which is owned by Chicago's Exelon Corp.).

In Massachusetts, Britain's National Grid plc owns two of the state's major utilities, Massachusetts Electric and Eastern Edison, neither of which has any generating capacity. National Grid is also buying New York State utility Niagara Mohawk, which has sold its generating capacity. Boston Electric and Commonwealth Electric have merged, creating NSTAR, another utility which sold its generating capacity.

Pirates Can't Compete

The sales of generating capacity and the mergers are a key part of the deregulation plan, namely, to destroy enough of the old regulated system, that it would be impossible to revert to that system once the public figures out what has been done to them.

When deregulation was passed in California, Pennsylvania, Massachusetts, and the other states, its proponents promised lower prices and touted the consumers' right to choose, both to be accomplished by opening the electricity market up to competition. The people of Pennsylvania and Massachusetts are getting lower rates in the short term, not because of deregulation, but because of the price caps which were put in the laws as a way of selling deregulation to a gullible state government and population. Once those caps are lifted, however, prices will soar.

Rather than wait for the caps to expire, the drumbeat is growing to raise them, grant exemptions to them, or to repeal them altogether. The customers of California utilities Pacific Gas & Electric and Southern California Edison have already seen their rates jump well beyond the levels promised; in Pennsylvania, statewide choice had only been in effect for a month and a half before GPU went to the state's Public Utility Commission asking for an exemption to the cap, so that it could raise rates 30%.

In demanding the right to jack rates through the ceiling, the deregulation pirates are engaging in deceptive linguistic contortions to allow them to pretend that they are raising prices as a public service. Among the euphemisms being trotted out to justify price-gouging is the term "price signals." Price caps, they claim, prevent the proper price signals from reaching the consumer, thereby misleading those consumers about the true cost of electricity and reducing their incentive to conserve.

To quote a Reliant Energy press release: "The price cap methodology is misleading the public on the actual cost of power. . . . Price caps distort dispatch signals . . . [and] remove price signals for retail customers." This, coming from a company that charged California $1,900 for $30 worth of electricity and was angered when the state had the nerve to complain.

What the arrogant Reliant actually thus revealed, is a truth that should have been obvious to everyone all along: Deregulation is a looting operation, designed to increase the amount of money people pay for electricity and direct that loot to the biggest criminal cartel on the planet, the British-centered international financial oligarchy. Now there's a signal that needs to reach the public.

Washington Is Oligarchs' Next Target for Genoa Treatment

by Jeffrey Steinberg

Following last month's two days of street violence outside the Group of Eight summit in Genoa, Italy, protesters are now targetting the late-September annual meeting of the International Monetary Fund and World Bank in Washington, D.C. The protests, also directed against the Bush Administration, promise to be bigger and more violent than any of the previous Jacobin actions, including the December 1999 riots in Seattle, during the World Trade Organization conference, and the Genoa action. The Genoa toll itself was stark: one dead, 400 injured (including 108 police); 34 banks, 14 shops, and 16 gas stations destroyed; 83 cars burned.

Like the Genoa operation, which sought to destabilize and bring down the Berlusconi government of Italy, the planned assault on Washington is part of a bigger "strategy of tensions" destabilization of the United States and other leading nations, being directed by desperate factions within the international financial oligarchy. They are incubating a new generation of international terrorists, who, like the "1968 Generation" and the terrorists of the 1980s, can be deployed as a battering ram against the nation-state system.

This is not a matter of speculation. Prominent ideologues of "the new terrorism" such as Italy's Antonio Negri, openly declare that their primary target is the nation-state, which, they say, is an arcane and destructive institution, which should be replaced by a new imperialism. In fact, Negri argues that globalization is fine, so long as "anti-authoritarian" non-governmental organizations (NGOs) are given a piece of the action. In recent weeks, both the *New York Times* and the *International Herald Tribune* have enthusiastically promoted Negri's radical arguments for a new imperialism, to replace the nation-state system. Negri's latest book, *Empire,* co-authored by Michael Hardt, has been a *New York Times* bestseller, and is about to be republished as a paperback by Harvard University Press next month. (The original edition was published by Oxford University Press.)

In a July 30, 2001 interview with the Italian daily newspaper of record, *Corierre della Sera,* promoting his book, Negri bluntly declared, "The nation-state has always been an enemy. . . . The Fatherland is abhorred in our book; millions of people have died in its name; workers' struggles have luckily freed us from the Fatherland and the Nation. Therefore the [global] Empire is welcome."

Back in the late 1970s, Negri was one of the controllers of the Italian Red Brigades, who destabilized Italy, through the 1978 kidnapping and murder of former Prime Minister Aldo Moro, a leading advocate of greater East-West economic and political cooperation, to solve the problems of developing-sector poverty, and counter the growing tyranny of the private financial oligarchy. Negri and his Red Brigades terrorists were exposed at the time of the Moro kidnapping-murder as assets of the London-centered financial oligarchy; and members of Moro's family later accused former U.S. Secretary of State Henry A. Kissinger of threatening Moro's life just prior to his disappearance.

Today, again, the top-down architects of the new terrorism are the same Kissinger-allied circles advocating a "Clash of Civilizations" global conflict, to prevent Eurasian-centered economic cooperation. They are now also promoting Ariel Sharon's Israel as a marcher lord for a Middle East-centered global religious conflict.

A National Security Threat to the U.S.A.

The assault on Washington will certainly coincide with the next ratchet-phase collapse of the international financial system, and the deployment of the terrorist legions will also aim to blunt any potential discussion of a solution to the systemic crash, along the lines of Lyndon LaRouche's New Bretton Woods and Eurasian Land-Bridge proposals. In fact, these genuine solutions to the rapidly accelerating global crash are the primary *targets* of the oligarchy's new terror.

Already, for example, the terrorist violence in Genoa has blunted years of efforts, by leading Vatican circles around Pope John Paul II, and others, to promote a global debt moratorium. The violence outside the G-8 meeting was a media "happening" that diverted attention from any substantive criticism of the "see no evil" attitudes of the leaders inside the conference hall, who refused, collectively, to take any action to avert the already ongoing global financial crash. The street clashes gave cover to the G-8 leaders, particularly the G-7 advanced-sector heads of state, allowing them to lament the violence and dodge reality for a few weeks more. Indeed, their failure to act has given further impetus to the next planned terrorist extravaganza.

Global drug cartels and market speculators fund the anti-nation-state anarchists who rioted in Genoa, and now target Washington, D.C.

The planned late-September terrorist onslaught in Washington, D.C. represents a serious national security threat to the United States, a threat that must be handled properly, on the basis of an effective intelligence profile of the terrorist flotsam and jetsam *as well as* the above-suspicion forces pulling their strings. With this "alert" report, *EIR* begins a series of exposés of the new global terrorism. In forthcoming issues, we will provide our readers with in-depth profiles of the major groups behind this new Jacobin offensive.

Cochabamba and the PGA

From Sept. 16-24, a major gathering of international terrorists is scheduled to take place in Cochabamba, Bolivia, according to security sources and documents obtained by *EIR*. The meeting, a final planning session for the scheduled assault on Washington from Sept. 28-Oct. 4, 2001, is the third international conference of Peoples Global Action (PGA). Founded Feb. 23-26, 1998 in Geneva, Switzerland, PGA advertises itself as "a worldwide network of peasant, indigenous, workers, women's, ecological and other organizations struggling against globalization in a radical, anticapitalist perspective." In fact, PGA is the umbrella under which the hardcore narco-terrorist gangs of Ibero-America and South Asia have been fused with the eco-terrorists and "Black Bloc" anarchists of the advanced sector, and every indigenous and separatist group out to destroy the nation-state system.

The PGA's own communiqué, preparing the Cochabamba meeting, declared, "The Convenors committee of PGA met in Prague last September and decided to convene its next conference from the 16th to the 24th of September this year in Cochabamba, Bolivia. The conference will be hosted by local popular organizations, in particular by the Cinco Federaciones del Tropico, a peasant organization famous for its extraordinary history of resistance. The choice is deliberate. The popular orgnaizations of Bolivia, Ecuador and Colombia have been among the most successful in the resistance to globalizing capital. For this they are the targets of an ever more violent war, called 'Plan Colombia,' the 'war on drugs,' etc. The imperialists want to make an example there, so the future of the Andes is essential for us all."

The so-called "popular organizations," referred to in the PGA call, are among the most deadly narcoterrorist gangs in the world, including Colombia's FARC and ELN, which are hardly engaged in "resistance to globalizing capital." They constitute one of the biggest drug-trafficking cartels in the world, with global drugs-for-weapons smuggling and money-laundering alliances, stretching from Wall Street and London, to Mexico, Spain, the Middle East, and Asia. The recent destabilization of Ecuador, which led that country to surrender its entire economic sovereignty through "dollarization," was carried out by the "peasant organizations" and indigenist groups operating now under the PGA banner.

The Cochabamba session will also bring together the Mexican Zapatistas (EZLN) and their European support networks, including other PGA "convenor groups" such as Italy's Ya Basta! and White Overall anarchist groups, and the London-based Reclaim the Streets.

The very first PGA "direct action" took place in the City of London on June 18, 1999, when over 10,000 anarchists stormed the streets of the financial district and battled police for 24 hours. In fact, the London-based Reclaim the Streets is the lead organization, planning and coordinating the Cochabamba operation, and the assault on Washington that will follow days later.

Reflecting the heavy narcoterrorist focus of the Cochabamba session, the kickoff actions in Washington, on Sept. 29-30 will be demonstrations and street actions against Plan Colombia and the U.S. government-led war on drugs.

An 'Inside-Outside' Assault

As the IMF/World Bank session convenes in Washington, behind the now-familiar barricades of chain-linked fences and police checkpoints, one of the celebrity figures *inside* the events will be mega-speculator George Soros. Soros' Open Society Institute will also be a major presence *outside* the session—in the streets. OSI and its subsidiary Lindesmith Center/Drug Policy Foundation is one of the world's leading sponsors of the drug legalization drive, that proposes to legitimize the narco-terrorist insurgents of the FARC, the ELN, etc. Soros's Human Rights Watch has been one of the leading NGOs promoting these terrorist gangs, now planning to take to the streets of Washington under the PGA banner.

On Feb. 12, 2001, in a typical Soros "inside-outside" profiled operation, the Lindesmith Center/Drug Policy Foundation issued a press release promoting the Zapatista march on Mexico City as a major "human rights" event. The release defended the fact that many of indigenist peasants lured into the EZLN are, in fact, involved in drug production and smuggling, noting, "Suffering from hunger, with poor-quality lands, without resources to plant and forgotten by development, the indigenous either accept or are obligated to transport drugs. They have to survive somehow." The Soros solution? Empty the prisons of the "victims" of the drug trade, and legalize drugs—precisely the message that the FARC, ETA, EZLN terrorists will be bringing to the streets of Washington in late September.

Just as George Soros represents one prime example of the role of the international financial oligarchy, in bankrolling and promoting the new terrorism, an even more stunning case of the top-down control is seen in the role of Edward "Teddy" Goldsmith, in the unfolding street destablizations.

Goldsmith is the the heir to his late brother Sir James Goldsmith's junk-bond and speculative fortune, a fortune he has plowed into the buildup of the hardcore European eco-terrorist and anarchist movement. This Anglo-French branch of the extended Rothschild family is at the center of the buildup of the new terrorism, with the open backing of the highest echelons of the British Crown apparatus.

While Soros will be hosting million-dollar cocktail parties inside the barricades of Washington in late September, Teddy Goldsmith will likely be lurking in the shadows of the terrorist legions. In a recent interview, Goldsmith acknowleged that he spent the months leading up to the Genoa street battles at his chalet in Siena, Italy, and then was in Genoa, "lecturing" the eco-terrorists and anarchists, in between their battles with the police. He has earlier admitted that he provided financing to bring European "Black Bloc" anarchist to North America for the Seattle and Quebec City confrontations.

Goldsmith's International Forum on Globalization and his *The Ecologist* bring together a combination of radical environmentalists and naive anti-globalization activists, along with some of the sophisticated behind-the-scenes controllers of the hardcore Jacobin mobs. Among the groups formally affiliated with the Goldsmith fronts are: Prince Philip's World Wildlife Fund, the Sierra Club, the Rainforest Action Network, the Institute for Policy Studies, Project Underground, the Indigenous Peoples Network, Friends of the Earth, Survival International, Greenpeace, and the Green Party UK (which Goldsmith, himself, founded).

The ability of the Goldsmith apparatus to provide a more "liberal" cover to the mislabelled "anti-globalization" mobilization is crucial to the development and deployment of the terrorist hardcore.

Nowhere were the intimate links between the globalizers, the radical chic, and the hardcore terrorists more evident than during the January 2001 simultaneous "Davos" and "anti-Davos" events. The annual World Economic Forum, bringing together the leading figures within the international financial establishment at Davos, Switzerland, was paralleled by the Teddy Goldsmith-founded World Social Forum, which occurred, simultaneously from Jan. 25-30, in Pôrto Alegre, Brazil. Not only did the Pôrto Alegre event lure in some well-known and legitimate critics of globalization. The core of the Goldsmith event was the hardcore terrorists, including leading figures from the Colombian FARC, and the Brazilian MST (landless movement). The original plan to focus the protests in Washington against Plan Colombia and the war on drugs was put forward at Pôrto Alegre by the FARC's Javier Cifuentes, and enthusiastically endorsed by the majority of delegates, including leading representatives of the Fidel Castro-allied São Paolo Forum.

During the Pôrto Alegre session, one of the leading Anglo-French operatives, Bernard Cassen, of the Association for Taxation of Financial Transactions and Aid to Citizenry (ATTAC), staged a closed-circuit debate with George Soros, who was in Davos. Soros candidly admitted that "Davos and anti-Davos" were "the two faces of globalization."

Temple Mount Provocation Foiled But Sharon's War Drive Continues

by Dean Andromidas

On July 29, all the elements were in place for a dramatic provocation of general religious war, on the al-Haram al-Sharif/Temple Mount in Jersualem, the home of Islam's third-most holy sites, the al-Aqsa Mosque and the Dome of the Rock. Although the worst was prevented (see the accompanying article and box), it has not stopped Sharon, who two days later ordered an Israeli helicopter to launch a rocket attack, killing two senior Hamas leaders and six other adults and children. The attack marks a policy calculated to create a maximum reaction from the Palestinian side, which can be used as the pretext for escalating Israeli military operations to all-out war.

In an Aug. 2 call, "Stop that War Now!" Lyndon H. LaRouche, Jr. declared that "the U.S. and other governments must take effective forms of immediate emergency actions to chill the Israeli government into a state of self-restraint. . . . President George Bush has the means to conduct the international initiative which would bring this about; he should deploy his authority and resources to do so with finality."

LaRouche emphasized that "the true authors of this warfare are neither Israelis nor Arabs, but those co-thinkers of the Brzezinski-Huntington doctrine who desire an Israel-sparked launching of generalized religious warfare as a way of disrupting present trends toward economic cooperation in Eurasia. . . ."

An Ugly Glimpse of Religious War

The religious-war scenario began to unfold in the late hours of July 28 precisely as LaRouche had warned the previous day, and in line with *EIR*'s warnings since Ariel Sharon's own provocative "march on the Mount" last September ignited the current Intifada. The world heard news reports of an attempt to storm the gates leading to the Mount, by members of the outlawed Israeli terrorist Kach movement. Although Israeli police repulsed the attack, the next day 4,000 "Temple Mount Faithful" religious fanatics conducted their planned march just outside the Old City of Jerusalem, within a stone's throw of the religious shrine. Marching with their "cornerstone" of the Third Temple they hope to build, the marchers tried to bring it onto the Islamic holy site. Their project calls for the destruction of the mosques on the al-Haram al-Sharif, and thus, for religious war.

EIR has documented that both the Kach movement and the Temple Mount Faithful and their allies in the Jewish settlers movement, are much more dangerous than mere religious cults on Israel's extremist fringe. They are backed by powerful Anglo-American circles, who see them as a most useful tool for provoking a conflagration to serve much larger geopolitical designs, toward a "clash of civilizations" in the Middle East and Eurasia. Their main support comes from outside of Israel, especially from the American so-called Christian right, as represented by U.S. Attorney General John Ashcroft, whose own Pentecostal church is among the strongest supporters of the Temple Mount Faithful and the Jewish settlers movement.

Due to the July 28-29 weekend's intervention from U.S. and European capitals, the Israeli police prevented the march from entering the Old City. But it nonetheless provoked the angry Palestinian response it was calculated to elicit. When Palestinian youths began throwing stones from atop the al-Haram al-Sharif down onto the Jewish worshipers on Western Wall plaza, no less then 400 Israeli police stormed the Islamic holy site, throwing tear-gas canisters and stun grenades at Palestinian and Israeli Arab worshippers and stone-throwing youths alike. Although no one was killed, a dangerous siege ensued where Palestinian and Israeli Arabs, including two Arab members of the Israeli Knesset (Parliament), took refuge in the al-Aqsa Mosque.

Arab leaders took the provocation with deadly seriousness. Egyptian Foreign Minister Ahmed Maher, on the morning of July 29, summoned the ambassadors of the five permanent members of the United Nations Security Council, to denounce the danger to peace in the region from the provocative policies of the Sharon government. Jordan, Syria, and other Arab nations issued similar warnings. A July 30 meeting of the Arab League discussed the possiblity of renewing the Arab boycott of all companies doing business with Israel.

With the lack of decisive U.S. action, countries throughout the region fear that it is only a question of time when Israel will launch a major assault on the Palestinian-held areas of the West Bank and Gaza Strip. These nations know this will

LaRouche: Stop That War Now!

This statement was issued by the candidate's LaRouche-in-2004 Presidential campaign on Aug. 2.

The danger grows rapidly, that Israel will proceed with its indicated intent to go beyond its presently ongoing campaign of systematic murders, to full-scale invasion of the so-called "Area A" territories presently under titular control by the Palestinian authorities. Under this condition, the U.S. and other governments must take effective forms of immediate emergency actions to chill the Israeli government into a state of self-restraint.

President George W. Bush has the means to conduct the international initiative which would bring this about; he should deploy his authority and resources to do so with finality.

Such a concert among governments must act on the basis of foreknowledge of the consequences of their failure to stop the Israeli avalanche of war now, before it is too late to prevent a generalized, spreading state of religious warfare through much of Eurasia and beyond. The murder campaign being conducted by the Sharon government is already a clear violation of the prohibition against war crimes, adopted at the post-World War II Nuremberg tribunal. However, the fact to be emphasized, is that those actions are not only criminal, but, worse, are causing the present government of Israel to slide deeper and deeper into the criminal state of mind in which it will become more and more inclined to perpetrate, or to provoke even worse atrocities against humanity, over ever wider areas.

It must be recognized, that the true authors of this warfare are neither Israelis nor Arabs, but those co-thinkers of the Brzezinski-Huntington doctrine who desire an Israel-sparked launching of generalized religious warfare, as a way of disrupting present trends toward economic cooperation in Eurasia. Nonetheless, although those are ultimately the real criminals in this situation, we must act to prevent the Israeli spark from being used to ignite the oil of general religious warfare.

The U.S.A. and its partners have the means to bring the Israeli war to a halt now. Later, once the holocaust of "religious war" is ignited at the Dome of the Rock, it may be too late for civilization for some decades yet to come.

—*Lyndon H. LaRouche, Jr.*

lead to a regional war. Egypt, Iran, Jordan, and other Arab states are now taking military preparations for their own defense. Egypt is quietly mobilizing reserves. Iran is reportedly also preparing a defensive war. Syria and Lebanon, declared targets of Sharon, are bracing as well. In the event the Palestinians were to be expelled into Jordan, and that country destabilized, it is not excluded by some regional analysts, that Iraq could intervene.

Sharon Will Not Stop

Held back at point A, Sharon struck at point B, ordering Israeli assault helicopters to attack targets in Nablus. The July 31 rocket attack killed a journalist, a grocer, and two children ages 8 and 10, along with Hamas political representatives: a new escalation of military operations aimed at destroying the Palestinian political leadership. Despite official Israeli "self-defense" explanations, even the Israeli press called this a calculated move by Sharon to escalate the violence. According to the Israeli daily *Ha'aretz* on Aug. 2, Sharon ordered the attack while in possession of intelligence reports indicating that Hamas had postponed all suicide attacks because of pressure from the Palestinian Authority. Furthermore, Israeli military reported that the Palestinian Authority had, in fact, prior to July 31, begun to act preemptively to prevent attacks.

Moreover, the two slain Hamas leaders, Salim Damoni and Jamal Mansour, were not part of the military wing, but higher level political leaders. Though hard-core supporters of the Intifada, they nonetheless were part of the Hamas wing cooperating with Palestinian Authority President Yasser Arafat, and in the past had been open to settlement with Israel. *Ha'aretz* interviewed them in 1994, and quoted one, "The need to reach mutual understandings in the area requires us to prevent attacks on civilians on both sides." The seven-story building the Israeli Defense Force targetted was not a military operations center, but a Center for Communications Studies, also housing a psychiatric clinic and private apartments.

Palestinian Culture Minister Yasser Abed Rabo denounced the attack saying, "This was the massacre of civilians in a populated building. The leaders killed were political; and everyone who knew them knew they were political. . . . Every Israeli who doesn't condemn this attack should be ashamed of himself."

Israeli intelligence sources acknowledge that this escalation represents a policy of killing precisely those whose role in negotiation is essential to stop the conflict. One Israeli source said, "The question in my mind is: What is the motive for this attack? Was it so-called self-defense, or was it done with the intention of generating an escalation on both sides? They are killing the guys we are going to have to negotiate with, and that is going to lead to a real disaster." He fears that if an intervention is not made by the United States, Sharon will launch a war that will have catastrophic consequences for the entire region, emphatically including Israel.

This same point was made by Egyptian President Hosni Mubarak, who told a press conference on Aug. 1, after meeting Arafat, "Israel's attempts to strike Palestinian leaders will create a cycle of revenge and it will be the Palestinian and Israeli people who will pay the price in the end." These attacks, Mubarak warned, "will create a second and third line of [Palestinian] leaders, and the situation will become more fierce and [more] difficult to control." Mubarak also declared that Europe and the United States "should try to find a solution," if Israel continues to refuse the deployment of an international observer force.

Similar denunciations came from all the permanent members of the UN Security Council, including the United States. Nonetheless, words will not stop the deadly process that continues to be unleashed in the region.

The popular rage caused by this latest Israeli assassination operation was reflected immediately in the Nablus streets where tens of thousands of mourners attended the funerals for the eight victims: a thunderous demonstration of solidarity between Hamas and the Palestine Liberation Organization. It was also a scene of calls for bloody revenge.

A Voice of Sanity

In the midst of this smoldering atmosphere, those working for peace are making themselves heard. On July 25, a group of more than 50 prominent Israeli and Palestinian intellectuals and political activists met, and issued a declaration calling for "an end to bloodshed, an end to occupation, an urgent return to negotiations, and the realization of peace between our peoples. We refuse to comply with the ongoing deterioration in our situation, with the growing list of victims, the suffering, and the real possibility that we may all be drowned in a sea of mutual hostility." The statement called for the implementation of United Nations Security Council Resolutions 242 and 338, which call for the return of occupied lands for peace, a two-state solution to the conflict, and two capitals in Jerusalem.

Among the Palestinian signatories, were ministers of the Palestinian authority including Hisham Adbul Razak, Nabil Amr, Dr. Hanan Ashrawi, and many others. Among the Israelis, was former Justice Minister Yossi Beilin and head of the Peres Center for Peace, Ron Pundak, who were both architects of the Oslo Accord; Dr. Janet Aviad of Peace Now; Charim Oren and Yair Tsaban, former ministers and members of the Meretz party.

The actions by these Palestinian and Israeli peace activists serve as a reminder that, even at this late moment, there are sane forces committed to a viable peace. However, those forces are incapable, alone, of stopping war, and the burden remains on the Bush Administration to take the necessary measures to stall Sharon's war drive.

War Was Held at Brink Over July 28-29 Weekend

by Jeffrey Steinberg

A hideous religious war, to have been triggered by a confrontation at the Islamic holy sites on the Temple Mount in Jerusalem, was averted on Sunday, July 29, as the result of concerted international pressure on the Sharon government in Israel. To a great extent, that international pressure campaign, which was publicly acknowledged by Palestinian Authority President Yasser Arafat, was based on an alert issued by Lyndon LaRouche on July 27, and widely picked up by policymakers in Washington and in several European and Mideast capitals.

LaRouche's warning on the dangers of a war provocation on July 29 was posted July 27 on Internet sites and widely circulated from there. It focussed on provocations set for that Sunday on Jerusalem's "Temple Mount," as the religious war-trigger at which Israeli Prime Minister Ariel Sharon and the even more hard-line warhawks in Israel would launch their long-planned military assault against the Palestinian Authority.

LaRouche Warning Heeded

Both source reports and events on the ground on Sunday confirmed that elements within the Bush Administration took LaRouche's warning most seriously.

Days before the scheduled provocation, an Israeli high court issued a ruling, allowing the Temple Mount Faithful—a group committed to building a third temple where Solomon's Temple once stood in Jerusalem, on the site now occupied by the Al Aqsa Mosque and the Dome of the Rock (two of Islam's holiest sites)—to lay a cornerstone for the new temple near the gates of the old city. Immediately, the most fanatical Jewish and Christian fundamentalist "Temple Mount" provocateurs announced plans to use the court's ruling to stage a major incident. Islamic clergy, responsible for the Islamic holy sites in Jerusalem, called on worshippers to turn out en masse, to prevent the "desecration" of the Temple Mount.

All of the preconditions were set for the provocation of a full-scale religious war—exactly as *EIR* had spelled out in a December 2000 special report, *Who Is Sparking a Religious War in the Middle East?* Sources in Israel and Washington confirmed that Sharon, a longtime patron of the Temple Mount crazies, was fully prepared to let the provocation and war trigger go forward.

Instead, as a result of heavy pressure from Washington and elsewhere, Israeli police moved in to prevent the Temple Mount Faithful from storming the Islamic sites. However, the police themselves were sent onto the Temple Mount in what turned into a police riot, following rock-throwing incidents involving some of the Islamic worshippers. Over the next 48 hours, Israeli Defense Force units carried out assassinations against Fatah and Hamas organizers in the occupied territories, so the situation remains on a hair trigger for war.

LaRouche issued a new call on the Bush Administration to act to stop the outbreak of war, on Aug. 2.

Israel Starts Sweating Over War Crimes Cases

by Dean Andromidas

Ariel Sharon and the Israeli government are starting to take the war crimes case now before a Belgian Court very seriously. The Israeli government's concern goes well beyond trying to keep its Prime Minister out of the dock for his role in the massacre that occurred 19 years ago in the Sabra and Chatila refugee camps in Lebanon. They now fear, that Israeli government officials, especially military and security officials, will be indicted in European courts for violations of the Geneva war crime conventions. Such violations were not only committed 19 years ago, but are being carried out every day by the Israeli military and security forces against the Palestinians in the West Bank and Gaza Strip. They are the same crimes for which Serbian and Croatian officials are now facing trial at the war crimes tribunal in The Hague. Already a group of parliamentarians in Denmark plans to file a case against the Israeli Ambassador designate, Carmi Gillon.

Israeli officials and legal experts have made public warnings that the activities of the security and military services in the territories are war crimes, based on the Geneva and Hague conventions. This includes closures and sieges against Palestinian towns and cities, on the excuse that the Israeli government wants to stop terrorists from entering Israel. This is not only a fraud—since any determined terrorist can get past a road block—but it is also a war crime called "collective punishment." Then there is the destruction of civilian houses, seizure of lands, destruction of orchards, olive groves, and agricultural lands. The most dramatic cases are the extrajudicial assassinations and the expansion of the Jewish settlements. The latter constitutes population transfer: Israelis into militarily occupied lands, and Palestinians from their lands.

Sharon's government knows that, as these cases gain momentum, its propaganda drive to define all violence by the Palestinians as the work of "terrorists," and every military action by the Israeli military as simply "defense against terrorists," is untenable. One Israeli commentator wrote in the leading Israeli daily *Ha'aretz,* "The bastards changed the rules."

Another commentary, by Israeli Knesset (Parliament) member Uri Avnery in the Aug. 1 *International Herald Tribune,* notes that within Sharon's cabinet there is considerable tension on the juridical consequences of the Prime Minister's policies. Avnery wrote how Minister of Transportation Ephraim Sneh, a Labor Party member and retired general, recently burst out against Sharon, "You will not drag me with you to The Hague." Avnery reminded Sharon that "in the infamous Kafr Kassem massacre affair of 1956, [Israeli]

With approval from Ariel Sharon's government, Israel's fundamentalist "Temple Mount Faithful" tried a provocation on July 29, nearly guaranteed to set off general religious war. The site was al-Haram al-Sharif in Jerusalem, also considered to have been Solomon's Temple Mount.

Judge Benjamin Halevy wrote about a 'black flag' waving over illegal orders that soldiers must refuse to follow. This black flag is waving over many orders given daily in the occupied territories." Avneri concluded, "The world is telling us: You have been warned."

Sharon Gets a Lawyer

The Israeli government has hired a Belgian lawyer, Michelle Hirsch, to represent Sharon in the case before the Belgian courts. This case is the result of a formal complaint brought by 23 Palestinian and Lebanese victims of the 1982 massacre at the Sabra and Chatila refugee camps in Lebanon. Filed under the Belgian law allowing international war crimes cases to be brought before its courts, the plaintiffs accused Sharon of ordering the Phalangist militiamen into the camps with the knowledge that a terrible massacre would occur. Indeed, up to 1,500 people were slaughtered.

Hirsch is an expert in international human rights cases and has represented victims as well as those accused of war crimes. She recently represented victims in the Rwanda war crimes tribunals. According to legal experts, Sharon's move is an admission that he can no longer ignore these legal proceedings and recognizes the serious implications the case has for the state of Israel.

According to her recent statements, Hirsch's legal strategy is to convince the Belgian court that it is not within its jurisdiction to put Sharon on trial (he was "tried" in Israel by the Kahan Commission). The legal team representing the Palestinian plaintiffs counters that the Kahan Commission was not a trial, but a government inquiry which only offered recommendations to the government. The commission included two supreme court judges and a representive of the Israeli Defense Forces. The Kahan Commission found Sharon "indirectly responsible" for the massacre, since he should have known that the Phalangists, whom he ordered into the Sabra and Chatila camps, would conduct a massacre. Among the recommendations made by the commission was that Sharon should be dismissed as Defense Minister. Furthermore, there are sections in the Kahan report which have never been made public, which could be even more incriminating for Sharon.

On July 16, Luc Walleyn, one of the attorneys for the plaintiffs, visited Israel, where a committee of Israeli and Palestinian lawyers was founded to assist the legal team of the plaintiffs in the Beglian case. Speaking at a press conference in Jerusalem, Walleyn countered accusations that the case was targetting Sharon. He said, "This is not a case against one person. It is a case against one crime." He added that everyone involved can be questioned and indicted.

A potential breakthrough in the case was the announcement by former Phalangist militiaman Elie Hobeika that he intends to give testimony before the Belgian investigative judge, Patrick Collignon. In 1982, Hobeika was the head of intelligence for the Phalangist militia. The Kahan Commission report claimed that Hobeika ordered the massacres: "The Phalangist unit that was supposed to enter the camps was an intelligence unit . . . headed by Elie Hobeika."

On July 17 Hobeika told a press conference in Beirut, "I openly declare that I am very satisfied that the Sabra and Chatila case has been brought to Belgium, perhaps giving me the first opportunity in 19 years to tell the truth and defend myself and my reputation . . . and get cleared of this accusation." Hobeika claimed that he has "irrefutable proof" of his innocence, but did not elaborate. Up until the recent Lebanese elections Hobeika was a minister in the Lebanese government.

Reflecting the seriousness with which it is taking the case, the Israeli government has established a legal committee to oversee it, which includes representatives of the Prime Minister's office and several legal experts, some of whom have already travelled to Belgium.

Sources familiar with the Beligan legal system, which is based on Napoleonic law, point out that once a complaint is made and taken up by an investigative judge, as with the Sharon case, it is extremely unlikely that the government could intervene to stop the investigation. Nonetheless, once the judge completes his investigation and presents his recommendations to the Attorney General for prosecution, there is room for some "unofficial" intervention to try to keep the case from trial.

Sharon Is Not the Only Accused

Meanwhile, the worst fears of the Israeli government have come true: Other war crime cases are being filed against Israeli officials in other European courts where the Geneva conventions have been incorporated into national law. In Denmark, Israeli Ambassador-designate Carmi Gillon faces possible arrest when he arrives in Denmark. Gillon, who was head of the Shin Bet during 1995-96, is accused of being responsible for torture. Gillon admitted this when he told a Danish daily that he approved of "moderate physical pressure" which, according to the United Nations treaty on torture, in fact, constitutes torture. A group of Danish parliamentarians led by Soren Sonbergaard will file a complaint in a Danish court for Gillon's arrest. Although the Danish Justice Minister said that Gillon will not be arrested because of diplomatic immunity under the Vienna Treaty, he admitted that this could be challenged in the courts.

There is considerable support within the Danish population for the judicial process against Gillon, and the Danish government has suggested that Israel withdraw the nomination. Israeli Foreign Minister Shimon Peres has made the situation worse by refusing this request, and by his inept attempt to come to Gillon's defense, saying that, as a government official, he was "only following orders."

Israel reportedly has received reports that similar cases could be filed against Chief of Staff Shaul Mofaz and Air Force commander Maj. Gen. Dan Halutz, for crimes against humanity in relation to military operations in the occupied territories.

‘Balkan Wars Precede World Wars,’ LaRouche Tells Macedonians

by Umberto Pascali

In Macedonia at the beginning of August, sections of *EIR*’s transcript of Lyndon LaRouche’s July 24 international webcast on the global economic crash, were being closely read and circulated among high officials and common people alike. The webcast occurred while the Kosovo Liberation Army (KLA) had been unleashed in the most violent assault to date against the area of Tetovo, immediately northwest of the Macedonian capital, Skopje.

Particular attention was directed to the exchange between LaRouche and the Macedonian-American leader, Nestor Oginar. “It gave us a concrete idea that besides the U.S. of [George W.] Bush and [National Security Adviser] Condoleezza Rice, there is a real America: an America that is ready to defend the principle of national sovereignty, not to help destroy it,” was how one Macedonian explained the interest raised in the Balkan nation by the LaRouche initiative.

On July 18, Macedonians denounced the “negotiations” held under the direction of U.S. and European Union envoys, James Pardew and Francois Leotard. “What we have on the table is a document tailored to break up Macedonia,” Prime Minister Ljubco Georgievski stated. “[It is] a blatant violation of Macedonia’s internal affairs.” The negotiations between the Macedonian and ethnic Albanian parties (the latter thoroughly intimidated by the guerrilla army of the KLA) were taking place during an official NATO-mediated cease-fire.

But that cease-fire was not respected by the KLA, which continued—undisturbed by NATO—its terrorist actions, and realized a significant territorial gain, using the nearby NATO-controlled Kosovo as its base of operation. The Macedonian Army, on the contrary, had to respect the truce under the—sometimes provocative—pressures of the international envoys. “Terrorist actions are performed with logistical support from so-called Western democracies,” Prime Minister Georgievski charged.

KLA Obtains NATO Pictures of Targets

As “reprisal” for the July 18 Macedonian protests, the KLA was unleashed beyond any previous level of ferocity starting on July 21. The pace of assault reached its most furious point on July 24: The whole area around the main road from Kosovo to the city of Tetovo, was taken over. Macedonia police posts were attacked and substituted with KLA roadblocks. Several towns around Tetovo were simply conquered, the only defense being improvised groups of civilians who defended their villages. Then the frontal attack against Tetovo began. The KLA gangs had the advantage of better and more modern armament and military equipment and, above all, precise intelligence on the targets they intended to hit.

How the KLA has received such information is a “scandal within the scandal” of the general aggression. On June 25, some 400 KLA guerrillas of the 113th UCK Brigade, who had taken over a Skopje suburb and threatened to bomb the capital, had been rescued from the Macedonian Army siege by a U.S. NATO airborne battalion. They had been taken into air-conditioned buses supplied by Vice President Richard Cheney’s Halliburton Corporation, and brought, with their weapons and documentation, into an area north of Skopje, to continue their assault against the country. Three days later the German *Hamburger Abendblatt* revealed that there were 17 U.S. “advisers” among that KLA brigade as trainers. “Macedonian Security forces,” according to the paper, “claim that 70% of the equipment taken away by the guerrillas had been U.S.-made, to include even the most modern third-generation night vision devices.”

According to U.S. military expert David H. Hackworth, “the 17 instructors were members of the high-ticket Rent-a-Soldier outfit called MPRI—Military Professional Resources, Inc.—that operates in the shadow of the Pentagon, and has been hired for operations in former Yugoslavia. The company, headed up by former U.S. Army Chief of Staff Gen. Carl E. Vuono, is filled with former U.S. Army personnel, from generals to senior sergeants. . . . Had General Vuono or another of his [MPRI] compadres such as General Crosbie Saint, picked up the phone and suggested that the 502nd [airborne battalion] be sent to the rescue, that suggestion would have been taken as a virtual command. . . . While Ollie North’s Contra boys might not have been so businesslike—or so blatant—they did establish an unfortunate tradition of hired guns sticking our nation into one minefield after another. Dozens of ex-Army pals are presently working for the ever-expanding MPRI. There are laws on the books that prevent American citizens from serving foreign governments. It's about time Congress did its duty." Hackworth's analysis is shared by a growing number of other sources in the United States and internationally,

On July 31, the German magazine *Der Spiegel* added more shocking details to the picture. "When [the KLA] arrived in Arachinovo, they were in direct satellite connection with the Pentagon." One police official in Skopje told the magazine: "We confiscated weapons whose serial numbers were unequivocally pointing to NATO sources." What's more, the KLA "had also videocassettes of Macedonian military installations which the same police source said could have come only from [NATO] KFOR helicopters."

Just before the publication of *Der Spiegel*'s article, the Macedonian government had presented an official protest to NATO against the violation of its air space by U.S., British, and German NATO helicopters. On two separate occasions, helicopters had flown over the residences of the Macedonian Prime Minister and the President "throwing flares in the air," lighting up the whole area as if for better observation and photography.

Many Macedonian leaders reached the conclusion that the country was being set up for a "Serbia treatment," i.e., a NATO attack. Commenting on the State Department order to U.S. "non-essential personnel" to leave Macedonia immediately, the Russian pravda.ru wrote on July 25, "similar measures were taken by Washington on the eve of the NATO military operation against Yugoslavia. On July 25, the Prime Minister's spokesman stated in his behalf: 'It is clear that some Western democrac[ies] that are members of NATO are giving direct and obvious support to the [KLA] aggressor. . . .' The activities of the international community representatives and the paramilitary terrorist formations are well coordinated. We are witnessing a bloody crisis directly controlled by some of the so-called Western democratic countries."

In the Meantime, in Tetovo

This was the situation in Macedonia at the moment of the LaRouche July 24 webcast. Professor Oginar, one of the leaders of the Macedonian diaspora, asked LaRouche, "What can we do, to prevent the Brzezinskis of the world, the Kissingers of the world, the Lord Owens of the world, to play their favorite games of divide-and-rule?"

What Oginar did not know is that a few hours after his exchange with LaRouche, his house would be hit by a swarm of large-caliber shells after midnight, local time, in Tetovo. His elderly sister was woken up by the shots. She crawled on her hands and knees to the basement where she spent a horrifying night. During the same period a similar attack targetted the house of Oginar's niece in Tetovo. The next morning, Oginar's sister was shocked to find no fewer than 70 shell holes in the house wall where her bedroom lies. The many other houses around lacked any shell damage. Though she had vowed to remain in her house and her town, on July 25, Mrs. Oginar became one of the 40-50,000 refugees that in a few days were "ethnically cleansed" out of the Tetovo area by the KLA. Any adequate intervention by the Macedonian government to defend the population, is frustrated by NATO.

The KLA had made its threats effective in the U.S. as well. Last May 12, Professor Oginar had been the main speaker at a Macedonian rally in Lafayette Square, in Washington, in front of the White House. He invited the Macedonian Americans to join forces with LaRouche and his movement, and asked people to "become bigger," if Macedonia were to be saved. Saving Macedonia, he argued, means to fight for a reform of the financial system worldwide. "Technically [such an alternative is] perfectly applicable," Oginar had told the crowd, "but politically unacceptable for the like of Lord Owen: a reform of the financial system, a New Bretton Woods system as proposed by the economist Lyndon LaRouche. . . . I can tell you that there is an interesting situation shaping up in Europe, whose reverberation can be seen here. A convergence of interests in preventing a new war—in establishing a new and just world order—is pushing together former enemies like Western Europe and Russia, for example. Macedonia is one of the key tests. If we resist and we fight for our sovereignty, if by defending our sovereignty we defend a universal principle, then we can win."

After this speech, the managers of a major Macedonian radio station in Chicago, where Oginar has spoken frequently, were approached by elements connected to the KLA, who made precise threats against the manager and his family's lives, if "Oginar speaks again on your radio." The Professor has not been invited on the air in Chicago since.

NATO Cracks

The present situation in Macedonia could appear desperate. But as Professor Oginar said at the White House rally, the resistance presented by Macedonians is contributing to change the situation. NATO members in Europe are realizing more and more the suicidal potential of the NATO war and provocation strategy. As LaRouche replied to Professor Oginar's question on July 24, "NATO is *not* an alliance among European nations. That ended with the collapse of the Soviet Union. NATO became a tool of an Anglo-American imperium, a bunch of bankers, in New York, and London, and elsewhere, who are trying to run the world, through globalization, looting and destroying; managing by great power politics, the same way the Balkan wars were managed in the past."

EIR Asia Tour Mobilizes for Eurasian Land-Bridge, New Bretton Woods

For the three weeks following June 28, *EIR* Asia Desk correspondents Michael and Gail Billington visited the Philippines, Thailand, and Malaysia, speaking at university forums, meeting with political and economic officials, and speaking with the press, representing *EIR* founder Lyndon LaRouche. While this was the fifth visit to Southeast Asia by Gail Billington, who has met and interviewed national leaders across the region for *EIR* since 1994, this was the first trip by her husband, who has collaborated with his wife for the past ten years on journalistic and historical research on Asia from his jail cell, where he served as an American political prisoner, incarcerated for his ideas and for his work with the economist and statesman, LaRouche.

In all of their meetings, the Billingtons found that the citizens of the Southeast Asian nations are totally disillusioned with the false promises of "globalization" under the International Monetary Fund (IMF), and are searching for ways to save their nations from the ravages of the unfolding global economic collapse. However, there is still a persistent lingering belief—actually, wishful thinking—that the breakdown of the U.S. economy is a passing phenomenon, and that the failed policies of the globalization process will be overcome through the imminent recovery of the great U.S. import machine of the past decade. Using graphs and charts, the Billingtons demonstrated that the U.S. economy has been in a 30-year-long decline, living off imports cheapened by forced devaluation and other forms of looting from the developing nations, while cannibalizing its own economy by destroying the infrastructure necessary for industry and for the general welfare of the population.

Most members of the Association of Southeast Asian Nations (ASEAN) have watched with distress as the U.S. import markets collapsed over the past year, and have begun to conspire among themselves and with their Eurasian neighbors on plans to meet the crisis. Throughout the 1990s, the Anglo-American financial institutions cajoled the ASEAN nations to adopt an export-oriented policy, allowing their cheap labor to be used by mostly foreign-owned process industries to produce exports for the Group of Seven nations. While most of the world—including the ASEAN nations themselves—crowed about the "ASEAN Tigers" as the model for prosperity under globalization, LaRouche repeatedly warned that the hot-money, speculative economics of the "Tigers" would soon become easy prey for the speculators. The 1997-98 looting of the ASEAN economies by hedge-fund operative George Soros and his cohorts proved LaRouche right, while only Malaysia's Prime Minister Dr. Mahathir bin Mohamad was willing to acknowledge his mistake, and take sovereign measures (including selective currency controls and a fixed exchange rate) to protect the general welfare of his nation's population. The other major ASEAN nations, subjected to IMF-dictated conditionalities, suffered both economic collapse and social disruptions, intensified by the growing poverty rates.

Now, with the IMF-imposed policies exposed as a new form of colonial control and outright looting, the ASEAN nations have joined forces with their East Asian neighbors—China, Japan, and South Korea—to form the ASEAN-Plus-3, including the establishment of monetary swap agreements totaling upwards of $40 billion, as a means of defending against any renewed speculative attacks on their currencies, and developing plans for an Asian Monetary Fund, independent of the IMF. It was in this environment that *EIR* presented LaRouche's solutions to the global crisis.

While the *EIR* tour did not include Indonesia, because of the unfolding political crisis in that nation (see article this issue), the Billingtons did visit the other three leading economies of ASEAN: the Philippines, Thailand, and Malaysia. The visits were enhanced by the presence of two new institutions in the region: the Philippines LaRouche Society (PLS) and the Malaysia LaRouche Society (MLS). These organizations were formed by long-standing associates of LaRouche in these countries, and a growing number of new friends and supporters who have been motivated by LaRouche's ideas to join the fight to change the course of history, for their nation and for the world.

The Philippines

PLS members arranged presentations at seven leading universities, where the Billingtons addressed a total of nearly 1,500 students and faculty. Although they had been warned that the students were being fed a constant diet of "free-trade economics" and globalization dogma, they discovered that these youth—and their professors—were hungry for some

More than 1,200 students and faculty of the Polytechnic University of the Philippines listen to Michael (left at podium) and Gail Billington on July 6 in Manila on "The Global Financial Crisis: Paths for Saving the Philippines." Inset: Students listen from the doorway of the jammed auditorium.

understanding of the cause of the collapse, and for ideas which could help them save their economy and their nation. The idea of the "American System" of economics, based on the discoveries of G.W. Leibniz, the policies of Alexander Hamilton, and further developed by LaRouche, came as a revelation, being *neither* of the two systems (British free-trade economics or communist state control) presented in their textbooks. They were fascinated by the *EIR* transparencies showing the Eurasian Land-Bridge, and discussions of the recent development of alliances among Russia, China, and other Eurasian nations (including news of the presentations by LaRouche before the Russian State Duma (lower House of Parliament, see *EIR,* July 6 and July 20, 2001). One economics professor at the Polytechnic University of the Philippines said after the presentation: "This is it! All along I have taught what is in the curriculum—David Ricardo, Adam Smith, Marx, and all that—but I was always trying to teach something else as well, that was based on a moral view of advancing mankind; but I didn't know what it was. Now I know! It's LaRouche!" Students lined up to ask how to join the LaRouche Society, and the professors arranged to stock their libraries with *EIR* publications.

The Philippines LaRouche Society had made its first intervention into the political situation a few months earlier, when the newly installed government of Gloria Macapagal-Arroyo, within days of her inauguration, rammed a bill through the Congress privatizing and deregulating the National Power Company, based on the same model as the California deregulation of energy. A dossier prepared by the PLS exposed the plan as a guaranteed disaster on the same scale as that of California. The dossier was hand-delivered to every member of the Senate. Although the bill was passed with only one dissenting vote, the role of the PLS will be clearly remembered as history bears out the truth of their warning.

Beside meetings with political leaders and economists, the PLS arranged for Mike Billington to appear on two leading television shows—one, the morning economic and stock market program, watched by the nation's elite; and the second, the most popular interview program, "Tell the People," with Julie Yap-Daza, shown live during evening prime time. On the economic show, the reporter planned a ten-minute spot, but went for nearly an hour, fascinated by the fact that what he was hearing proved that everything he had learned and all the prevailing conceptions had to be thrown out, to deal with the reality of the global crash. The show was broadcast twice over the following days.

On the interview show, the host brought on two of the nation's most prominent economic planners, Raul Concepcion and Dante Canlas, representing an industrial association and the nation's economic planning unit, respectively. Confronted with *EIR*'s blunt description of the collapsing world financial system, and the new reality of the Eurasian Land-Bridge-based political and economic alliances to escape a new Dark Age, these "experts" were reduced to sputtering about the expected revival of the U.S. economy to save their own, and even urged greater export of their own population as "overseas contract workers," as the solution to their foreign exchange problems. Calls came in both during the show and long afterwards, wanting to know how to contact the LaRouche Society in Manila.

The growing membership of the PLS will be holding regular classes on the history of the great ideas which have driven mankind's development, while setting up a structure to prepare a regular publication, combining material from *EIR,* and articles prepared by the members on the developments within the Philippines and the region.

Malaysia

The situation in Malaysia is quite different than that of the Philippines. The poverty in the Philippines is pervasive and oppressive. Millions of squatters live in cardboard shacks along every railroad and canal, while huge, uncompleted office buildings stand like ghostly skeletons across the Manila skyline, testimony to the hot-money binge of speculation before the 1997 Asian crash. Kuala Lumpur, on the other hand, avoided the worst of the 1997-98 crisis through the protective measures of the Mahathir government. Nonetheless, the collapse of the U.S. and Japanese import markets threatens Malaysia with the same breakdown crisis as the rest of Asia. *EIR* has supported Malaysia's courageous sovereign defense against the IMF, and spread its policies and the speeches of Prime Minister Mahathir around the world in its pages. However, as is evident to most of Malaysia's leaders today, actions by individual nations in the face of the global crash today are simply inadequate to achieve the necessary new world economic order to replace the bankrupt IMF-based system.

The Malaysia LaRouche Society has emerged under the leadership of a young scholar who has studied LaRouche's ideas for the past seven years. The Billington's visit served to catalyze a working relationship between this group of young people and several leading journalists, statesmen, and businessmen who have also followed LaRouche's work over the past decade. Meeting together for the first time, the diverse groups are now formulating policies and plans for the dissemination of LaRouche's ideas in Malaysia and throughout Southeast Asia.

The political and economic leaders who met with the Billingtons were very direct about their relationship to *EIR:* While they value the analysis contained in *EIR,* especially in relation to developments within the United States and in regard to the IMF, they are stunned by the intensity of the attacks on LaRouche and *EIR* coming from the U.S. State Department and related institutions. Their nation has itself experienced isolation and demonization by the Anglo-American elite, as a result of its sovereign measures of defense against the IMF regime, and thus they deeply appreciate LaRouche's fortitude in standing up for principle over the past three decades, despite intense persecution and slander against him.

The Malaysians were particularly interested in LaRouche's ideas concerning the creation of a new monetary system. Being deeply involved in the discussions among the ASEAN-Plus-3 on these same issues, the Malaysians are grappling with how to create a monetary system that will not be subject to the same speculative assault as the current, floating-exchange-rate system implemented by the Nixon Administration in 1971, when Nixon dismantled the Bretton Woods fixed-exchange-rate regime. Dr. Mahathir has recently proposed a special currency for trade purposes only, based neither on any one currency nor a basket of currencies, while speculation in currency values would be forbidden. The most fundamental question, however, was left undetermined, namely, how to assign a value to such a unit of account for trade purposes.

Here, LaRouche's concept of a basket of commodities (see Lyndon H. LaRouche, Jr., "Trade Without Currency," *EIR,* Aug. 4, 2000), based on a 20- to 25-year development perspective for the Land-Bridge and related Great Projects around the world, provides a basis for building a monetary system which services the real economy, rather than the current subservience of the real economy (and the general welfare) to the shareholders in the monetary system. There was great interest in the ministries and among the leading think-tanks in these ideas.

Thailand

In Thailand, there is not yet a LaRouche Society, but the new administration of Prime Minister Thaksin Shinawatra and his Deputy, Chavalit Yongchaiyudh, has moved Thailand away from the subservience to the IMF which has held the nation in a deep depression since the 1997 speculative destruction of its currency. The government is struggling to find ways to revive the economy, through developing stronger regional ties, and reducing the "export orientation" imposed by the IMF. Most important, Thaksin and Chavalit have solidified relations with Thailand's immediate neighbors, Cambodia and Myanmar, while taking a leading role in efforts to integrate ASEAN into the East Asian, South Asian, and Eurasian alliances (such as the Shanghai Cooperation Organization).

The Billingtons had the opportunity to meet with ministry officials who are involved in this crucial diplomacy, and, as in Malaysia, the Thai leaders were particularly interested in the connection between the Eurasian development plans and LaRouche's ideas for a New Bretton Woods monetary system.

Another project getting full support in the new government is the building of the Kra Canal, linking the Andaman Sea with the Gulf of Thailand. This is an idea long championed by LaRouche and *EIR,* including the sponsorship of conferences and special reports dating back to the 1980s, as one of several Great Projects necessary to restart the world economy. The plan is now back on the drawing boards, and further advanced than ever before, in part because the Thais have succeeded in getting China and others interested in the idea, joining with the Japanese (who have been involved for many years). *EIR* renewed its contacts with some of the people involved in this development.

ASEAN-Plus-3 in Hanoi

The July meetings of ASEAN and the ASEAN-Plus-3 Foreign Ministers in Hanoi proved to be another crucial step forward for the region, although time is very short. In the "Hanoi Plan for Action," the ASEAN nations dedicated themselves to driving forward with the Great Projects which have been designed over the past years, including the Mekong River Development Project, the Asian Railroad (linked to the Land-Bridge connecting Asia with Europe and Africa), and several "Triangles" (i.e., projects among adjoining nations), for regional infrastructure and natural resources development. Most important, Russian Foreign Minister Igor Ivanov, as a dialogue partner of the ASEAN-Plus-3, expressed Russia's strong support for the projects, and offered to become directly involved in their realization. These promising developments improve the potential that the ASEAN-Plus-3 will be prepared to act in creating a new Asian Monetary System when the crucial moment arrives, as it certainly will in the immediate weeks ahead.

Give Indonesia's New Government a Break

by Gail G. Billington

In less than one four-year term of a U.S. President, Indonesia has had four sitting heads of state. In March 1998, President Suharto was driven from office by the worst regional economic crash and domestic political upheaval the nation had experienced since 1965. His Vice President, B.J. Habibie, succeeded him and set into motion the first territorial break-up of Indonesia, under intense pressure from some of Indonesia's former colonial powers, with backing from the United Nations, to "free" East Timor.

Simultaneously, Indonesia underwent a top-to-bottom political overhaul for the Fall 1999 general election, which was viewed as the first "democratic" election in more than three decades. When the dust settled, Muslim scholar and cleric Abdurrahman Wahid had successfully outmaneuvered the political horse-trading to deny the Presidency to the majority vote-winner, Megawati Sukarnoputri, eldest daughter of Indonesia's Founding Father Sukarno. Megawati became Wahid's Vice President.

Indonesia's new President Megawati Sukarnoputri is making her first diplomatic priority, the restoration of Indonesia's role in ASEAN and ASEAN's new Eurasian partnerships.

Less than 22 months later, a new game of political "musical chairs" has played out. On July 23, 2001, Wahid became the first President to be impeached, and Megawati was unanimously elected as the first woman President of the Republic of Indonesia. On July 26, Hamzah Haz, head of a leading Muslim party and a member of the same Muslim social organization formerly headed by three generations of Wahid's family, became Vice President.

Four Presidents in less than four years should suggest to Indonesia's friends and would-be allies that a healthy dose of patience is in order. So embroiled in internal affairs has Indonesia been, that its Foreign Minister did not even attend the late July annual meetings of the most important regional political/security organization, of which Jakarta was a founding member, the Association of Southeast Asian Nations; nor the subsequent ASEAN Regional Forum discussions with its major near neighbors China, South Korea, and Japan, and its dialogue partners, including most of the G-8 member states.

As of this writing, the naming of Megawati's cabinet is still days away, but there is near universal agreement within Indonesia that the most pressing issue for the new government is the economy, the continuing disintegration of which has been the principal driving force behind the violent political and social upheaval that has wracked the country over these past four years. The chairman of Indonesia's Chamber of Commerce and Industry, Aburizal Bakrie, has urged the government to focus on the economy, pointing to *40 million Indonesians* out of work. Separatist movements in Indonesia's two most resource-rich, revenue-earning provinces, Aceh and Irian Jaya (Papua), pose nation-threatening challenges.

Too Many Agendas

Less than a week after the impeachment of Wahid, President Megawati is being inundated with "wish lists" from international lenders, foreign powers, and leading "civil society" organizations.

Topping the list is the International Monetary Fund (IMF), whose former Managing Director, Michel Camdessus, left an indelible image on the Indonesian psyche: that of a smug Camdessus, leering down at a broken President Suharto as he signed off on the IMF conditionalities program in January 1998, a signature that ensured Suharto's fall from power a short two months later.

John Dodsworth, the IMF's current man in Jakarta, put on a smile to welcome President Megawati, but delivered a message little changed from 1998. "We need to see who will be in the new cabinet," before the IMF will finally release a long-stalled $400 million tranche (and all the collateral private lending that is held awaiting the IMF okay). Wire reports then warned that Megawati would have to act quickly to appease the IMF, since creditor nations will meet in September to discuss Indonesia's huge outstanding debt, stressing, "Indonesia and Ecuador share the distinction of having the world's lowest credit rating—CCC plus, seven notches from investment grade. . . . That means without help from creditor nations, Indonesia is a likely candidate for default."

Equally ominous for Indonesia are the political demands from "friendly governments" and "civil society" institutions and organizations. The New York-based director of the George Soros-financed Human Rights Watch Asia is Sidney Jones. She has personally played a significant role in stirring up separatist movements across Indonesia, with extensive ties into both Aceh and East Timor. Jones scolded Megawati in a July 27 *New York Times* op-ed, for being a nationalist, for ties to the military, and for being intolerant of independence movements in the provinces. Referring to such movements in Irian Jaya (Papua) and Aceh, Jones made a direct threat: "Mrs. Megawati showed no aptitude for understanding or addressing the grievances in those regions. She will have to do better as President or face further outbreaks of violence and an increase in the more than 1 million citizens currently displaced from their homes."

Jones warned further that Megawati must "move quickly to show she will not be a pawn of the military officers who flocked to her party out of displeasure with Mr. Wahid," and even says that "many Acehnese fear that a Megawati Presidency will mean open season on civilians."

The oft-repeated fear that Megawati will follow in her father's "nationalist" footsteps is also evident in the overtures from George W. Bush's U.S. administration and Prime Minister John Howard's Australia, both of which have floated early invitations for meetings with Megawati. Relations between Indonesia and these two administrations are, to say the least, "delicate" at this time. Relations seriously deteriorated at the hands of Madeleine Albright's U.S. State Department, while Prime Minister Howard pronounced his country's self-appointed promotion to "America's Deputy" in the Asia-Pacific, especially over East Timor, where Australia remains a key player.

A complicating factor for the United States is that the Bush Administration has been slow to learn that U.S. policy toward Indonesia in the second Clinton Administration was self-defeating, especially in terms of relations to Indonesia's military, which was cut off from U.S. technical assistance and training in 1999. As a career U.S. military officer with long service in Indonesia told a seminar in Washington earlier this year, the United States has had no contact at all with the second-level military commanders in Indonesia, thanks to these sanctions.

More threatening is the inclination of some elements in both the Bush and Howard administrations to draw Indonesia into a new Cold War alliance in line with those elements who view China as the new strategic enemy of the United States. The release, in the last week of July, of the latest volume of U.S. diplomatic history, *Foreign Relations of the United States,* disclosed what most Indonesia scholars and diplomats already knew about the period of Indonesia's 1965 crisis: U.S. and British covert operations against Megawati's father, President Sukarno, and in support of then General Suharto.

In ham-handed fashion, the Bush Administration, through the Government Printing Office, attempted to recall the release, which attempt was reported as a backhanded apology, but must also serve as a brutal reminder *not* to repeat the errors of the past.

Off to a Good Start

The good news from the new government in Jakarta, is the announcement that Megawati plans to visit Indonesia's ASEAN partners during a five-day tour Aug. 22-26. Her spokesperson announced on July 31, "The President will visit the ASEAN countries to emphasize that ASEAN is a priority in Indonesia's foreign policy." Especially in 2001, Indonesia has been largely absent from the intense discussions within ASEAN, and those in conjunction with ASEAN's "plus 3" partners—China, South Korea, and Japan. It has been absent from the ASEAN breakthroughs in regional discussions with the leading Eurasian nation, Russia, on forging a new global monetary system and committing to the model of "great infrastructure projects," epitomized by the Eurasian Land-Bridge concept. These hold out the greatest potential for recovery for Indonesia, and its true friends.

An Indonesian source close to Megawati's economic team told *EIR* that her government is better prepared to meet the coming global financial crisis than Wahid's. He pointed out that the military, which united in rejection of President Wahid's effort to impose martial law, is extremely solid and well-disciplined at this time, after years of division and external attacks which weakened its authority. With the moderate Islamic leader Hamzah Haz as Vice President, President Megawati has the capacity to rebuild the historic unity, championed by her father, among nationalism, religion, and other mass organizations.

BP Provokes Iran, To Attack Eurasia Progress

by Muriel Mirak-Weissbach

Within the broader thrust toward religious warfare ignited in the Middle East, and slated to engulf the Islamic world throughout Central Asia and beyond, there have been flareups aimed at sabotaging regional forms of this growing "Eurasian Land-Bridge" cooperation for economic reconstruction.

Thus, the incident on July 25, involving British Petroleum (BP), Azerbaijan, and Iran. BP suspended research activities in the Caspian Sea, after an Iranian warship forced an Azeri vessel, used in BP's activities, out of the area. BP was conducting the geological survey in the Araz-Alov-Sharg area, which belongs to Iran, according to existing treaties on the Caspian Sea resources challenged by Azerbaijan.

The incident arose out of deliberate British intentions, along with their Azeri partners, to provoke Iran, in full knowledge of the country's claims over the area of research. Not by accident, the incident occurred just prior to a planned meeting of the Azeri President Heidar Aliyev and his Iranian counterpart Seyyed Mohammad Khatami; and just as construction started on a Russian-supported rail project linking Azerbaijan and Iran. Furthermore, the incident was a provocation against Russia, and Russian-Iranian cooperation, considering that the two countries are the signators to the only existing international treaties governing the exploitation of Caspian Sea.

Statements by Iranian officials made clear that Tehran knew what game was being played. Iranian Foreign Ministry spokesman Hamid-Reza Assefi told the Iranian News Agency, "The Azeri republic and [foreign] oil companies have learned of Iran's diplomatic stances over the Alborz oil field," and added that the Azeris should "understand sympathetic advice given by the Islamic Republic and keep away from any action which may intensify misunderstandings." He said Iran would "defend its rights and interests."

The Rapporteur of the Iranian Parliament's Foreign Policy and National Security Commission, Elahe Koulaie, stressed that the Azeri action went against regional interests, warning, "Such measures will prepare the ground for increased influence of foreign countries." For his part, Azeri Foreign Minister Vilayat Guliyev said his country rejected Iran's claims. "We will not get into a war," he said, "but we will stand up for our rights."

There are two treaties, of 1921 and 1940, between the Soviet Union and Iran, which are the only juridical instruments regulating exploitation of Caspian Sea resources. Since the collapse of the Soviet Union, attempts have been made to draft a new treaty, among the littoral states, which include Russia, Iran, Turkmenistan, Azerbaijan, and Kazakstan. Hopes have been high that at the next scheduled meeting of these nations, a draft agreement could be settled. Iran and Russia have been coordinating efforts in this direction. But until such an agreement comes into being, none of the countries concerned is to make contracts for exploitation of the resources. Individual states, especially Azerbaijan, have, however, done so.

On July 23, Iran warned the oil companies against working with states in areas that belong to Iran, stressing that contracts signed for such exploitation, were invalid. Iranian Ambassador to Azerbaijan Ahad Qazaie said on July 24, that none of the littoral states has the right to prospect for resources, until the legal status of the Caspian has been defined.

Why Such a Provocation?

One wonders, why Azerbaijan would risk fruitful cooperation with Iran, a major power in the region, at this time. The answer is to be found in the special relationship which Azeri President Aliyev has cultivated over the past years with what Russian press commentaries call "the Brzezinski group" in America. This is a network of think-tanks and oil companies, committed to the geopolitical madness associated with Zbigniew Brzezinski, Samuel Huntington, et al.: trying to break up nation-states, like Russia, China, India, Iran, through the use of religious and ethnic warfare.

Brzezinski reportedly met with Azeri government officials in Washington on July 11, in the context of a conference of the GUUAM, an association of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova. The main geopolitical organization in the United States which deals with the government in Baku, however, is the U.S.-Azerbaijan Chamber of Commerce (USACC), which may have been directly involved in the recent provocations.

According to its website, the USACC personnel represent a broad sampling of the Brzezinski group in the United States. Its "Honorary Board of Advisers" included James Baker III, Brzezinski, Henry Kissinger, and Vice President Dick Cheney, formerly with Halliburton. Its board of directors included Richard Armitage, now Assistant Secretary of State, and many leading oil company figures, including a regional president of the same BP-Amoco which staged the provocation. Its board of trustees has included two U.S. Congressmen, Greg Laughlin and Charlie Wilson, as well as President Aliyev's son Ilham Aliyev and "Prince of Darkness" Richard Perle. The USACC's legal counsel was listed as James Baker IV.

A second flareup in the region involves sabotage of Iran-Turkey cooperation. As reported in the July 23 *Turkish Daily News,* the Turkish government is seeking to delay the purchase of natural gas from Iran, called for in an agreement signed in August 1999. Turkey was to purchase 7 billion cubic meters per year for 25 years. Now, Turkey is under pressure from the United States to delay, if not suspend, the deal.

Bush Commission, Wall Street Push Social Security Theft

by Richard Freeman

On July 24, the dangerously mis-named Commission to Save Social Security (CSSS), appointed by President George W. Bush on May 2, released a first report, entitled, "Bringing Social Security Into the 21st Century." It were more truthfully called, "Throwing Social Security Into the Stock Markets."

The report called for the privatization of Social Security. It did not take long for the Cato Institute of Washington, D.C., which is controlled by the biggest Wall Street banks and insurance companies, and which represents hard-line followers of the free-trade fascist ideology of Friedrich von Hayek, to erupt with glee. The next day, the Cato Institute held a forum at its headquarters, at which Michael Tanner, director of Cato's Project on Social Security Privatization, vigorously defended the thrust and particulars of the CSSS report.

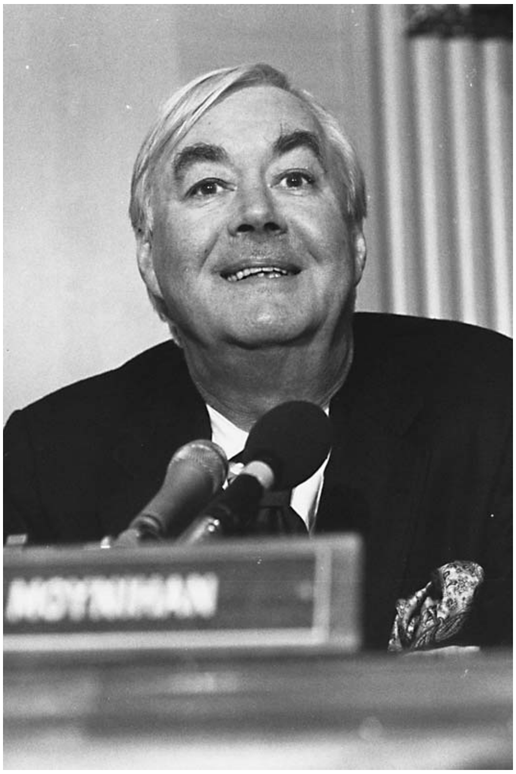
While a gaggle of overlapping groups support privatization, it is the City of London and Wall Street financier oligarchy which leads the fight for privatization, and which controls these groups. The Cato Institute, "free-market" extremists who oppose any role for government in the economy, is their favorite instrument. Of the 16 members appointed to the CSSS Commission, which is chaired by former Sen. Daniel Patrick "Benign Neglect" Moynihan and by AOL Time-Warner chief financial officer Richard Parsons, five members are either members of or actively collaborate with the Cato Institute's "Social Security Privatization Project."

The strategic context for privatization is that the financiers are staring into what, for them, is a terrifying reality: The bankrupt and unsalvageable world financial-monetary system, which is interlaced with $400 trillion worth of derivatives, speculative stock shares, etc., is in the final phase of disintegration. They desperately seek to hijack flows of funds in order to prop up the financial system, even as, at that very moment, some of the same oligarchs cash out of the market, and stampede into holdings of hard-commodity assets, such as gold, metals, increasingly scarce food supplies, land, etc., in order to position themselves for a post-crash world.

Social Security, for the managers of the Wall Street debt bubble, is the largest source of still-untapped funds in the world's largest economy.

Under Moynihan/Cato's Social Security privatization, workers would be directed to set up "Personal Retirement Accounts" (PRAs), and to put most of the payroll tax that they would normally pay to the Social Security Trust Fund, instead into the PRAs. These PRAs would then be invested in the stock market, to prop up Wall Street's bankrupt stock-market bubble. The Wall Street sharks earn large commissions from each PRA that they manage, but most importantly, they get to steal a huge cash flow in order to invest it. Instead of Commission to Save Social Security, it were better named the Commission to Steal Social Security.

Were the population to allow privatization to be implemented, the consequences would be devastating. The already 55% fall in the value of the Nasdaq stock index, between March 10 of last year and today, is a foretaste of what will unfold. As the total value of all U.S. stock markets falls by a further 40 to 75%, or more, what a worker should have been saving for his Social Security benefits, will be wiped out. It's not just that the retirees' rate of return will fall, but rather, most of the benefits he or she would receive in the future would be wiped out forever. Tens of millions of Americans would be reduced to severe poverty, and would not have enough to survive.



Former Sen. Daniel Moynihan (left) and Fed Chairman Alan Greenspan. A Greenspan Commission increased Social Security payroll taxes in the 1980s, creating a surplus which was then illegally used to cover budget deficits. Now Bush's Moynihan Commission tries to "nullify" that Social Security surplus, and let Wall Street steal the Trust Fund outright.

Benefit Cuts Proposed in Congress

Further, the oligarchy knows that it cannot even make the first steps on privatization without first enforcing ferocious austerity on the Social Security system, because the costs of instituting privatization are prohibitive. The Bush Administration and Wall Street are pushing legislation, to be introduced over the next few weeks by Congressmen James Kolbe (R-Ariz.) and Charles Stenholm (D-Tex.), which proposes to cut Social Security benefits, increase the retirement age to qualify for Social Security, etc.

The July 24 CSSS report was released to launch an all-out offensive to ram through Social Security privatization. It has four major lies which are supposed to allow the Bush administration, and certain Democrats, to push the case of privatization. We will rip apart those four lies, exposing Wall Street's diabolical purpose.

The Four Worst Lies

Lie #1— Social Security is not really a trust fund.

While the authors of the CSSS report are forced to use the term Social Security Trust Fund—because it actually exists—the CSSS and its Wall Street backers fundamentally deny that the Trust Fund exists, and liken it to a fiction. The CSSS reports states: "Many people believe that Social Security is a national pension fund in which workers make 'contributions' to an investment account called the 'Trust Fund'. . . . The reality is different."

Contrary to the CSSS lie, Social Security really is a Trust Fund. President Franklin D. Roosevelt and other patriots created the Social Security system in 1935 to provide a dependable income stream to those who have retired from active work, enabling them to live in economic security, with dignity.

What is called the Social Security system is officially two trust funds: one, the Old Age and Survivors Insurance fund, and the other, the Disability Insurance fund. Combined, they are called the Old Age and Survivors and Disability Insurance funds, or OASDI. The combined two funds, the OASDI, is what is called the Social Security Trust Fund.

Under the current Social Security system, the employee pays a specially designated Social Security tax, which is separate from all other taxes, and which is equal to 6.2% of his annual wage, into the OASDI trust fund. The employer matches that, so that an amount equal to 12.4% of the employee's annual wage is put into the Social Security Trust Fund. The Social Security tax is dedicated, and can only be paid into and be used by the Social Security Trust Fund; in turn, the Trust Fund can only spend the money it has received, for the purpose of paying Social Security benefits.

This is stated in the 1935 Social Security Act and the enabling acts of the following few years. The bankers violently disagree with the Act's provisions; they cannot do what they want to do, if they are forced to adhere to the Act.

Lie #2— The Social Security surplus is an accounting myth and really doesn't exist.

Again, the CSSS report is forced to use the term "Social

Security surplus"—because it actually exists. But Moynihan and the Commission spend the bulk of the report denying that the surplus really exists—and were immediately echoed by the *Wall Street Journal* in this blatant falsehood. This lie is central to the report, because CSSS uses it to deceitfully state that the Social Security system will be insolvent in just 15 years, and thus they beat the drums for an immediate move toward privatization to "save the system."

The CSSS report states "past payroll [i.e., Social Security] taxes were not truly saved," i.e., there were no savings of past taxes to build a surplus. Here the financier oligarchy actually tries to out-Goebbels Goebbels.

How It Works

In the early 1980s, the Social Security Trust Fund appeared to be running out of money. In response, a Federal Commission was established in 1983, called the Greenspan Commission, named after its chairman, Alan Greenspan. The Greenspan Commission recommended that the tax rate paid to the Social Security Trust Fund be raised to 6.2%, which was enacted, and has remained its level up to the present. The deliberate and stated reason for doing this was so that the Social Security Trust Fund would build up a large surplus, by, each year, taking in excess Social Security taxes above what had to be paid out to recipients in benefits. The Social Security Trust Fund was restricted by law to use the surplus money to buy only U.S. Treasury bonds. The Treasury sold to the Social Security Trust Fund special issues of non-marketable Treasury bonds. That means that they could not be sold on the open market. But in every respect, they were bona fide Treasury bonds, paying a real rate of interest.

As a result of this process—according to the "intermediate assumptions" reported in the Y2000 Annual Report of the OASDI Board of Trustees—by the year 2024, the Social Security Trust Fund would have a $6.048 trillion surplus. Why have this surplus? In the year 2025, the OASDI Trust Fund projects that the Trust Fund will face the situation where its annual level of payouts to Social Security beneficiaries will exceed the annual inflows into the Trust Fund that come from taxes paid by workers and employers, and the interest that the Trust Fund earns from its holdings of U.S. Treasury bonds. Beginning in 2025, the Fund will start to draw down the $6.048 trillion surplus, to make up the shortfall.

Under current projections, that surplus will be drawn down gradually, and will not run out of money until the year 2038. But, the current CSSS crew propose to not recognize, and to effectively *nullify* the Social Security Trust Fund surplus.

Let us look at the CSSS report's duplicitous reasoning on this. In the early 1980s, the Reagan Administration, under the direction of its Wall Street-directed team—Assistant Treasury Secretary Norman Ture, Congressman Jack Kemp (R-N.Y.), *Wall Street Journal* writer Jude Wanniski, and others—passed a series of measures, such as the 1981 Kemp-Roth Tax Act and the 1982 Garn-St Germain Act, which deregulated the banking system, gutted the U.S. physical economy, and plunged the U.S. budget into the red. The U.S. general revenue budget deficit started soaring toward $100 billion, and eventually rose above $400 billion, which were unprecedented deficit levels.

Recommend Treasury Default on Social Security

The same Wall Street-directed economic team which devised these disastrous economic measures, was desperate to cover up and pay for the deficits. Therefore, it created the monstrosity called the "unified budget." The general revenue budget of the United States is the real budget of the United States, and had been known as such for nearly 200 years. It is often called the "on-budget" budget. There are functions of government which are separate from the general revenue budget, and are called the "off-budget" budget. Principal among these, is the Social Security Trust Fund, which has its own revenue source, and should not be mixed with the general revenue budget. But the "unified budget" institutionalized just that. It mixed together the growing *deficit* of the general revenue/"on-budget" budget, with the building *surplus* of the "off-budget" budget, which was represented principally by the building surplus of the Social Security Trust Fund.

As an example, take the FY1997 U.S. budget. That year, the general revenue/"on-budget" budget ran a deficit of $103.4 billion, but the "off-budget" budget ran a surplus of $81.4 billion, almost all of that belonging to the Social Security Trust Fund. Consequently, the Office of Management and Budget (OMB) announced that the "unified budget" for FY1998 had a deficit of "only" $30 billion. The OMB and the Congress connived to take the more than $80 billion surplus of the Social Security Trust Fund and divert it toward paying off most of the deficit of the general revenue budget. But the 1935 Social Security Act strictly forbids this: Social Security Trust Fund monies are supposed to be used only for Social Security.

In its report, the CSSS characterized the situation in the following way: "These past [Social Security] surpluses were 'loaned' to the Treasury to cover the deficits in the rest of the federal budget." The CSSS puts the word loaned in quotation marks, because there never was a loan. There was not an agreement by which the Social Security Trust Fund loaned money to the general revenue budget. Rather, under the tutelage of the banks and insurance companies, and with the support of both major political parties, the OMB and U.S. Congress *by fiat order,* simply removed the money from the Social Security Trust Fund.

Now, the same banks and insurance companies which set up the CSSS, make the following argument in the CSSS report: When the Social Security Trust Fund gave its surplus funds to the U.S. Treasury Department, in order to buy a special issue of U.S. Treasury Securities, the Treasury Department gave the money over to pay off the U.S. general revenue deficit. *Since the money has already been spent,* the CSSS argues, there is no money backing up the Treasury bonds which the Social Security Trust Fund owns. Therefore, those bonds, and the surplus they represent, are worthless, and the CSSS, in essence, *nullifies* the bonds. The CSSS advocates that the U.S. Treasury walk away from those bonds.

Thus, all the tax money which workers paid into the Social Security Trust Fund to build a surplus (above the level of current payouts), which now totals more than $1 trillion, is nullified. This is a vicious hoax.

But, the CSSS then turns around and declares, "since there is no surplus, there is nothing to keep the Social Security Trust Fund solvent until the year 2038." The CSSS then focusses on the year when the payouts of the Social Security Trust Fund will exceed the inflows which are paid into the Social Security Trust Fund. That year is actually 2024. But by a second sleight of hand, the CSSS "moves" the year forward to 2016. Thus, by its combined falsehoods, the CSSS has moved the time when the Trust Fund will no longer be solvent, from the approximate, but real, date of 2038, to the imaginary and purely political date, 2016.

The purpose of the elaborate set of maneuvers, in addition to nullifying the Trust Fund surplus, is to scream that the crisis is now more nearly upon us. The CSSS states several times in the report, "inaction is not a solution," and concludes that "the road leads to the same place—private investment of Social Security." That is, privatization to put the money in the stock market.

Racial Profiling, Denying Economic Growth

Lie #3—Social Security is a threat to women, blacks, Hispanics, and the young.

The CSSS report makes the claim that the "Social Security [system] poses a disproportionate threat to the overall retirement of women." It, and its Wall Street and Bush Administration publicists, try to incite different sections of the population against Social Security, by stating that Social Security poses a threat also to black and Hispanic Americans, and to the young. But the outlandish hypocrisy of the CSSS is revealed in the section on black Americans, where the CSSS implies that the Social Security system is discriminatory, because blacks get less back from Social Security than whites do.

But the reason for this is lower life expectancy—blacks die earlier than whites—and nothing to do with Social Security. If the CSSS were the least bit concerned about this, it would concern itself with public health in minority communities, so that blacks, Hispanics, and, in fact, all Americans, would live longer. But these same banks, which are behind the CSSS, were those, led by Lazard Frères investment bank, that ordered the shutdown of D.C. General Hospital, to carry out genocide against blacks in the nation's capital.

Lie #4—Greater economic growth will not solve the Social Security problem.

The giveaway to the mindset of the CSSS, is the report's section that states, "Faster economic growth . . . will not solve Social Security's financial problems." Thus, from the CSSS standpoint, not even a transformation of the economy can solve Social Security.

This is drivel. The core problem of the Social Security system is not accounting per se, although the bankers would try to deceive people that it is. The core problem is real economics, and the policy-making which determines it.

The problem is to transform the economy. In the 1960s, the City of London-Wall Street axis imposed upon the United States, a post-industrial society policy, which caused the collapse of production, and the growth of a cancerous speculative bubble. Within this environment, real living standards nosedived. In this pessimistic setting, of increasing cultural and economic decay, families produced fewer children. The two real problems of Social Security are: not enough young workers entering the workforce; and workers having too low a living standard—both of which problems were generated by the post-industrial-society policy.

Lyndon LaRouche's economic-policy changes would reverse the course of the past 35 years: junk the post-industrial-society policies, put the world financial system though bankruptcy reorganization, and generate real economic growth. That would create the economic growth and the demographic shift that would make the Social Security system permanently solvent.

More Austerity

Through the July 24 release of the CSSS report, Wall Street has set into operation its offensive for Social Security privatization. Wall Street's scribblers have written dozens of newspaper columns, and appeared on hundreds of TV and radio talk shows, demanding that the CSSS's prescription for that privatization be implemented.

The July 29 *New York Times* reported that Congressmen Kolbe and Stenholm would soon introduce legislation, calling for privatizing Social Security, and setting up Personal Retirement Accounts. But Kolbe and Stenholm reveal, that their proposal would demand severe austerity. It calls for reducing Social Security benefits, especially for middle- and upper-income workers; reducing cost-of-living adjustments; and raising the retirement age from 65 to 67 even earlier than now planned.

The greater austerity would come from the fact that, were Wall Street, and its CSSS, to succeed in privatizing Social Security and putting the funds into the stock market, in the ensuing financial explosion, workers would lose their entire retirement, and face a later life of destitution.

Bush's Medicare Drug Plan Looks Like Yet Another Offering to 'Privateers'

by Linda Everett

President George W. Bush, stung by the Senate's passage of the bipartisan Patient Protection Act of 2001 over his opposition, tried to rebound with the July 12 release of his new proposal for a Medicare drug plan that he claims will immediately help 40 million older and disabled Medicare beneficiaries. But, the centerpiece of the Bush plan, to sell "discount drug cards" to the elderly, is, like his energy "policy," a scam that serves old business partners and privateers, and does nothing to address the crisis of the cost of prescription drugs for the nation's elderly. As one pharmacist told *EIR,* "With this plan, Bush made a pact with the devil."

Medicare, the Federal government's health program for older and disabled Americans, does not now provide sorely needed prescription drugs benefits. The elderly and disabled are now making daily choices between food and medication. Drug prices for the 50 most commonly used drugs by the elderly rose up to 8.5 times the rate of inflation in the last year; the cost of some commonly used drugs rose 365% over the last decade. Bush's plan, which he proudly says "would cost the government nothing," will do nothing to address the obscenely high cost of medications. It would bring in private companies, called Pharmacy Benefit Managers or PBMs, to sell discount drug cards to the elderly. The cards, which are often bogus, or provide few discounts, are already broadly available in many regions, but are outlawed in several states.

PBMs do not produce or sell drugs, but act as intermediaries, administering drug benefits for insurance and managed-care companies and employers. They are the creation of the managed-care industry, brought in by health maintenance organizations (HMOs) to allegedly provide prescription drugs for the lowest cost, often through mail order. For years, drug companies owned most PBMs, and used them to promote their highest-priced products.

PBMs usually provide a list or formulary of available medications from which customers may choose. The list is usually dictated by those drug manufacturers who pay PBMs a kickback to list their drugs at a small discount and to increase the number of customers who use their products—even if they are not what the doctor prescribed or are not medically appropriate. There is no assurance that any one, or several discount cards, will actually list the medications a patient needs. Only a small part of the PBMs discount (about 2% to 5%) may be passed on to card members.

The Bush Administration says the PBMs can reduce drug costs for seniors by 25%. But, neither the PBMs nor the drug manufacturers are about to cut their profits. The "discounts" will be gouged out of the payments made to small pharmacists who fill the majority of the nation's prescriptions. These pharmacists, or local drug stores, whose net profits are now only 1-2%, already are forced to absorb huge cuts from HMOs and insurance and managed-care companies. When a pharmacist fills a $42 prescription, he or she is paid just $.85. Under the Bush plan, they will be paid even less. According to the National Community Pharmacist Association, "There is no way any pharmacy in the country can absorb the cuts Bush is talking about."

A Bushgate Issue?

The National Association of Chain Drug Stores (NACDS) and the National Community Pharmacists Association (NCPA), which collectively represent more than 55,000 community pharmacies and 130,000 pharmacists, are suing the Bush Administration. They say it violated Federal rules by failing to hold public hearings on the plan, and setting up a government-private consortium in total secrecy—with no input from pharmacists who are adversely affected. They charge that the Bush Administration created a consortium with five PBMs, with which the Administration has been working secretly for months. These five companies, Express Scripts, Merck-Medco, Advance PCS, Wellpoint Health Networks, and Caremark, which will all be major benefactors of the plan, actually designed it. They also wrote the rules of PBM participation in the consortium to keep out their competition.

Among those involved in drawing up the Bush plan were two officials with Caremark Inc. and Wellpoint Health Networks Inc.—both of whom were formerly on the Board of Directors of the Federation of American Hospitals, the for-profit hospital lobbying group. They worked with Tom Scully, the former CEO of the federation. Scully is now in a shameful conflict-of-interest, as the Bush appointee to head the Federal government's Center for Medicare and Medicaid Services (formerly the Health Care Financing Administration). Scully is close to the Bush family, having worked on Presidential campaigns for both Bush and his father.

The conflict goes deeper with the inclusion of AdvancePCS. David Halbert, CEO of AdvancePCS, the Irving, Texas-based PBM involved in the Bush plan, has known Bush since 1985, when they were in the oil business together. Halbert boasted to the *Texas Star-Telegram* on July 16 that two months ago, Bush, who was one of the original investors in AdvancePCS (he allegedly divested his stock before the Presidential campaign), contacted him about working on his Medicare proposal.

Days after Bush unveiled his proposal, it was found that senior Presidential adviser Karl Rove illegally met in his White House office with drug-firm officials on June 5 to discuss the Bush plan—while he held $240,000 in shares of two major drug companies, Pfizer Inc. and Johnson & Johnson. Just as Rove had met illegally with energy officials while holding Enron stock, he now discussed the Medicare drug proposal with Alan F. Holmer, president of the Pharmaceutical Research and Manufacturers of America (PhRMA), which represents the nation's largest drug companies. Only days later did Rove sell his stock. PhRMA was among the biggest contributors to the June Congressional fundraiser "salute" to Bush; it gave or raised $250,000.

Drug Monopolists

Others involved in drawing up guidelines for the Bush plan were representatives of PhARMA. This is not inconsequential, given that the pharmaceutical industry is the most profitable of all U.S. industries, with profit margins nearly four times that of the average Fortune 500 company (for the year 2000). Yet, some drug manufacturers, who are the sole producers of critically needed medications for the nation, including everything from treatment for hemophilia, snakebites, tetanus, influenza, to surgical anaesthesia, antibiotics, and vaccines, are actually causing nationwide shortages of these life-saving drugs to keep up their profit margins. For example, Wyeth-Ayerst decided to stop producing tetanus vaccine and Wydase, a drug used on newborns and surgery patients, because the profits weren't worth the cost of upgrading the company's production facilities. Yet, American Home Products, the parent company of Wyeth Ayerst, pays its CEO $27,008,927 a year, with $81,847,567 in unexercised stock options.

The "market"—with George W. Bush leading it—trumps the shareholders' interests over human life. Too bad for the tens of thousands of children with hemophilia; those who are allergic to regular antibiotics and depend on spectinomycin, now no longer produced. And now, apologies to those millions of elderly patients funnelled to these drug manufacturers to have their incomes looted through George W. Bush's bogus "discount" cards.

Baltimore

Mayor O'Malley's Tunnel Vision

by Lawrence K. Freeman and Michele Steinberg

On July 18, a CSX freight train of 60 cars travelling northbound at approximately 20 miles per hour through the 1.7-mile-long, 105-year-old Howard Street tunnel in the center of Baltimore, Maryland, was halted by an emergency air brake. A fire ignited; within an hour smoke was billowing out of both ends of the tunnel. Civil defense sirens sounded the alarm to city residents. The two-man crew drove the engines out of the tunnel, and fire crews rushed to the scene. Within hours, sections of the city were flooded when a water main broke, and electricity and communications, including the Internet, were cut off. The fire continued for more than four days.

Ironically, less than three months earlier, on April 24, Baltimore Mayor Martin O'Malley was featured as a "New Democrats" favorite at a meeting of the Democratic Leadership Council (DLC) in Washington, D.C. O'Malley, along with his "New Economy" partner, D.C. Mayor Anthony Williams, had been brought in to promote "digital government" and the "virtual economy" at the DLC's "Spring Technology" meeting. The two mayors projected growth of a massive tourism industry, spurred by a successful bid for the 2012 Olympics for the Washington-Baltimore area—even if it means driving every poor person out of the region.

For his part, Williams said that Washington, D.C. has to "catch up" in its use of the Internet. But, he added, he had been successful in *eliminating real services,* by closing D.C. General, the District's only remaining public hospital. Williams nervously referred to the plan to close D.C. General as a "classic New Democrat" project.

O'Malley presented a slide show, which pictured a "block-by-block" computerized map of Baltimore, using a high-tech software system called "Citistat" and "Comstat." O'Malley explained that he could eliminate the problems of potholes, uncollected garbage, abandoned cars, and other environmental unpleasantries. Through the greater "efficiency" of Citistat, boasted O'Malley, every reported pothole could be plotted out on a map, tracked, and repaired within 48 hours. His vision for the future was that every citizen could have a plastic recycling bin from the city delivered to their door, simply by putting in an order on the Internet!

Unfortunately for the people of Baltimore, Mayor O'Malley has a bad case of tunnel vision. Less than three months


THE SUN

Train fire, toxic cargo shut city

Baltimore's Mayor, Gore-Democrat Thomas O'Malley, had just finished telling the Democratic Leadership Council how he had "reinvented" government services, new-economy style, when the old infrastructure caught fire.

after his slide show on rapid repair of potholes, on July 18, the transportation, water, electricity, and communications systems of Baltimore collapsed like dominoes when the freight train derailed in the Howard Street Tunnel.

The policies espoused by O'Malley, Williams, and the DLC *kill* people, as deliberately as the Nazis planned the elimination of "useless eaters." The DLC policies are a *national disaster,* demonstrated by the fact that a train accident shut down Baltimore for four days and four nights; that the East Coast of the United States is hit with *daily* electricity brownouts; that critical health-care infrastructure, such as D.C. General Hospital, is being shut down; and that in Houston, Texas, the largest city in the Southwest, four people could die because of a heavy rainstorm.

These events show that fundamental axioms of our thinking—of the population, and of the institutions of leadership—are increasingly insane, especially in our dissociation from the physical-economic reality on which our very lives depend.

The DLC meeting where O'Malley and Williams spoke was as stupid as it was evil. DLC founder Al From *hates* any policies that defend the General Welfare of the population, as shown by his post-election article, "Why Gore Lost . . . and How the Democrats Can Come Back." From wrote, "The New Economy is creating a new electorate that demands a new politics. . . . The New Deal . . . has run its course; the political coalition it spawned has been split. Like Humpty Dumpty, the New Deal coalition cannot be put back together again."

The irony of the DLC's "New Economy" meeting, is that that bubble had *already* burst. But the participants, like the doomed revellers in Edgar Allan Poe's "Masque of the Red Death," refused to admit that their beloved stock portfolios have disappeared. Already, by April 24, some of the hi-tech wonders of the region such as PSINet, Winstar, and Viatel, were on the verge of going, or had already gone, bankrupt. One of the DLC sponsors, Aether Systems, had seen its stock value go from $185.87 in July 2000 to less than $10 a share on April 24, 2001, the day of the DLC meeting. Wall Street stock markets had officially announced that more than $3 trillion in stock value had been wiped out in a year. But, none of the dozen panelists mentioned it! After all, the DLC meeting had been paid for by hi-tech companies such as Aether, AOL Time Warner, and PSComm, and it released a study that rated all 50 states and major metropolitan areas on their New Economy "fitness."

It's the Infrastructure, Stupid!

The lunacy of the DLC's showcasing Baltimore became obvious on July 18. Three hours after the initial train accident, a century-old 40-inch water main burst at Howard and Lombard Streets, because of the Howard Street tunnel fire. The water main flooded downtown Baltimore with 60 million gallons of water, draining several feet of the Druid Hill Reservoir in a few hours. The water main could not be repaired, for fear that the tunnel would cave in.

The water main break caused electricity to fail in more than 1,200 businesses and residences in the downtown area; caused the cancellation of the Orioles' baseball doubleheader, and the shutdown of the section of the city that includes the Convention Center, the Inner Harbor, and the Camden Yards baseball stadium. International Internet communication was slowed, because fiber optic cables run through the tunnel.

The city did not return to "normal" until Sunday afternoon, July 22. Even now, the exact chain of events is not known. It is believed the fire started when train car 52, containing Tripropylene, a flammable, caustic detergent, ruptured, and the leaking chemical ignited, with the fire spreading to other cars containing paper and pulpboard. The firefighters' major concern was the danger that the fire would spread to cars 53 and 54, containing thousands of gallons of hydrochloric acid. The firefighters performed admirably, putting their lives in danger by repeatedly entering the unlit, smoke-filled tunnel, filled with dangerous chemicals, to pull out the burning cars. But, with the rescue over, the insanity of not investing in infrastructure remains.

When the Howard Street Tunnel was completed in 1895, it represented an advance in technology and infrastructure that was a model of engineering. It was the first tunnel to use heavy-duty electrification. In 1961, it became a freight-only tunnel, connecting Washington, Baltimore, Philadelphia, and New York as the *only*—and thus very heavily used—freight route on the East Coast.

When first built, the Howard Street Tunnel was designed for two tracks. As trains got wider, it became a single-track tunnel. The fact that there is only a single track, in the longest subterranean conduit for East Coast rail freight, is an immense impediment to hauling freight to and from the Port of Baltimore. With the age of the tunnel, its increased use, and its narrow width, this was an accident waiting to happen.

In 1985, a Federal transportation safety official warned about the tunnel's danger, saying, "The problem would be just getting to the fire." And that is exactly what the problem turned out to be.

When will this insanity stop? When will human life again take precedence over a "balanced budget"?

Boot Camps: Children Are Being Treated Worse Than Animals

by Donald Phau

The "Get Tough on Crime" campaign spearheaded by Conservative Revolutionary and former House Speaker Newt Gingrich (R-Ga.) and continued by President George W. Bush, is now harvesting bitter fruit among teenagers. Throughout the United States, young teens are being starved and tortured, and some are dying, in so-called military-style "boot camps" supposedly designed to teach them discipline. Going under various names, such as "survival camps" or "wildness therapy camps," most are private, for-profit businesses, unregulated by state or local governments.

On July 1, in Maricopa County, Arizona, Anthony Haynes, a 14-year-old boy, was found dead. According to court documents, he was "forced to stand in sweltering heat as punishment and drowned at a motel where he vomited mud."

The death is being investigated by the same sheriff, Joe Arpaio, who was the Republican "poster boy" in the 1996 U.S. Presidential campaign, praised by candidate Bob Dole for being "tough on criminals." Arpaio appeared on many nation-wide television shows, and he became infamous for his having set up tents for the county jail where prisoners were kept in up to 110°F desert heat and given bologna sandwiches, dyed green to make them as unappetizing as possible.

Today, the use of boot camps is growing, but no one knows by how much. Gov. Jane Hull of Arizona said of the camp where Anthony Haynes died, "Camps of this type operate outside government oversight; they occupy a 'black hole' in our state's regulatory scheme." AFB News on July 10, 1999 reported that there were more than 50 juvenile boot camps in the United States. The actual number is unknown, and may be much larger. The July 15, 2001 *New York Times* reported that since 1980, "at least 31 teenagers in 11 states have died."

'The Biggest Mistake I Ever Made'

State governments originally started the use of boot camps, but government studies showed the camps to be a failure. Now, the growth is in the privately run camps. The owners of the these camps target desperate parents who can't control their children and are willing to pay up to several thousands of dollars to send their son or daughter to a camp for the Summer. The hope is that their offspring will come back "reformed" and "well-behaved." They don't, however, and, as in the case of the Arizona camp, they may come back in a box.

The father of Anthony Haynes said that his son had been arrested for shoplifting and then slashed the tires of his mother's car. After his son's death, the father said, "At the time, I thought I was doing the right thing. It was probably the biggest mistake I ever made in my whole life."

No Education, and No Job

The first boot camps were modelled on the military regimen practiced at the U.S. Marines' Paris Island training camp. Experiments in boot camps were done in New York State in 1987, under a program called "Shock Incarceration." By 1994, fifty boot camps were operating in 33 state correctional systems and the Federal Bureau of Prisons. A report on New York's experimental program at the Elmira Reformatory stated:

"Miltary discipline is found to be exceedingly beneficial in inculcating promptness in obedience, attention, and harmony of action with others. It develops the prisoner physically, quickens him mentally, and, by making him a part of the disciplinary force, gives him a clearer insight into the meaning and benefits of thorough discipline."

The only problem, is that the camps don't work. The rate of recidivism, i.e., those who return to prison after they are released from the camps, is the same as for those who went to a regular prison. In a study of a state-run boot camp in Polk County, Florida, of 140 youths released from the camp in Fiscal Year 1996-97, eighty-three were re-arrested, 63 were re-convicted, and 54 were recommitted for new offenses. Other studies show the rate of recidivism to be between 60% and 70%.

In 1988, Edward Leghorn, then-Commissioner of the Massachusetts Department of Youth Services, commented, "To think that 90 days of training is going to undo 17 years of family troubles is a terrible approach. . . . They're kidding themselves. These kids have no education. No job skills. The counseling is no more than a classroom lecture. . . .

What are these guys doing for a living when they get out? Pushups?"

Reports of Abuses at Other Camps

There have been reports of abuses at other camps. Last year, the state of North Carolina closed down a privately owned "About-Face Youth Boot Camp," taking 19 girls and 43 boys to be sheltered temporarily in a hospital. A social worker had substantiated that a camper had been handcuffed for three days. Parents from around the country had sent their kids there after the camp's founder made several appearances on the nationally televised "Jenny Jones" talk-show, on episodes of "out-of-control" kids. According to its website, the camp charges $400 per week, with a two-week minimum. A weekend session is $100. In the Winter, a two-week session costs $1,000.

The Arizona boot camp, where Haynes died, is run by a strange group called the "America's Buffalo Soldiers Re-Enactors Association." Its members dress up and parade on horses in 19th-Century cavalry uniforms. Their program is called the "Summer Endurance Boot Camp." The founder of the camp, Col. Charles Long, advertises the camp on its website stating: "America's youth are running wild like undomesticated horses on the plains. Before wild horses can ever be of real service, you must corral and saddlebreak them or they will continue to run astray."

Financially Lucrative

From a business accounting standpoint, the camps appear to be very profitable. While parents pay thousands of dollars for the Summer, in return their children get, according to an AP report on the Maricopa County camp, "forced marches, black uniforms, and a diet consisting of an apple for breakfast, a carrot for lunch, and a bowl of beans for dinner." The children sleep "in sleeping bags on concrete slabs." The kids' "supervisors" were 17- and 18-year-olds, with no medical personnel at the camp.

The Arizona camp's owners had taken their lead from the methods that Sheriff Arpaio used in his Maricopa County jail. The model is the concentration camps of Nazi Germany. The concentration-camp victims were marched to work in nearby factories, but were fed only a few hundred calories a day. They worked for a few months until they dropped. Sheriff Arpaio makes inmates pay for their meals. Canines eat $1.10 worth of food a day; the inmates, 90¢, Arpaio told a CNN reporter in a July 1999 story. "I'm very proud of that."

After Haynes' death, Sheriff Arpaio exclaimed, "There has [sic] been some serious allegations at that boot camp." It should have been of little surprise, however, that he has had a long-term relationship with the "Buffalo Soldiers," having often marched together with them in parades. Last year there was a Federal investigation of the boot camp, but no charges were filed.

We Lack Public Health For Bio-Terror Defense

by Carl Osgood

Over the last couple of years, a number of hearings, meetings, and exercises have been held to test the response capabilities of municipalities, states, and the Federal government, in case of a terrorist attack employing biological agents. As one result, there is a crescendo among elected and public health officials, in particular, around the lack of preparedness of the U.S. public health system to deal with such an incident.

The most dramatic of these events was a "senior level wargame," dubbed Dark Winter, conducted at Andrews Air Force base in Maryland on June 22-23. It was described to the Subcommittee on National Security, Veterans Affairs, and International Relations of the House Government Reform Committee on July 23, by former Deputy Secretary of Defense John Hamre. Hamre is now president of the Center for Strategic and International Studies, which along with several non-governmental organizations, helped to develop the scenario for the war game. Hamre described a frightening scenario involving the release of smallpox in a major American city, and the inability of officials across the spectrum, from local emergency personnel up to the National Command Authorities, to respond adequately to the developing crisis.

'Dark Winter'

The Dark Winter scenario involved the release of smallpox in three different locations—Oklahoma City, Pennsylvania, and Georgia—at the same time as crises were developing in the Taiwan Strait and Southwest Asia. The Pennsylvania and Georgia releases were botched, but the Oklahoma City release resulted in an epidemic, and was not reported until some 25 cases had been counted. Smallpox is especially feared as a biological agent because it can only be controlled by vaccination and containment, is 30% fatal, and hasn't been seen in the United States since 1949. Vaccination was stopped in the United States in 1972, and in the rest of the world by 1980. Hamre told the subcommittee that one of the problems in dealing with an outbreak is the limited supply—12 million doses—of vaccine in the United States. The immediate question that arises, is, how does the government allocate such a supply when there's only enough for one out of every 23 Americans?

Hamre described a frightening series of events during the 12 days of the scenario, an unfolding crisis complete with fake news broadcasts. Problems that rapidly became apparent, were the overwhelming of the public-health system and, by the end of the exercise, a complete breakdown in public order. On Day 12, some 30,000 people were infected, with 10,000 dead, as the epidemic went into its second wave, and projections were that 30,000 would be dead within three weeks.

Hamre concluded that such an attack could cripple the United States, and that "substantial investments" will be required to change this situation.

Last May, President Bush directed Vice President Dick Cheney "to oversee the development of a coordinated national effort so that we may do the very best possible job of protecting our people from catastrophic harm." At the same time, Bush asked Joseph Allbaugh, director of Federal Emergency Management Agency (FEMA), to create the Office of National Preparedness, which was to become the coordinator of all Federal programs dealing with weapons-of-mass-destruction "consequence management." This office is also to coordinate closely with state and local governments "to ensure their planning, training, and equipment needs are addressed."

After two months, where does the ONP stand? John Magaw, acting deputy director of FEMA, told a conference sponsored by the National Governors' Association on July 11, that FEMA director Allbaugh is "committed to partnering with all state and local agencies." During Magaw's remarks, the undefined nature of ONP's existence led to a number of questions regarding the National Domestic Preparedness Office, resident within the FBI, which state and local officials apparently see as a valuable resource. What will be the relationship between ONP and NDPO? Magaw was not able to provide clear answers to these questions.

Oklahoma Gov. Frank Keating (R), who participated in Dark Winter in the role of state governor, and former Sen. Sam Nunn (D-Ga.), who participated, acting as the President of the United States, both discussed the issue of Federal and state responsibility, at the House subcommittee hearing. Keating pointed out that his responsibility, as governor, required him to ask for enough vaccine for the entire population of the state. Nunn, on the other hand, had to decide how to ration the limited supply of vaccine, how much to reserve for the military, and so forth.

Another conflict was over when and how to use Federal resources, such as military assets. Keating told the subcommittee that "what the state needed were the assets, assistance, and intelligence, not for the Federal government to step in and take charge." This issue was particularly sharp over employment of the National Guard. "President" Nunn was advised to nationalize the Guard, but in the end, he decided it would be better not to, to make it easier to gain the cooperation of state governors.

What About Public Health?

The public health system will be the frontline of defense in the event of an attack against the United States involving biological agents. There is inherent conflict between a policy designed to protect the public health, and one designed to maximize the profits of the insurance industry. Gen. Dennis Reimer (U.S. Army, ret.), the director of the Oklahoma City National Memorial Institute for the Prevention of Terrorism, which worked with the CSIS in developing the scenario, told the NGA conference that the medical system is "overworked right now," and this problem "has to be dealt with."

Reimer later told *EIR,* "Hospitals don't have a lot of extra capacity, extra people. If you have any type of disaster with mass casualties, you put a tremendous burden on your medical system at that location." He said that hospitals can surge for a short time, but a biological terrorism attack is an event that is expected to play out over many days and weeks; you can't work medical personnel on 36-hour shifts indefinitely.

At the July 23 hearing, Hamre told the subcommittee, "We've cut back on excess hospital capacity because we couldn't afford it." Senator Nunn pointed out that "market forces for health care are striving for efficiency," and as a result "you have less excess capacity." He warned, "You need the excess capacity, you need a stock of vaccines, but the market is not going to provide these." He said the government has to take responsibility for this. He pointed out that "it will work against efficiency, but for the public health."

Subcommittee chairman Shays had already pointed out, during his opening remarks, that strengthening the public health system as the first line of defense against a biological terrorist attack would also "better prepare us to deal with natural disease outbreaks."

Rep. Saxby Chambliss (R-Ga.), in an address to the NGA conference, spoke of the need to strengthen public-health assets. When asked by *EIR* if "it makes sense to reverse the whole managed-care policy to increase the capacity to respond" to biological terrorism attacks, Chambliss called for educating the American public as to the likelihood of a terrorist attack on American soil, and thus putting pressure on local and state officials "to beef up the medical facilities . . . to make sure that we've got the beds available." What Chambliss avoided is the fact that the 1973 Health Maintenance Organization (HMO) Act, which created the managed-care system, and the 1997 Balanced Budget Act, which looted the Medicare and Medicaid funds which hospitals depend on, are not "state and local" issues, but rather, national issues.

It isn't just the Congress that is unwilling to face this policy problem, however. President Bush's commitment to protecting the HMO system, which harbors such friends of his as Richard Rainwater of Columbia/HCA, makes a mockery of the measures that his administration has proposed, allegedly to address the threat of terrorism using weapons of mass destruction. These cost-cutting policies are national in scope; the public-health system is less and less able to handle even normal patient loads, much less an event involving mass casualties.

Book Reviews

The Pope, in Truth And in Metaphor

by Nina Ogden

John Paul II: A Personal Portrait of the Pope and the Man
by Raymond Flynn with Robin Moore and Jim Vrabel
New York: St. Martin's Press, 2001
204 pages, hardbound, $22.95

The Accidental Pope: A Novel
by Raymond Flynn and Robin Moore
New York: St. Martin's Press, 2000
394 pages, hardbound, $24.95

Former Ambassador to the Vatican Ray Flynn's unusual biography of John Paul II is a lively recollection of Flynn's personal relationship with the Pope: from then-Cardinal Karol Wojtyla's visit to Boston in 1969, when Flynn was running for his first election to public office; through Flynn's 1993-97 service as U.S. Ambassador to the Holy See; to Flynn's return to Rome for the events of Jubilee 2000. Because Flynn was Boston's longtime mayor before his appointment as Ambassador to the Holy See, his book has the quality of a dialogue reflecting his own growth as a politician and diplomat. It develops through his unique experiences with John Paul II, as a personal model of tough and moral public service.

Of particular interest is Flynn's coverage of Pope John Paul II's year-long fight in opposition to the United Nations Conference for Population and Development, held in Cairo in September 1994. *EIR* readers may remember the full-page ads taken out by the Schiller Institute in the *Washington Post* and in newspapers in Egypt, entitled "Stop the UN's Killer Conference," in the days leading up to that conference. Some may also remember the broadside "Message to the Delegates to the UN's Cairo Conference from Mother Teresa: Whatsoever You Did Unto One of the Least of These You Did Unto Me," which Mother Teresa asked the Schiller Institute to print, and to "get it into the hands of all the delegates from all the countries of the world who will be in Cairo."

Flynn's description of his own politically daring activities gives a behind-the-scenes look at the challenge of changing American policy. He says of the period leading up to the Cairo Conference: "The Pope took a lot of heat for the relentless nature of his campaign. Some people couldn't understand why he kept it up day after day. . . . In addition to agreeing with him on the issues, I appreciated what he was putting himself through. You have to have been in politics to understand what it takes to go that far out on a limb for something you believe in, especially when it's not popular and when there's a good chance your position might not prevail."

The Pope sent a personally signed letter to every head of state in the world and to the UN Secretary General, denouncing the Cairo proposal for promoting a "society of things and not of persons." The U.S. State Department sent a directive to all U.S. embassies, Flynn said, "explaining the party line as far as Cairo was concerned. . . . A few weeks later I was called to Washington to receive a briefing . . . by the Clinton Administration's 'point person' on the Cairo conference, Assistant Secretary of State for Global Affairs Tim Wirth and his staff. . . . I knew he thought population growth was the single most serious threat the world faces today and that he was so gung-ho on the issue that he had a 'condom tree' prominently displayed in his office at the State Department. . . . I wasn't surprised, then, when my briefing turned into an hour-long lecture on why the U.S. policy was so obviously the correct one and how the Pope and the Catholic Church just 'didn't get it.' "

"Before our meeting, I was supposed to be a member of the U.S. delegation to the Cairo Conference. After it, my name was taken off the list."

Flynn's exchanges with Pope John Paul II were usually warm and personal. When, some months after Flynn became Ambassador, his son Ray became ill and needed to be hospitalized, the Pope not only prayed for his recovery, but also asked, "Much bills? Very expensive? . . . Maybe the Pope can help. The Pope has some small money. Not Church money, but the Pope's small money. Maybe he can help."

Flynn thought long and hard before deciding to reveal John Paul's spontaneous offer of help (which he did not accept) in the book. He ultimately did describe it "because of what it reveals about Karol Wojtyla, not the Pope, not even the priest, but the man."

In April 1994 the Pope summoned Flynn to a formal meeting, saying, " 'Ambassador, I think it is necessary that I talk to your President' [about the upcoming Cairo conference]. . . . He knew that if I told the White House that his request to talk to the President had been relayed to me by another Vatican official . . . the request wouldn't be taken as seriously as if I could say it came directly from the Pope. He figured that would help guarantee that the call would happen. Little did he know—or I know—how hard it would be to arrange."

Flynn describes an eye-opening, five-day struggle on his part, simply to inform President Clinton that John Paul II wished to talk with him. After three days of attempts to inform the President of the Pope's request, Ambassador Flynn decided that it wasn't incompetence on the part of the White House staff that was preventing his call from getting through, but a deliberate act to block his call. "I was frustrated before but now I was angry," Flynn wrote. "By Tuesday morning, I'd had enough. I got on a plane, flew to Washington and went directly from the airport to the White House. I walked into the Executive Office and told the President's secretary that even though I didn't have an appointment I needed to see her boss . . . and that I'd wait as long as it took."

Ray Flynn, Pope John Paul II, and President Bill Clinton, in August 1993.

"Finally, near the end of the second day of my one-man sit-in, I was called into the White House Situation Room. Several top aides were already there. . . . Assistant Secretary of State Tim Wirth chaired the so-called meeting. 'Ambassador Flynn,' he said, 'a lot of countries have concerns about the Cairo Conference and the draft document. But the President has left it up to me and my staff to negotiate with the other countries. Nobody is getting a chance to lobby the President on this one.' "

Flynn's description of how the "standoff" was resolved—when he finally was allowed to see President Clinton and tell him of the Pope's request, President Clinton answered, "I'd love to talk to him"—gives some insight into how the worst aspects of the Cairo population-reduction agenda were prevented from being implemented. While the event illustrates the political background surrounding U.S.-Vatican relations, it also highlights the characteristic willingness by both the Pope and the Ambassador to act outside the straitjacket of everyday "go along to get along" politics.

The Pope's 'Relentless Campaign'

As this book review goes to press, what Flynn described as Pope John Paul II's "relentless campaign" again made headlines. On July 23, seven years after the Pope-to-President diplomacy described in Flynn's book, television viewers around the world saw President George Bush sitting rigidly at his first visit to the Holy See, as John Paul II told him, "Your nation's founders, conscious of the immense natural and human resources with which your land had been blessed by the Creator, were guided by a profound sense of responsibility toward the common good, to be pursued in respect for the God-given dignity and inalienable rights of all." In this context of "a world of solidarity," the Pope spoke of the cancellation of the debt of poorer nations and the goal of peace through development.

"Another area in which political and moral choices have the gravest consequences for the future of civilization concerns the most fundamental of human rights, the right to life itself," the Pope said. He spoke of "an assault on innocent life in the womb, leading to accommodation and acquiescence in the face of related evils such as euthanasia, infanticide, and, most recently, proposals for the creation for research purposes of human embryos, destined to destruction in the process."

Since Bush's return to Washington, his advisers, whose aim is to court the Catholic constituency out of the traditional FDR Democratic Party alliance, have been desperately trying to spin the Pope's remarks on cell stem research. But the Pope issued a follow-up statement, again placing his uncompromising concerns in the context of "the equal dignity of all members of the human family." Bush's poll ratings among Catholics have plummeted, and he has found, to the dismay of his so-called "Catholic" advisers, that just talking the talk and quoting Mother Teresa in his inauguration address will not propitiate the followers of John Paul II, whose political courage Flynn's book illustrates so well.

Those who know of the harassment aimed at Flynn as a result of his political courage, would consider *John Paul II: A Personal Portrait of the Pope and the Man,* to have been written in a very animated yet restrained and dignified manner, as becomes the subject matter. In the novel *The Accidental Pope,* on the other hand, Flynn and Moore are free to paint various institutions and their thinly disguised leaders with unrestrained insider wit. The book's "good guys" work to implement Flynn's own mission of a "pro-life, pro-family, pro-needy" faith. The "bad guys," including U.S. State Department idiots and plotters, the *Boston Globe,* the *Washington Post,* all kinds of geopoliticians in both church and state, and assassins in sheep's clothing, are really bad. Even for those who don't usually read thrillers, it is a great companion book to *John Paul II: A Personal Portrait of the Pope and the Man.*

Congressional Closeup by Carl Osgood

Charitable Choice Bill Passed by House

On July 19, the House passed by a vote of 233-198 a scaled-down version of President Bush's "faith-based initiative." The bill provides incentives for increased charitable giving, allows religious groups to apply for Federal funds for the provision of social services, and provides for the setting up of "individual development accounts," which can be used by low-income households for education expenses or buying a home.

The central issue in the debate was whether religious organizations should be allowed to discriminate in their hiring practices. The 1964 Civil Rights Act includes an exemption for churches that allows them to hire only within their faith, but covers only activities funded with church monies. The bill extends that exemption to the activities covered in the bill that would receive Federal funds; to which Democrats took great exception. Barney Frank (D-Mass.) told supporters of the bill, "You're empowering people de facto to engage in racial segregation."

Democrats had other reasons to oppose the bill. Maxine Waters (D-Calif.) told the House that religious groups, such as Catholic Charities, already can get Federal funding for social programs because they set up separate 501(c)3 organizations to do the work. Charles Rangel (D-N.Y.) ridiculed the tax deduction included in the bill for taxpayers who don't itemize. The most they can deduct, it turns out, is only $25, $50 for married couples.

On the Senate side, Joe Lieberman (D-Conn.) has taken the lead in attempting to forge a compromise between the House-passed bill and what Democrats are likely to vote for. He and Rick Santorum (R-Pa.) met with President Bush at the White House on July 26, to discuss compromise proposals. They indicated to reporters afterwards, that their strategy would be to rewrite the bill to be closer to the charitable choice provisions in the 1996 welfare reform bill. "Our sense is," Santorum said, "that if we go back to the previous versions of the legislation, a lot of these arguments [against the bill] are going to melt away." Senate consideration of the bill still depends on the legislative schedule, and Majority Leader Tom Daschle (D-S.D.) hasn't yet indicated when that might occur.

Baucus Releases Trade Bill Principles

President George W. Bush has been lobbying hard in recent weeks for a trade bill to give the Administration fast track trade negotiating authority, which hasn't been available to a President since 1994. However, neither House is yet moving very quickly. The House GOP leadership introduced a fast track bill on June 13, but Majority Leader Dick Armey (R-Tex.) announced on July 31 that the House won't take up the bill until September at the earliest, due to a lack of votes.

In the Senate, Finance Committee Chairman Max Baucus (D-Mont.) released his principles for a fast track bill on July 25, but his emphasis on enforcing labor and environmental standards may make compromise difficult. Charles Grassley (R-Iowa), the ranking member on the Finance Committee, warned, "If we can't come to an agreement in a short period of time, I'll have to support the trade proposal put forward by Senators [Bob] Graham [D-Fla.] and [Frank] Murkowski [R-Ak.]." The Graham-Murkowski bill was introduced on June 26 and Grassley claimed that it has "strong bipartisan backing" on the Finance Committee.

Baucus' proposal calls on negotiators to seek requirements that countries not use either domestic labor or environmental laws "for purposes of stimulating exports or investment." It calls for the use of the core principles of the International Labor Organization as labor standards and it requires the President to transmit to Congress a strategy for enforcing labor standards in the countries that the United States negotiates with.

Baucus' approach falls somewhere between free-trade Republicans and liberal organized-labor-allied Democrats. While Republicans are opposed to any consideration of labor and environmental issues in trade negotiations, House Democrats complain that Baucus' approach is too weak. House Minority Whip David Bonior (D-Mich.) declared that "sanctions are absolutely necessary" to enforce standards, and Baucus' bill doesn't provide for them.

Senate Considers Emergency Agriculture Assistance

On July 31, the Senate began debate on a $7.5 billion supplemental Agriculture Emergency Authorization bill, of which $2 billion is for distribution in fiscal year 2002, which begins Oct. 1. Of the total amount, $5.5 billion is for direct payments to grain and cotton farmers, and most of the remainder is for certain specialty crops and conservation programs. The FY 2001 funds in the bill have to be distributed before Sept. 30, hence the sudden haste in moving the bill. The House passed a similar bill on June 26 by a voice vote.

Agriculture Committee Chairman Tom Harkin (D-Iowa) told the Senate on July 30, during debate on a cloture motion, that "without the assistance in this bill, tens of thousands of farmers and ranchers are in danger of going out of business." The big issue in Congress, however, isn't the economic crisis in the farm sector, but whether the bill fits into the budget resolution. Harkin insisted that the bill "is in full compliance," but the GOP disagrees.

The Bush Administration is threatening a veto if the bill is not reduced to $5.5 billion, which is the level of the House bill. The White House said, in a statement, that "improvements in agricultural markets and stronger livestock and crop prices mean that the need for additional Federal assistance continues to diminish." Rick Santorum (R-Pa.), after a GOP caucus meeting with President Bush, predicted that if Harkin isn't willing to compromise, then he won't be able to conference the bill with the House before the August recess. Richard Lugar (R-Ind.) is set to propose an amendment which substitutes the House-passed bill for the Senate bill. If accepted, it would obviate the need for a conference committee.

House GOP Sees Early Vote on Patients Rights

The House Republican leadership is tentatively planning a vote on the Patients Bill of Rights before the August recess. This newfound optimism is the outcome of a series of meetings at the White House involving Charles Norwood (R-Ga.), who has been negotiating on behalf of the supporters of the bipartisan patients rights bill co-sponsored by John Dingell (D-Mich.), Greg Ganske (R-Iowa), and others. White House spokesman Ari Fleischer said on July 31, that as a result of these meetings, "a significant amount of progress has been made" in getting an agreement on a bill.

The recent progress toward an agreement followed a week in which a scheduled debate was postponed by the House GOP leadership. The bill was scheduled, along with a GOP alternative sponsored by Ernie Fletcher (R-Ky.), to be taken up on July 26. However, when it became clear that the Ganske-Norwood-Dingell bill had the votes, House Speaker Dennis Hastert (R-Ill.) postponed consideration. Democrats were disappointed; they had come out of a caucus meeting on July 25 confident that they had the votes to win.

The liability issue remains the sticking point. The Democratic bill allows lawsuits in either state or Federal courts. President Bush is threatening to veto the bill if it doesn't limit lawsuits to Federal court, with damage award limitations. Fleischer indicated that a veto can be avoided if "others who are working with Congressman Norwood are interested in bridging those differences."

Mexican Truck Issue Bogs Down Transportation Bill

The Department of Transportation Appropriations bill bogged down in the Senate as a result of a provision that would impose strict inspection requirements on Mexican commercial trucks entering the United States under the North American Free Trade Agreement (NAFTA), scheduled to begin on Jan. 1, 2002. The language is in an amendment co-sponsored by Patty Murray (D-Wash.) and Richard Shelby (R-Ala.) which provides for $103 million, $15 million more than the Bush Administration asked for, for truck inspections at the border and enhanced safety requirements.

Murray described the provision as a "common sense compromise" between the White House position and the blanket prohibition voted up by the House. Shelby said that safety data indicate that Mexican trucks have much worse safety records than U.S. or Canadian trucks and that, therefore, "we need to do more to inspect trucks entering the United States at the Mexican border."

Opponents claim that the measure violates NAFTA and applies a standard on Mexican trucks different from that imposed on U.S. and Canadian trucks. John McCain (R-Ariz.) warned, "We could be subject to sanctions to the tune of billions of dollars imposed by the Mexican government" if the Murray-Shelby language were to become law. He said that the provision would result in delays of up to two years in opening the border.

However, the Senate turned back attempts to filibuster the amendment and change it. Twenty-nine Republicans joined with Democrats on a 70-30 cloture vote on July 27, in what is being seen as a major defeat for the free-trade-oriented Bush Administration. The following day, the Senate voted to table two amendments, one sponsored by Sen. Phil Gramm (R-Tex.) and the other by McCain, which would have effectively nullified the Murray-Shelby language if it was found to be in violation of NAFTA, or to be treating Mexican trucks differently from U.S. and Canadian trucks. The Gramm amendment was tabled by a vote of 65-30, and McCain's by a vote of 57-34.

On July 30, White House spokesman Ari Fleischer said that the Senate votes are "a worrisome indication that there's [sic] some people on the Hill who are pursuing an isolationist path." The bill faces a Presidential veto.

Editorial

Why It Had To Happen

It has been 30 years since the day—August 15, 1971—when the first of Lyndon LaRouche's long-range economic forecasts was confirmed, by the fateful action of President Richard Nixon in breaking the dollar from its gold-reserve basis. With every day since then, that international financial authorities and experts continue to deny the accuracy and force of LaRouche's forecasts, the fearful, accumulating consequences of Nixon's August 1971 action become more and more deadly for the majority of humanity. Argentina and Turkey are only this month's most spectacularly burning victims, of the conflagration of that global "floating rate" casino economy which Nixon was thus employed to set loose. It is now in its final collapse as a system.

LaRouche's forecast of that end-date for the post-War Bretton Woods fixed-rate monetary system, developed during the late 1950s and published in 1961, was precise. He foresaw that unless the policies—of deindustrialization of the advanced industrial countries and consequent looting of the Third World—then taking hold, were reversed, a series of major currency crises in the later 1960s would end in the breakup of the Bretton Woods monetary system at the end of that decade. In August 1971, "Nixon pulled the plug," and LaRouche was established, in truth and reality, as the world's leading economic forecaster, and the leader of a suddenly growing movement for a new and just world monetary order.

The financial "experts" who slander and deny LaRouche, pointing to some stock index or another, have never approached the job even of constructing such a fundamental long-range forecast, let alone seen one powerfully confirmed at a turning point in economic history.

Why have the international bankers and their think-tank analysts and writers, until now, always hysterically refused to acknowledge LaRouche's standing, or the accuracy of his long-range forecasts? Because 30 years ago one of their number—the then-prestigious economist Prof. Abba Lerner—agreed to a debate with LaRouche at Columbia University, on the subject of the Nixon policies of August 1971. Lerner attempted to defend those policies—the policies which have since given us deregulation and shrivelling of U.S. industries, the rust belts, the murderous reign of HMOs over medical care, the global exploitation of ever-cheaper workforce against workforce, the breakup of nations, and war. He attempted to deny that those "Nixon" policies pointed to a global fascism, and that they were consciously chosen *only to try to save an IMF system of monetary policies which could not be saved.*

In that debate, LaRouche forced Professor Lerner to acknowledge that he was defending fascism—the fascist outcome of the floating-rate speculative orgy that Nixon was unleashing—against LaRouche's alternative policy. No "authoritative economist" was ever willing to debate LaRouche publicly, from that point forward.

In 1994, LaRouche made a long-range forecast—"before President Clinton leaves office"—of the global financial breakdown crisis now under way: the end of that "floating rate," international speculative system set loose 30 years ago. Clinton saw it happening in 1998—"the worst financial crisis in 50 years," he called it—and started to move toward a "new financial architecture"; but then, under political attack, was induced to let Alan Greenspan print "walls of money" to throw at the crisis instead.

Now the breakdown of the IMF system has used up Greenspan and his hyperinflationary policies. "The party is over for the dollar," which has destroyed every other currency in the world since LaRouche's 1994 forecast. There is no political leadership in the United States—none in the world—save LaRouche, which knows what to do to bring about a "New Bretton Woods" and rebuild the shattered economies of the world. Yet most, in public, continue to deny the unique accuracy of LaRouche's forecasts—and so, perhaps, do you. A series of LaRouche policy breakthroughs in Russia, in Poland and Italy, in China, in Mexico, are now changing that. There is no more time to waste. For LaRouche's 1994 forecast, the equivalent of August 15, 1971 has now arrived.