

EIR

Executive Intelligence Review

July 8, 2005 Vol. 32 No. 27

www.larouche.com \$10.00

Undercutting Veterans' Care Backfires on Bush/Cheney
Helga Zepp-LaRouche Addresses German Government Crisis
Globalization: Do You Know Where Your Food Comes From?

U.S. Must Lead the Way to A New World Monetary System



FIDELIO

Journal of Poetry, Science, and Statecraft

Publisher of LaRouche's major theoretical writings

Spring/Summer 2005

Science: The Power To Prosper

Lyndon H. LaRouche, Jr.

To overcome the present crisis of our national and world economy, I have chosen the timely example of the urgent need to diagnose and cure the present collapse of the auto industry. What was wrong? What should we now do instead? How must we think about economics if we are to succeed in overcoming this challenge? How must we think about a successful rebuilding of both the U.S. and world economy over the coming fifty years and more?

'Nun kommt die Schillerzeit!'

A 200TH ANNIVERSARY CELEBRATION

• *To What End Do We Study Friedrich Schiller in the Year 2005?*

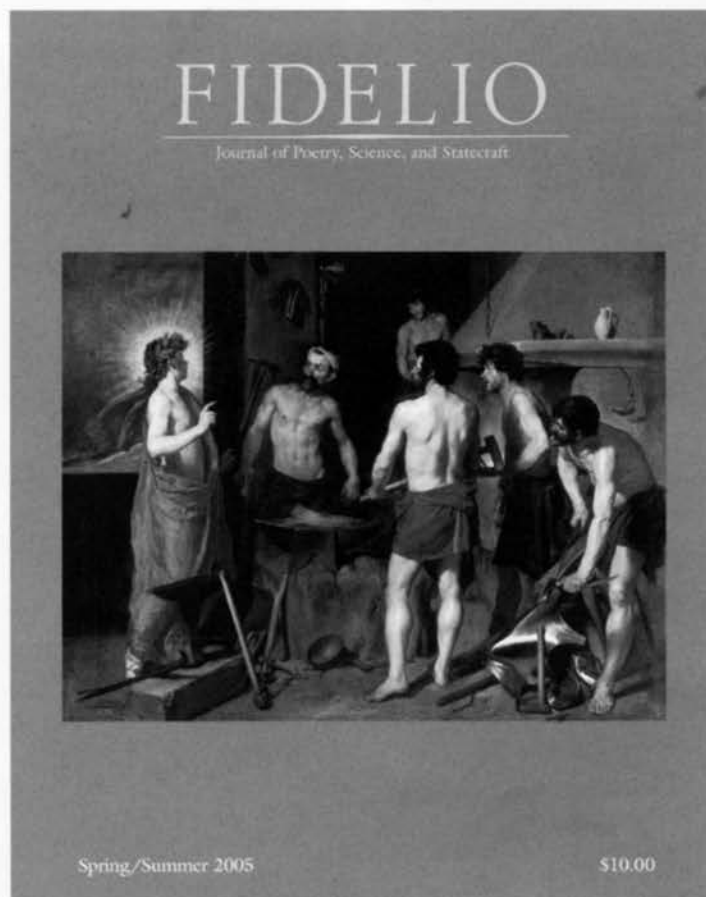
Helga Zepp LaRouche

• *Friedrich Schiller and His Friends*

William Jones

• *A Guide to Schiller's 'Aesthetical Letters'*

William F. Wertz, Jr.



Sign me up for **FIDELIO** \$20 for 4 issues

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

TEL (day) _____ (eve) _____

Make checks or money orders payable to:

Schiller Institute, Inc.

Dept. E P.O. Box 20244 Washington, D.C. 20041-0244

www.schillerinstitute.org

Founder and Contributing Editor:

Lyndon H. LaRouche, Jr.

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

Editor: *Nancy Spannaus*

Associate Editors: *Ronald Kokinda, Susan Welsh*

Managing Editor: *John Sigerson*

Science Editor: *Marjorie Mazel Hecht*

Technology Editor: *Marsha Freeman*

Book Editor: *Katherine Notley*

Photo Editor: *Stuart Lewis*

Circulation Manager: *Stanley Ezrol*

INTELLIGENCE DIRECTORS:

Counterintelligence: *Jeffrey Steinberg,*

Michele Steinberg

Economics: *Marcia Merry Baker,*

Lothar Komp

History: *Anton Chaitkin*

Ibero-America: *Dennis Small*

Law: *Edward Spannaus*

Russia and Eastern Europe:

Rachel Douglas

United States: *Debra Freeman*

INTERNATIONAL BUREAUS:

Bogotá: *Javier Almaro*

Berlin: *Rainer Apel*

Caracas: *David Ramonet*

Copenhagen: *Poul Rasmussen*

Houston: *Harley Schlanger*

Lima: *Sara Madueño*

Melbourne: *Robert Barwick*

Mexico City: *Rubén Cota Meza*

New Delhi: *Ramtanu Maitra*

Paris: *Christine Bierre*

Rome: *Paolo Raimondi*

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

Washington, D.C.: *William Jones*

Wiesbaden: *Göran Haglund*

*EIR (ISSN 0273-6314) is published weekly (50 issues),
by EIR News Service Inc., 912 Pennsylvania Ave., S.E.,
Washington, DC 20003. (202) 543-8002.
(703) 777-9451, or toll-free, 888-EIR-3258.
World Wide Web site: <http://www.larouchepub.com>
e-mail: eirms@larouchepub.com*

European Headquarters: Executive Intelligence Review
Nachrichtenagentur GmbH, Postfach 2308,
D-65013 Wiesbaden, Bahnstrasse 9-A, D-65205,
Wiesbaden, Federal Republic of Germany
Tel: 49-611-73650.

Homepage: <http://www.eirma.com>
E-mail: eirma@eirma.com

Executive Directors: Anno Hellenbroich, Michael Liebig

In Montreal, Canada: 514-855-1699

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

In Mexico: EIR, Serapio Rendón No. 70 Int. 28, Col. San
Rafael, Del. Cuauhtémoc, México, DF 06470. Tels: 55-66-
0963, 55-46-2597, 55-46-0931, 55-46-0933 y 55-46-2400.

Copyright © 2005 EIR News Service. All rights reserved.
Reproduction in whole or in part without permission strictly
prohibited.

Canada Post Publication Sales Agreement #40683579

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

From the Associate Editor

Our report on *EIR*'s Berlin seminar this week is a fitting complement to last week's story on the dialogue between Lyndon LaRouche and the U.S. Senate, during and after his June 16 webcast. In Berlin, leading figures from 15 countries gathered on June 28-29 to discuss the economic/financial breakdown crisis, its strategic import, and what can be done about it. It is highly instructive to compare the questions raised by these two, very different, audiences, and to see how LaRouche handled the issues posed.

In both cases, the fundamental point LaRouche made is that it is the United States that must take the lead in bringing into being a new global monetary system—a New Bretton Woods—which will be the cornerstone of a community of sovereign nation-states, acting in the interest of the common good. And given the incompetence (indeed, insanity) of the current incumbents of the White House, it is the Senate in particular which has to play the decisive role.

That is not always an easy conclusion for patriots of other nations to digest, as you will see from our *Feature* report. Seeing the imperial thuggery of the Bush-Cheney Administration, they struggled to understand that this is not the only, not the “real,” America. They also struggled—as LaRouche's Senate interlocutors are also struggling—to understand LaRouche's insistence that *money* (currency exchange-rates, etc.) is not the issue in itself. A monetary system has to be a reflection of the *physical economy*, of the *power* of a nation's productive apparatus. Hence, as bankrupt as the dollar system is, it must still be saved, and reformed.

Our second major package is on the fight in the United States over how we treat those who served this country in times of war. The battles over veterans' health care and the ill-conceived Rumsfeld plan to close or reorganize military bases, are raging hot and heavy, both on Capitol Hill and in the states. There is a bipartisan uproar against Administration policy, which must be intensified, broadened, and made more effective. Pam Lowry's history of Walter Reed Army Medical Center is particularly instructive, as to the importance of some of these national institutions. And in *Economics*, we report on the related fights over cutbacks in Medicaid, and the collapse of the U.S. private pension system.

Susan Welsh

EIR Contents

Cover This Week

At EIR's Berlin seminar, left to right: Maj. Gen. Assir Karim (ret.) of India, Dr. Sergei Glazyev of Russia, Lyndon LaRouche, and moderator Michael Liebig.



EIRNS/Wolfgang Lillge

- 4 LaRouche Addresses Berlin Seminar: U.S. Must Lead the Way to New World Monetary System**
On June 28-29, representatives of 15 nations gathered in Berlin to discuss, with Lyndon LaRouche, a strategy for revolutionary change in the strategic, economic, financial, and moral-cultural conditions on our planet.
- 5 America's Indispensable Role in Securing The Future of Civilization**
Lyndon H. LaRouche, Jr.'s keynote speech places emphasis "on certain presently crucial strategic facts about the nature and role of the United States, facts which are largely not understood, even among leading governmental and other relevant circles in Continental Europe."
- 15 Berlin Dialogue for a New World Order**
Jonathan Tennenbaum reports from Berlin on crucial issues raised during the seminar discussions.
- 22 Dialogue With LaRouche: How Do You Determine a Currency's Value?**
An interchange with Prof. Stanislav Menshikov of Russia.
- 25 Money Is a Question of Physical Economy**
LaRouche's closing remarks to the seminar.
- National**
- 26 Undercutting Veterans' Care Backfires on Bush/Cheney**
Despite White House denials and Dick Cheney's weekly bully trips to Congress, Congressional hearings and revelations focussed attention on the shameful record of the Bush Administration on the matter of veterans, military health care, and the base-closing mania.
- 28 Rumsfeld's Base-Closing Plan Attacks American Military Tradition**
- 33 'Manhattan VA Medical Center Is Irreplaceable'**
An interview with Dr. Robert Glickman.
- 35 Congresswoman Maloney: What Is White House Aim?**
- 36 Can the Nation Really Afford To Close Walter Reed Army Medical Center?**
A history of the world-class facility, now slated for shutdown under the Bush Administration's Base Realignment and Closure program.
- 40 Ohio Corruption Scandal Smells a Lot Like Rove and DeLay's Texas**

Economics

42 **Know Where Your Food Is Grown? Globalization Destroys Farming**

Globalization—a proven disaster—will be presented as the first priority in Nashville, Tenn., when the U.S. Department of Agriculture starts its series of “Farm Forums” on the five-year U.S. farm bill, to take effect in 2007. Buyer, beware!

44 **‘Fresh’ Tomatoes: Over 30% Are Now Imported**

46 **G-8 Meet To ‘Manage’ Hedge-Fund Crisis**

48 **U.S. States Slash Medicaid Spending**

49 **Wal-Mart Employees Resort to Medicaid**

51 **Expand Health Care; No Cuts in Medicaid**

A statement by Pennsylvania State Rep. Harold James.

52 **Will Privatization Derail Pension Crisis Action?**

Documentation: Testimony to the “e-hearing” held on June 13 by California Democrat Rep. George Miller on the United Airlines Pension Crisis.

International

58 **Zepp-LaRouche: The Chancellor Candidate for Germany’s Future**

German Chancellor Gerhard Schröder’s loss of a confidence vote in parliament may open the way for early elections. Helga Zepp-LaRouche has offered her candidacy, since none of the other political figures on the scene are in any way addressing Germany’s actual economic crisis.

60 **India-U.S. Strategic Ties: Fool’s Gold?**

Ramtanu Maitra analyzes the peculiar state of bilateral relations on the eve of Indian Prime Minister Manmohan Singh’s July 18 visit to Washington.

62 **Political, Financial Crisis Rocks Brazil**

63 **International Intelligence**

Interviews

33 **Dr. Robert Glickman**

Dr. Glickman is the Dean of New York University School of Medicine, of NYU Medical Center in New York. He is a member of the New York City Local Advisory Panel of CARES, a Veterans Administration study of prospects for closing or consolidating VA medical centers.

Editorial

64 **The Senate’s Next Step**

LAROUCHE ADDRESSES BERLIN SEMINAR

U.S. Must Lead the Way to New World Monetary System

by Jonathan Tennenbaum

On June 28-29, representatives of 15 nations gathered in Berlin to discuss, with Lyndon LaRouche, a strategy for revolutionary change in the strategic, economic, financial, and moral-cultural conditions on our planet. Thanks to the May 23 defeat, by bipartisan forces in the U.S. Senate, of an attempted White House coup against the U.S. Constitution, and the prospect of near-term removal of President Bush and Vice President Cheney from office, the possibility of a positive revolution in world affairs has come within reaching distance. On the table are LaRouche's policies for preventing an uncontrolled collapse of the dollar, creating a new world monetary system, and launching the greatest physical-economic expansion in history.

The Berlin *EIR* seminar, second in a projected series that began in Berlin on Jan. 12-13 of this year, included participants from Russia, China, India, Egypt, Israel, Hungary, Croatia, Slovakia, Czech Republic, Poland, Italy, France, Germany, Switzerland, and the United States. This *EIR* package begins with LaRouche's opening statement, which set the tone for the discussion; it is followed by an account of highlights of the seminar itself, some important excerpts from LaRouche's exchanges, and his final statement,

Inspired and provoked by LaRouche's opening remarks, an extraordinary one-and-a-half-day dialogue ensued between the American economist and statesman, and the representatives of the various nations, notably including a number of senior figures having extensive experience in international diplomacy and the affairs of government.

Given the fact, acknowledged repeatedly during the proceedings, that the world is now, in a sense, moving in un-

charted territory, the discussions in and around the seminar had an exploratory and, in part, confidential character. What clearly emerged, however, were the outlines of a potential new global constellation of forces, centering around the prospect of a fundamental change in the United States, and the personal role of Lyndon LaRouche in the process of bringing about that change.



EIRNS/Wolfgang Lillge

At EIR's Berlin seminar on June 28, Lyndon LaRouche (left) with Hon. Mario Lettieri of Italy, an organizer in the Italian Parliament for a New Bretton Woods. The meeting saw the emergence of a potential new global constellation of forces to bring about a new, just world monetary and economic system.

America's Indispensable Role in Securing the Future of Civilization

Here is Lyndon LaRouche's keynote from the morning panel of the June 28 EIR Berlin Seminar. It was moderated by Michael Liebig. Subheads have been added.

Liebig: Welcome to the second *EIR* Strategic Seminar this year, here in Berlin. My name is Michael Liebig from the *EIR* office in Wiesbaden, and I will chair the morning and afternoon session, and then Dr. Jonathan Tennenbaum will take over.

I'm very happy that we have here, this morning, distinguished representatives from science and politics out of the following countries, and I'll list them in approximate geographic order from east to west. We have representatives from science and politics from Russia, China, India, Egypt, Israel; from Hungary, from Croatia, from Slovakia, the Czech Republic, Poland, Italy, France, Germany, and the United States.

If we look back six months, to the first Strategic Seminar here, in Berlin the 12th and 13th of January, then I think we will realize the tectonic shifts, which have taken place during those six months. In January, most of the participants at that seminar came here with the firm assumption, that four more years of George W. Bush and Dick Cheney, carved in stone—that's the reality. And in the course of the seminar, it emerged that the reality in the United States is rather different, through what Mr. LaRouche was telling you then, in particular.

And we have seen, that the prognosis which he gave then, six months ago, has materialized, in the sense that the Bush-Cheney Administration, and the neo-con structures behind them, have run into an almost unbelievable strategic and economic disaster. We have seen emerging since, a sort of dual power situation between the U.S. Senate and the Bush-Cheney White House, the Senate evolving into a new political center of gravity in U.S. politics, a center of gravity catalyzed and directed by Mr. LaRouche.

So, at the same time, in Europe, we have seen also there, tectonic changes: Think about the world of Europe, the European Union, six months ago. Within these very days, here in Berlin, the modalities for early elections to the Bundestag are being worked out. We have had, on May 29, the referendum on the European Union Constitution Treaty in France, which was rejected, and with that rejection, the very Maastricht structure receiving a blow from which it will not recover.

We've seen at the same time, here in Europe, an enormous

policy vacuum, and political leadership vacuum. And, as we've seen that, from within the political class in Europe, there's this or that reasonable political initiative, but we see the recoiling from the fundamental issue: And that is, state investment programs, which will in the short term decisively reduce mass unemployment in Europe—and without resolving that issue, nothing else in Europe is going to work.

Now, we will hear more on that, on that question of policy vacuum and leadership vacuum by Helga Zepp-LaRouche and by Jacques Cheminade, in the course of this day.

Now this all is occurring within the context of something which we, very intensively, already did discuss in January, and that is, the systemic economic, financial, and monetary crisis. But that crisis, in the course of the past six months, has decisively intensified and accelerated further. And it has reached the point, where the very system, the very regime of globalization, has demonstrated—even to people who were in denial until very recently—that it is intolerable and unsustainable.

So, this seminar here, hopefully will—I'm sure it will—in the course of the discussion of today and tomorrow morning, be able to identify new flanks for a grand design; and for a new type of trans-Atlantic-Eurasian relations. And I would say, that the past six months should have taught us: Do not take anything for granted.

And with this, I want to ask Lyn to give us his lecture, this morning.

Lyndon H. LaRouche, Jr.

I shall read part of this from text, which was done essentially to simplify the tasks of translators. And otherwise, in the course of reading the text, I shall have one substantial and crucial interpolation. And then, at the close of the preliminary remarks, I shall then turn to a more scientific aspect of the matter, the proof of the argument which I make, or the essential proof.

In all of the most deadly crises in world history, the greatest threat to mankind is not what leading opinion does not know. In actuality, the highest degree of danger was always created, as at the present time, by the arrogance of those governments and leading bodies of public opinion, which had

already been, in fact, the longstanding principal cause of the suddenly threatened disaster of today. Among the small-minded variety of political and other authorities, for whom the prospects of a personal career and wealth are overriding, it is the personal gains, not the consequences of one's behavior for future generations, which are considered primary. So history often passes judgment on small-minded ambition, and on governments, which, like many today, have thought no further ahead than the next change in government.

Bear that thought in mind, as you consider the following report, on those mistakes of four decades which have produced the present, immediate threat to civilization as a whole.

An event of the most profound quality of global strategic implications, occurred within the U.S. Senate this past May 23rd. This event, for which I was merely an implied, but extremely relevant factor, prevented an attempted Bush Administration coup d'état against the U.S. Constitution. This threat, of a White House-steered overthrow of the U.S. Constitution, reflected the severity of a worldwide crisis, which had occurred in large part as a reflection of the global hedge-fund and related international banking crisis, which had been detonated by the collapse of the U.S. auto giants, General Motors and Ford.

The character and significance of this May 23rd event, has gone virtually unrecognized in most of the leading European press, and in public statements of most among its leading political figures. Yet, even during the relatively short term immediately ahead, the future of the nations of Europe and elsewhere, now depends upon the new crucial decisions which must be made inside the United States, made against the background of the May 23rd action by the U.S. Senate.

As a significant number of you here today already know, my mission in Berlin this week was planned months in advance, in knowledge of the certainty that a state of global crisis would be hitting Europe in particular, by mid-June. The purpose of that mission, already then, as now, is to make clear the most essential of those urgent issues which must be placed on the highest level of consideration, by the responsible governments and political organizations of Europe.

This clarification must include emphasis on certain presently crucial strategic facts, about the nature and role of the United States, facts which are largely not understood, even among leading governmental and other relevant circles in Continental Europe.

To reduce what is an otherwise complex subject to essentials, which could be reviewed within the allotted timeframe of several days provided, I shall now present you with a summation of four pivotal issues, whose importance can not be



EIRNS/Wolfgang Lillge

Lyndon LaRouche (left) and moderator Michael Liebig at the Berlin seminar on June 28. LaRouche said that the purpose of his mission in Europe now, "is to make clear the most essential of those urgent issues which must be placed on the highest level of consideration, by the responsible governments and political organizations of Europe."

doubted by intelligent circles, once even the barest of the relevant essential facts are presented, as I do on this occasion.

Prevent a Dollar Collapse

The most immediate danger, to world peace and stability, would be the admittedly existing potentiality, that the government of the United States would refuse to take certain sudden and sweeping emergency measures, which are now in fact, absolutely necessary actions of the immediate future, *if* we are to prevent the entire planet from being plunged into a chain-reaction form of monetary-financial and economic breakdown crisis, by a sudden collapse in the value of the dollar-denominated assets worldwide. Largely as a result of more than three decades of a combination of a floating-exchange-rate monetary-system, the past 15 years' spread of the use of financial derivatives, and the recent WTO-led plunge into a lemming-like lunacy of globalization, the world as a whole is now more ripe for a threatened chain-reaction breakdown crisis of the world's economic, as well as monetary-financial, systems.

Under these present conditions, unprecedented in all modern history, unless the U.S. itself is prepared to force a return to a fixed-exchange-rate dollar-system, like that of the 1945-1963 interval, there is no possibility that any part of this planet as a whole could escape the effects of a global breakdown crisis of the present world system. The actions which the



EIRNS/Bonnie James



EIRNS/Stuart Lewis



EIRNS/Stuart Lewis

The May 23 move by U.S. Senators to avert a Bush Administration coup d'état was an event of global strategic implications. Shown are two of the key Senators in this bipartisan effort, Republican John Warner of Virginia (left) and Democrat Robert Byrd of West Virginia.

United States must take: The United States must unilaterally, but with consultation with its friends abroad, act to prevent a collapse of the U.S. dollar, a sudden collapse in the magnitude of 10-30%, which is now imminent.

In view of the role of the dollar, as the world's still monetary reserve-currency, and in view of the large amounts of obligations, denominated in dollars, held by China, held by Japan, held by Europe, and others, a collapse of the U.S. dollar now, of the type which is imminently threatened, would not bring on merely a new depression, it would bring on a general breakdown-crisis of the world system. Therefore, the crucial question is, what action is the United States going to proffer, and how is the rest of the world going to respond to this proffer, of a U.S.-led return to a fixed-exchange-rate monetary-system?

This means that the only solution for this kind of problem, is to return to a fixed-exchange-rate system, and to roll over existing dollar obligations, by converting them from essentially short-term to medium-term obligations, to a system of long-term obligations. In other words, a fixed-rate system of long-term obligations—we're talking about periods of 25 to 50 years, essentially two generations. If we mix the rolling-over of these present obligations with the generation of new credits, also on a fixed exchange rate, in the amount required to expand production and trade on a world scale, over a period of 50 years, we can safely get through this period from this point on, and expect a period of general growth.

There is no other alternative at this time.

Because of the complexity and because of the insanity of destruction of national sovereignty, you no longer have buffers among states, where one state goes under and others do not necessarily go under with the same degree. Today, if the dollar goes down, *every part of this planet will go down in a chain-reaction formation.* That could not be prevented.

The *only* thing that could prevent it, is an initiative, which must come from the United States, to return to the Franklin Roosevelt standard of a fixed-exchange-rate system, and a conversion of the world's financial obligations—that is, the legitimate ones. Forget the financial derivatives, the hedge funds. These things will simply be allowed to rot and be cast away, and will not be paid. They *can not* be paid. So, they *will not* be paid; because they *can not* be paid.

But the core of the system must be saved. And the only way to do that, is if the United States says, the

dollar is now, effectively as good as gold. This can not be done in the short term. It can only be done on the basis of long-term agreements, which cover treaty agreements lasting from a period of 25 to 50 years. *There is no other hope for civilization.*

I shall come back to this again, but that's the crucial point here.

The Grounds for Impeachment

Therefore, it is impossible to save this planet, if President George Bush and Vice President Cheney remain in the leadership of the United States. Fortunately, there are conditions, and indications, that that will not last long. I say this frankly, I say it without exaggeration. It must be said, and I am the most likely bloke, as they say, who will say it: *The President of the United States, George W. Bush, is clinically insane.* He is not only clinically insane, but he's clinically insane in ways which have rendered him technically impeachable. When the President of the United States, a United States whose dollar is still the denominator of the world monetary system, says not once, but repeatedly, and reasserts it defiantly against all criticism, that U.S. government bonds are merely IOUs which are intrinsically worthless, that man is clinically insane. He is irresponsible. Because, if anybody believes him, that the policy of the United States government is that its bonds are worthless, with the amount of dollar obligations outstanding around the world, as an integral part of the monetary system, the system is doomed by the fact alone.

Now, the United States Constitution provides for impeachment. The intrinsic basis for impeachment, is not conviction for some crime. That is not sufficient basis for impeachment, because the question of the Presidency of the United States is the question of an *institution*, not of a person. But, if the person who occupies that institution is clinically insane, or is otherwise *incompetent to serve*, that is sufficient grounds for a charge of impeachment and for his removal from office.

On the other hand, we have a Vice President, who is not necessarily a psychopath, but is a sociopath. The man must be removed from office. What we have now, as a result of the actions and continuing actions in the Senate, we have a bloc, being exerted by the U.S. Senate, against the dangers intrinsic in the incumbency of these two creatures, and the people who control them. And therefore, if the world is to be saved, these two creatures must be kept under control and removed from office—not four years or three years from now, but in the immediate future.

Because we must, immediately, in the near term, have a decision, by the United States proffered to its partners internationally, which essentially prevents a sudden chain-reaction collapse of the world monetary system into, not a depression, but a general breakdown-crisis, a general breakdown-crisis of the type which was discussed theoretically, as a theoretical proposition, at the end of the 19th Century, and the beginning of the 20th; which has never happened before, in modern history, but is about to happen now, under present conditions.

I continue: Unfortunately, the present U.S. Bush Administration would prevent the needed action, even with its dying breath. Fortunately, the present Bush Administration is already ruined, lame-duck administration, a Presidency whose deep psychological problems and brutish bunglings, have already brought it into the liability of possibly early impeachment, or retirement to avoid that impeachment. For example, one story that was told to us, is, there might be a plane ride. And on the plane ride, somebody might be sitting next to Cheney. And when they got off the plane, Cheney would go someplace nearby and submit his resignation from office.

We're in that kind of area, in which either forced impeachment, impeachment proceedings, or resignations—induced resignations—are maybe a factor in history.

Four Pivotal Features

Under those conditions, much-needed options for the U.S. and for the world, are now within the range of possibility, if by no means certainty. To understand the summary points I've just listed, there are four pivotal features of the immediate situation of the world today, to be considered:

First, the implications of the little-understood fact, even among leading European governmental circles today, that a coup d'état in the U.S.A. itself, was recently averted, at least temporarily, by a crucial intervention by a majority of the U.S. Senate.

Second, the inevitability of a rather immediate, permanent collapse, of the present, post-1971 form of world monetary-financial system. This is the combined outcome of several crucial factors.

a) The 1964-72 change, begun by an attack on the stability of the monetary system, by the U.K.'s first Harold Wilson government, was from the fixed-exchange-rate to a floating-exchange-rate system.

b) A cultural paradigm-shift to a so-called post-industrial model in Europe and North America.

c) A savage and willful destruction of basic economic infrastructure, throughout the Americas, and also Europe.

d) An increasing shift of production from economically developed nations, to exploitation of cheap labor with vastly underdeveloped basic economic infrastructure, and emphasis on very cheap labor. And,

e) Reliance upon the use of a purely parasitical form of gamblers' side-bets known as financial derivatives or hedge funds, as a hyperinflationary substitute for long-term investment in useful enterprise.

Third, although the present form of world monetary-financial system, is now hopelessly, and rather immediately doomed, more doomed than the Soviet Union ever was, a physical economic form of recovery of the world economy could be launched very soon, provided the will is found, for the immediate adoption of the model of system of perfectly sovereign nation-states, projected by President Franklin Roosevelt before his death, and avoiding the present lemming-like rush into the form of global imperialism, called globalization, is soon eradicated and immediately reversed.

Finally, the implied lesson to be learned from recent developments within the U.S. Senate, is that unless the latter condition is met soon, the prospect for civilization in every part of the world, is *hopeless*, for more than a generation to come. That lesson is composed of the following, four crucial, subsumed points, which I develop now.

What Europeans Don't Understand About America

First, the crucial thing that we face in discussions in Europe, is, Europeans do not understand the United States, and therefore, when they talk about the United States, they make assumptions which are contrary to fact, and are counter-productive.

The United States is a product of Europe. It is particularly a product of the Renaissance, of the 15th-Century Renaissance, which established the modern nation-state for the first time on this planet, for the first time we know of it on this planet, and through the development of the first modern nation-states as such, in Louis XI's France, and then subsequently, in Henry VII's England. But, in the meantime, what had happened was, that the Venetian interests, which had come back through the conquest of Constantinople, through turning it over to the Ottomans, had come back as a force.



EIRNS/Stuart Lewis



Library of Congress

George Washington (left) and Benjamin Franklin. What Europeans don't understand about the United States is typified by the Preamble to the Constitution, whose central feature is promotion of the general welfare. "You find the same principle expressed in other places, in European constitutions, but not as the overriding principle."

And so, since that time, since about 1453, there has been a division in the world, and particularly on Eurasia, between, on the one hand, the emergence of the modern nation-state, which is committed to the service of *all* of the people of a nation, and the return to the medieval form of society, run originally by the Venetian banking system, and today, expressed as a continuation of the Venetian banking system in the form of the Anglo-Dutch Liberal system of economy, which dominates the world today: the imperialist system, in short—the modern imperialist system.

Now, because of the rise of the Anglo-Dutch Liberal tyranny, which was accomplished chiefly through the wars of Louis XIV of France and the subsequent Seven Years' War in Europe, Continental Europe cannibalized itself to the greater glory of Britain and the Netherlands. As a result, by 1763, through the mutual internal weakening of Europe, the Anglo-Dutch India companies had managed to carve out a *de facto* empire of India, and by taking over Canada in particular, from the French.

So, at that point, in February 1763, at the Treaty of Paris, a new empire was formed: the Anglo-Dutch Liberal system. The Anglo-Dutch Liberal system was based on a system of financier control of the world economy, a continuation of the medieval system, the medieval ultramontane system, such that, in Europe today, there is no independent government of any nation. Because every government, each and every government, is a subject of a *private central banking system*.

These central banking systems are like a biological slime-mold. They are composed, on the one side, of individual banking interests, private banking interests, and on the other side, they are a continuous, functioning process.

So, what we call as the world financial system today, the international monetary system since 1971-72, is a slime-mold, called an independent central banking system, or a syndicate of independent central banking systems.

It was for precisely this reason, that the United States came into being, as a result of this treaty organization of February 1763. The foundations of the United States had been lain from Europe, by people in the Netherlands—who at that time were democratically inclined, unlike the present ones—and who formed, out of Belgium, out of the Low Countries, in part with the English, the first colony in New England: the so-called Plymouth Colony. That was followed in 1630 by the formation of the Massachusetts Bay Colony, which is actually the paradigm on which the United States was subsequently founded. And this paradigm continued to be authoritative in its own territory, till about 1688-89, when a change in the Dutch India Company's takeover of England, resulted in a condition in which the powers of Massachusetts Bay Company were reduced.

But the struggle went on. And so, in 1763, with the establishment of the British Empire, all of the leading intellectual circles of Europe began to look across the Atlantic again, toward the possibility of creating a state in the Americas,

particularly in North America, which could then be played back as a model, as the struggle for the freedom of Europe from this Anglo-Dutch pestilence, this slime-mold.

The establishment of the United States, as a republic, as a Constitutional republic, gave us the opportunity for that. The attempts in 1789 in France, in the Spring, were an attempt to form a constitutional republic, a monarchical republic, in France, would have had the same, essential principles of development as the United States.

Because of the British East India Company's power, that of Lord Shelburne, an organization called the Martinists, associated with Voltaire, including Louis the Duke of Orleans, and Jacques Necker, who were two British agents, organized the Bastille events of July 1789. And then, went on with two agents of the British East India Company, Danton and Marat, assigned from London to France, and then the Robespierre crowd, the Terror, which was also run from London.

And then, through the same instrumentality of Joseph de Maistre, you had a Jacobin terrorist, called Napoleon Bonaparte, who was converted into an Emperor, on a model designed by Joseph de Maistre. And Napoleon ruined Europe.

So, the French Revolution, through Napoleon's 1815, subjected all Europe to ruin. And since that time, despite noble efforts like that, briefly, of President de Gaulle, for example in his formation of the heavy franc, Europe has never had a true republic, in the sense that the United States is a republic.

And so, therefore, the intention, that the United States' formation as a republic should become the pioneer of a European model state, to be utilized as a model back in Europe, was never fully realized, except through people like Friedrich List, and others who kept making the attempt to do that. And I'll return to some other aspects of this thing.

But, the point is this: The modern nation-state, formed for the first time in the 15th Century in Europe, in what is called the Golden Renaissance, established the principle, which is an old principle of European civilization, called the principle of the general welfare, which is known in the ancient Greek as *agapē*, as set forth from the mouth of Socrates in *The Republic*. So, this principle of the general welfare, or common good, that the state has no right to exist, except as it serves the common good and the general welfare of all the people, was an old idea, which first came to attention in ancient Greece. It was adopted by Paul in I Corinthians 13, as a principle of Christianity, an articulated principle of Christianity.

And thus, the aspiration of European civilization, since that time, has been—since the time, actually, of Solon of Athens and so forth—has been the formation of a state committed to the common good, the general welfare of the total population, present and future alike.

The United States Constitution is formed on the basis of this principle. The highest Constitutional authority under the U.S. Constitution, lies in the Preamble, whose central feature is "promotion of the general welfare." Now, you find the same principle expressed in other places, in European constitutions,

but not as the overriding principle. You find that, for example, in the German Constitution, the German *Grundgesetz*, but it is not the controlling principle. It is not the principle which is fundamentally overriding. You find, in the United States, this principle is in jeopardy. It's opposed by the Lockean principle, which was the principle of the Confederacy. But this *is* the principle of the United States.

Now, the difference is this: The difference is, that people have the idea of economic systems based on conventional notions of money. This is a characteristic of European systems, generally. Under the U.S. system, under the U.S. Constitution, *money has no intrinsic value*. The state determines what the value of money shall be, under the Constitutional principle of the general welfare.

Scientific Basis for Our Economic Existence

How do we do this? Well, first of all, as I shall indicate here, today. First of all, in a modern economy, unlike the economies of Asia today—even the best models of Asian economies, today—in the best economies, of Europe and the United States, the best models, *50% of the total economic activity of a nation is in basic economic infrastructure*. Fifty percent of the total investment and expenditure, combined, are expressed in the maintenance and improvement of basic economic infrastructure.

Now, contrast that with the situation in Asian countries, in which you have up to 70%, or more, of the population of those countries, even in the better countries, the countries which are stronger, 70% are living in states of distress, of extreme poverty. How is this done? It's done partly through globalization.

During the 1960s, and beyond, we began moving production out of Europe, and out of the United States and similar locations, into poorer countries, in search of cheaper labor, to transfer production from high-labor-cost areas, to low-labor-cost areas. Now, the productivity of European countries—take the case of Germany, where we're standing here, post-war Germany, which was rebuilt essentially under the influence of policies, such as the Kreditanstalt für Wiederaufbau. Now, Germany was a high-technology country, with a heavy emphasis on basic economic infrastructure.

Since modern Germany was created by Bismarck in 1877, on the U.S. model, which is sometimes called the Listian model, but was instigated by the world's leading economist of that time, the United States' Henry C. Carey; and since a similar thing was done in Japan, a similar attempt was made in Russia by Alexander II, under the direction of Mendeleyev and so forth and so on; modern European economies have always tended in that direction: to recognize that the primary function of the state, is to defend the economy of the nation, and to provide, first of all, for the basic economic infrastructure, as a part of maintaining the general welfare interest of *all of the people*, in an equitable fashion.

Now, this costs money: Fifty percent of the United States'

expenditure, as a nation—that is, the physical economic expenditure—under times of prosperity, is spent on basic economic infrastructure. Much of this is done by the Federal government; it is done in part by the state governments; in some degree by municipalities; it is done sometimes under regulation, by private investors, who invest in power works, power systems and things like that, which are protected and managed by the state, but private investors can put their savings into these areas of guaranteed low speculation.

But it means that, taking the economy as a whole, *half* of the total cost of the economy, of a *healthy* economy today, is spent on basic economic infrastructure. I shall come back to this from the standpoint of Vernadsky, to explain how this thing works.

What we've done with globalization, with outsourcing and globalization, we go into countries and say, "We will export employment into your countries; we will export industry into your countries. We'll buy from your countries, on the basis that *you do not increase your expenditure on basic economic infrastructure!*" So therefore, the tendency is, to *impoverish* the people of India, to impoverish the majority of the people of China, as a condition for getting the benefit of the U.S. and European market.

Physical Economy From Vernadsky's Standpoint

And there are physical reasons for this, explained by Vernadsky.

Existence on the planet as whole, is a physical question. It's a physical scientific question. It's not a monetary question. When you want to discuss economics, get the accountants out of the room. Get rid of them! Get the financiers out of the room—get rid of them! They will only make noises that will interrupt the discussion. Go back to physical economy, and look at it from the standpoint from Vernadsky.

This planet has, according to Vernadsky, *three phases of existence*: First is, from an experimental standpoint—from the standpoint of scientific experiment, physical experiments—the first level are what we call "abiotic" processes, systems in which there is no calculated function of the role of life, in the effect we're considering, the ordinary level. Now, this does not mean, that there's a universe that exists without life. It exists from the standpoint of experimental work, that, in conducting scientific experiments, you define a phase-space, in which your proof of principle does not depend upon the assumption of the existence of a principle called life. And you restrict that kind of physical science, to those kinds of experimental methods.

Then, you come to a second area, which was explored heavily by Pasteur, Curie, and so forth, in France, which is the question of the kinds of experiments which define life, and can not be explained in any way, but accepting the idea of a *universal principle of life*. This is what Vernadsky defines as the Biosphere, and he defines it from the standpoint of



LaRouche looks at physical economy from the standpoint of the late Russian-Ukrainian scientist V.I. Vernadsky, who conceived of three phases of existence: the abiotic, the biotic, and noëtic.

experimental methods, in the study of fossils: the relationship between living processes and their fossils.

The third layer, is that you have certain phenomena of this planet, which are now manifest on a very large scale, with the development of modern science and technology. In which the fossils of the planet, the functionally important fossils of the planet, are largely products of *human intelligence*, which are not otherwise generated by living processes, but only by the creative powers of human intelligence. Hmm?

Now, this is what a society is. A society is, essentially, the action of human intelligence, among a people, upon an area which we define as the Biosphere. The Biosphere is an area which includes what we define experimentally as non-living processes and their products, and then also, living processes and their fossil products.

Now, we, as human beings, as society, we act upon a planet in which the preconditions of human life are possible, because of the development of the planet, the development of life on the planet, the development of the fossils created by life on this planet. We then act upon this. We don't act as monkeys do. Monkeys make no inventions. They may pull tricks, like some of our politicians do—but they don't actually make useful inventions.

So therefore, when we're talking about production, there are two ideas of production. And in European history, they're defined very clearly, by the principle of Aeschylus' famous tragedy *Prometheus Bound*: that Prometheus is sentenced to eternal torture, because he gave knowledge of the use of fire to mankind. This is characteristic of oligarchical society. We say, "We don't want the people to come up with ideas. We don't want them to become scientific. We don't want them to learn scientific principles." We want them to be used, as Quesnay proposed, and Turgot proposed in France, as the Physiocratic doctrine: that human beings are nothing but cattle, human cattle on estates, to be raised like cattle, for the benefit of the profits of the lord of the estate. That is the traditional manner of ancient society: It's to treat the great majority of society, *either as hunted or herded cattle*. To be used for the convenience of a small group of people, who exploit them.

Whereas, in reality, all human beings are potentially creative, if developed. And all human beings can be fruitful, if they are given the conditions of life, in which to be fruitful. And the thing we prize about the human being, is not their ability to *behave as told*, but their ability to behave in a way *contrary* to what they've been told! To make useful inventions, which change society for the better. And we organize society to promote those changes. We define people as obliged, not to obey rules as such, but to accept common tasks, common purposes, and to cooperate in common purposes. But the factor of cooperation always includes emphasis on promoting the education and development of the creative powers of the individual. And reshaping production, reshaping the conditions of life, to provide the greater opportunity for those individuals who wish to make a creative contribution to humanity as a whole.

Globalization: A Self-Inflicted Disaster

So, what did we do, with globalization? We took the United States; we took Europe; we started in Britain, first of all. (Everything bad usually starts in Britain. They're very good at inventing this sort of thing. It's their contribution to history, is to invent bad ideas.) So, we started with the process of exporting national production, into areas where we could exploit cheap labor, without paying for the infrastructure needed to support those populations. We then did this to the United States. And we found areas, where we *prohibited these countries from developing their basic economic infrastructure*, as we have done in Mexico, as we have done in South America, and as has been done on a grand scale in Africa, by aid of genocide.

We did the same thing in Asia. The tsunami crisis showed exactly what happened: People died on beaches, why? Because the U.S. policy, and the European policy, was, there should be resorts—hotels and resorts—recreational centers, but no development! Development would be enlisted to entertainment, for foreign guests who could use the bodies of the

indigenous population for sexual recreation, and similar kinds of things. So, you had congregations of people, living along beaches, where the hotels were there for people who wanted sex or swimming.

So, they were living in shacks there. When this thing hit, there was no infrastructure to protect them. They were living under unsafe conditions, which were dictated by economic policy, of institutions such as the Asia Pacific Foundation, which is an Anglo-American controlled institution. Typical!

We have not developed the infrastructure of this part of the world; which is the key part of the world, the future of the world: the greatest concentration of population—China, North Asia, India, South Asia, Southeast Asia. This is the center of growth of the world's population. What you do to this area, you are doing to the world as a whole.

We prohibit these areas, as much as possible, by various tricks and by miseducation, from developing the basic economic infrastructure. The result has been: We have taken the highest level of productivity in the world, physical productivity, which is concentrated in Europe, and in the United States. We shifted the production from the United States and Europe, into countries where cheap labor did the work instead. Cheap labor, without much infrastructure, at least for the majority of the population.

As a result of that, we earned less in the United States. The British are a perfect example of a self-inflicted disaster. We did the same thing in Europe. So therefore, we *destroyed* infrastructure! And we are *destroying infrastructure*, in the United States and Europe. As a basis of this, we are shipping production into parts of the world where there is no significant infrastructure, or not adequate infrastructure to maintain the population as a whole. The result is, *we have lowered the world's productivity per capita!* Because, it is the relationship of production to infrastructure, which determines physical productivity.

And that's what we've done.

Therefore, by globalization, by eliminating protectionism—so that if one nation wanted to make a mistake, it didn't necessarily affect the other nation directly—by eliminating that protection of national sovereignty, we've created a situation, where any disease, of an economic disease, *is a global, fatal epidemic*. So, the collapse of any significant part of the world today, is a collapse of the world as a whole.

Just think of it: What happens to countries like India and China, if their export markets collapse in the United States and Europe? And they're about to collapse, right now. The United States can not carry this debt that's developing now; it can't do that. United States' purchases will collapse. Even if it means killing people in the United States by starvation.

Health care is collapsing, health-care institutions are collapsing worldwide. Vulnerability to epidemics is greatly increasing, as a result of these things. So, what we did, is by going into what's called a "free-market economy," by going into a purely British-model economy, by using economies



EIRNS/Wolfgang Lillge

Left to right: EIR editor Jeffrey Steinberg; Dr. Clifford Kiracofe, who teaches at Virginia Military Institute; and Lyndon LaRouche. Steinberg and Kiracofe briefed the seminar on the history and current developments of the political fight in the United States.

which are based on the Venetian model, of governments which are ruled over in their economic policy by independent, so-called, central banking systems. Europe has no sovereignty today. No nation in Europe is sovereign. They are all subject to independent central banking systems. Independent central banking systems are slime-molds. They are parasites, sucking on the blood of the entire nation. Governments which attempt to fight these slime-molds are overthrown, by one means or the other—as we’re seeing in Europe today.

So therefore, the United States is crucial, in this respect: The United States is crucial, because we have an economic system which is *not* the so-called capitalist system. The United States is not a capitalist economy! The United States is a system based on what’s called the American System of political economy, which was created *in opposition* to Anglo-Dutch Liberalism!

The European models are capitalist economies: They’re based on Anglo-Dutch Liberalism. The only time that European economies were not capitalist economies, is when, as with Bismarck’s case, is when Bismarck realized, from the lessons of the American success of 1863 to 1876, recognized that Germany had to go to an industrial model. What happened? Not only did you have people like Emil Rathenau, and Siemens, and so forth, launching the great industrial development of Germany; but you had the general welfare laws in Germany, which were the so-called Bismarck reforms—which were set up to do what? To provide protection for the general population, in such ways that you could have a highly productive general population.

The same thing was attempted in Russia, by Alexander II, the Czar, who was a friend of the United States, and who was obviously eliminated by the British, at the first opportunity. Like Alexander III, the same thing. But Russia, under

the influence of Mendeleev’s guidance, and the adoption of the policies of the American System by Graf Witte, was a successful industrial development of the population.

The same thing, Sun Yat-sen’s conceptions of a new China, were based on the same principles. Which China, since Deng Xiaoping, has been moving in that direction, trying to do that again, today, as with the development of a railroad system for the internal infrastructure of China.

The Sovereign Nation-State Is Essential

So, we have to go to a different kind of model, the model in which we, instead of having a Hobbesian rivalry among nations, we recognize that the nation-state, the sovereign nation-state, is an essential medium of self-government of a people. They manage their own affairs. They manage it, because they share a common culture. They can share ideas in that culture—they are not cattle, who take orders. They have a language, they have a culture, a cultural tradition. They think in terms of that language, that cultural tradition, developing that language, developing that cultural tradition.

But we all have a common purpose, if we are human. We are all human beings. This planet and the future of humanity is our common concern. But we know from experience, that the best way to do that, is through separate, sovereign nations, whose purpose is not to compete—except in ideas, and in practice—but whose purpose is to *benefit* one another. The same principle, of *agapē*, the same principle of the founding of the modern nation-state, is expressed in the Treaty of Westphalia: What’s the first paragraph, the first sentence of the Treaty of Westphalia? It’s the principle of *agapē*! The existence of the people and the nation, is to care primarily for the other! Improve the condition of the other. So a system of nation-states which cooperates, with the idea of mutual assistance, for the development of the other sovereign people, is the idea which is needed.

The United States represents that tradition. It is presently the only part of the planet, which has a Constitutional form of government which actively represents that tradition.

Return to the FDR Model

And what we must do, since we have responsibility, as a result of Franklin Roosevelt’s work, we have the responsibility for an orderly international financial-monetary system—for the world as a whole. We can’t force it on people, but we must offer it, and we must protect it, for their benefit. We must form associations for that purpose. Roosevelt’s intention was to use the United Nations as a vehicle for that kind of cooperation. (Truman and Churchill had a different idea; they used it to start a world war.) But that idea is valid.

We set up institutions such as the IMF, the original Bretton Woods system, and the World Bank, to fulfill these purposes.

These institutions have now been corrupted, and serve purposes directly contrary to the original intention of Franklin Roosevelt's government.

The world as a whole, if it faces reality, knows we need these reforms. We need to return to the Franklin Roosevelt perspective, or what was his perspective until the moment he died. The kind of world he intended, that we should build. Whereas Churchill and Truman and the rest of them, went in a different direction, which we're still suffering from.

And therefore, we in the United States, have a special moral responsibility, to recognize that under our system of government, banking systems and trade do not determine prices. Governments do. We determine protected levels of prices, in order to maintain levels of investment in basic economic infrastructure, and improvement in industry. We do that. It is our voluntary responsibility. We create a structure of prices. We do not allow a market to interfere with our management of our economies.

The idea of the market is a Venetian idea. It's an evil idea. We must eradicate the idea of the market, the way the Venetian defines it, from our system. And go back to a protectionist system, under which the government recognizes that 50%, at least, of the total expenditure of a government depends upon the general welfare, as associated with infrastructure. We must promote scientific and technological progress, not the insanity which has taken over since the Greenies were born.

And that's our problem.

Now we've come to the point, that for over 40 years, we have been making mistakes. The mistake is largely the result of the Churchill-Truman agreement, at the end of the last war, to go to a world war as a way of preventing Roosevelt's system from working. We have to create the same intention that existed then.

We've lived under a mistake. We have come to accept habits and ways of thinking, which are a mistake. We say, "Experience teaches us." Experience has made us fools, because we were not smart enough to outwit experience, to recognize when experience was wrong.

And therefore, in the United States, we have this responsibility. We have a Constitution which still functions. You have a Senate, which is not a parliamentary institution—and that's where Europeans are wrong: They don't understand the U.S. government. The Senate is not a parliamentary institution. It never goes out of existence. Every European parliament goes out of existence at every election. The U.S. government never goes out of existence; the Senate remains in existence. The President changes; the Federal institutions remain in existence. Elections occur—the Senate remains, without any break in continuity. One-third of the Senate is changed every two years, but the Senate as a whole is maintained. The Senate is given powers under the Constitution—we created the most powerful kind of Presidency, as an institution, the planet knows. It's the most efficient

Presidential institution on the planet.

But: In creating a powerful institution, we recognized the danger that such an institution could be used, by evil forces. Therefore, we built into our system, certain checks and balances, including special powers of the Senate. These powers of the Senate, are the power of *a minority of the Senators* to oppose the Federal government, the Executive branch, on crucial issues of government.

What the George Bush Administration attempted to do—under orders from George Pratt Shultz and people like that—was to break that power, of advice and consent, of the Senate, to take advantage of the fact that you had a majority of Republican Party members in both the House and Senate, in order to impose—by will—whatever the White House, or its masters, dictated.

If that had not been defeated, you would have nuclear wars around the world, already, today! Such as the question of North Korea. Cheney and Company, and the people behind him, were ready to start dropping nuclear weapons on mountain areas in North Korea! They zealously desired to do it! They had similar kinds of ideas. *The Senate's action took that power away from them.*

And now, what is happening, is, the power of the Presidency is diminished—of this Presidency—is diminished, as the Senators stand up on their hind legs, having proven their power as a body, as a bipartisan body, and are beginning to move, to defend pension systems against rape; they're defending the pension systems against General Motors Corporation; to defend the Social Security system; and they will defend other things now. They will call into question, more than ever before, this Iraq war. They will call into question, the war policy in general.

Because the United States is now, through the Senate, becoming the United States, once again. Like a Phoenix. It's inherent in the system, and we've now saved it.

If nothing goes wrong, if we continue our course of action, we can save the planet. If we don't do this, the planet won't exist!—at least in a decent form. Therefore, *we have no choice*, but to form certain policies. People will often oppose policies by raising objections to them. But on the battlefield, in decisive wars, you don't raise such objections. You don't raise an objection to the policy which determines the life or death of a nation.

We now have policies, not in the military domain, but in the political domain, the economic domain. *These policy changes* will determine the life or death of world civilization. We have to eliminate the environmentalist movement as a force in politics. We have to eliminate globalization. We have to eliminate the related provisions of the World Trade Organization. These things must be eliminated! Whether this is popular or not is irrelevant. We have the choice: Either we make these changes, *or we go down*. You have no choice, unless you choose to lose the war.

Thank you.

Berlin Dialogue for A New World Order

by Jonathan Tennenbaum

The following report, excerpted for public use, covers most of the crucial issues raised at the seminar, although not in the order of the presentations.

Much of the discussion and presentations at the seminar focussed on LaRouche's policy for the United States to initiate a "New Bretton Woods," fixed-exchange-rate, world monetary system, to replace the present bankrupt one. A large degree of agreement, but also significant disagreements, emerged, in the course of which LaRouche made a number of fundamental points on poorly understood, but crucial principles of economics. (See also the LaRouche-Menshikov exchange, excerpted below.)

Marco Lettieri, member of the Italian Chamber of Deputies, and secretary of the Finance Commission of the Parliament, praised LaRouche's statements as "extremely relevant." As a member of parliament, he had introduced a resolution calling for reform of the international monetary and financial system, which was approved on April 6, 2005. The parliament committed itself to appeal to the government to take action internationally to prevent a crash, to sustain the real economy, and take all possible steps to convoke an international conference of heads of state to create a new monetary system. The parliamentary initiative was prompted by the financial crises involving Parmalat and other Italian firms, Enron, and the Argentine bond crisis, which are "merely the tip of the iceberg of a much graver phenomenon," he said. We see in all countries the negative effect of "financialization" of the economy, the concentration of financial power in a small number of hands, and the increase in economic inequality.

I won't talk about the drama of Africa, where millions are dying of poverty and disease, Lettieri said. But I will talk about outsourcing, which LaRouche has mentioned. This is hitting Italy very hard now, impoverishing the social structure. Instead of the North of Italy investing in the South (the underdeveloped Mezzogiorno), investment is flowing into Romania, Poland, Slovakia, Turkey, and so on. And tomorrow, when labor costs will be higher in those countries, he said, investment will go somewhere else. Under the flood of cheap products from China, entire economic sectors in Italy, which used to be highly productive, are going under. These problems are not just local. The financial and banking systems are based now on purely speculative activities. We have lost

the powerful industrial system of the past.

Lettieri concluded: "I would like to make an appeal to everyone to make a serious effort at the level of all parliaments. We are in a very dramatic situation. If we do not act, future generations will face a new dark age."

Dr. Claus Noe, former Undersecretary of Finance of Germany, who could not attend for health reasons, sent a written statement, expressing his gratification about the important "signal" being sent to the world by the seminar. "In my different positions in ministries, as well as a writer, I have since the mid-1980s fought for a reorganization of this weak system. First, this means bringing those speculative money flows, which massively endanger the development of the real economy, under control within a new system of stable exchange rates, a New Bretton Woods."

"What would be new in this system in comparison to the old system of 1944?" Dr. Noe asked. "First of all, there is the stronger role of Europe, Japan, China, and India in the world economy. . . . Furthermore, it is crucial to avoid from the very beginning the weakness of the old system; namely, that the mightiest can inflate his currency and would create new dependencies and instabilities by not respecting certain rules.

"I know that Mr. LaRouche is campaigning for a strengthening of the dollar through expanding and sanitizing the U.S. economy. That is a crucial undertaking—but it poses a set of new questions about the relationship between the U.S.A., Asia, and Europe, which would be rather inspiring to discuss. Can an overvalued currency be the anchor currency?"

Sergei Glazyev, the well-known Russian economist and member of the State Duma, raised the same basic question, asking LaRouche to clarify his proposal for a fixed-exchange-rate system, in view of what he characterized as the "hopeless situation of the dollar." Glazyev pointed to the circumstance, that the amount of dollars already created by the Federal Reserve, exceed by some 20-25 times, the total amount of gold and currency reserves held by the United States. The Russian ruble, for example, has a reserve backing of 1:2. Would this not mean that the dollar would have to be drastically devalued?

LaRouche responded, that the determining factor is not reserves, but the potential productivity of the U.S. economy. The United States still has important technologies, and a great concentration of machine-tool capability, in the automobile sector—if this is not destroyed—besides the military sector. We have to have, now, a full mobilization for rapid growth in the United States, coupled with a reorganization of the financial system, creating a new sum of U.S. debt obligations on a 25-50 year level. By monetizing this long-term debt, we can create credit for world development.

Europe does not have the capability to carry out such a policy, but the United States does, LaRouche said. We will make up long-term trade and credit agreements. We will change prices, introduce protectionism, and change taxation rates. We will tax at a higher level, but give tax credits for

those things that are useful to the economy, as President Kennedy did. We will go for the greatest infrastructure expansion in history. With a science-driver approach, we can transform this planet.

In further discussion, focussing in part on the ongoing crisis of the European Union (EU), LaRouche elaborated his policy for a radical return to the principle of national sovereignty and national banking, according to the “American System.”

LaRouche said that we must maintain the principle of the sovereign nation-state. This is not an administrative question. This is a matter of the personal identity of human beings, expressed (in part) through the instrument of a language-culture. We need a system of cooperation *among* sovereign nation-states, not a minestrone of nations. The very idea of the EU, was an idea of globalization, of a world empire. This is evil. I would return the United States to be a standard for sovereignty, throwing away the ugly stuff which has developed in the United States through British domination. Then the U.S. standard can inspire people to return to the sovereign nation-state.

We have to go back to nation-state currencies, LaRouche declared: “If a government does not control its currency, then it doesn’t control anything.” Put the central bank system into receivership through a suitably created state institution. Such a state institution then becomes the basis for creating a national banking system. We won’t eliminate private banks, but rather place them under regulation. We shall create credit by the national banking system.

LaRouche was extremely sharp in his condemnation of the European Union’s economic policies. A cruel example, he noted, is how Polish workers are brought in to Germany and France to work as cheap labor, at Polish wage levels. We have Polish people with professional qualifications, even people trained as doctors, hired to pick vegetables for you. This is an intrinsic injustice. The physical-economic conditions of life in Eastern Europe are worse than under the Soviet-era Comecon, because the authors of the EU policy decreed it so. But at present, every single central banking system in the EU is bankrupt.

Two Russian Views

In his prepared remarks, Russian State Duma member Sergei Glazyev thanked LaRouche for his “very important initiative.” Originally, when LaRouche spoke of a financial collapse, Glazyev said, people didn’t listen. But now the crisis is here, and it is time to think about a new financial architecture. Unlike LaRouche, Glazyev said, he sees no way to prevent a collapse now. Rather, “we must try to minimize the costs of a transition” to a new system after the old one has disintegrated. The global financial system is a financial pyramid, he said, emphasizing the role of the U.S. dollar which “cannot be saved.” The value of the mass of dollars created

by the Federal Reserve—which is 25 times more than gold and currency reserves, and 60% of which is circulating abroad and out of control of the Fed—is being maintained by financial speculation, political blackmail, and wars. This cannot continue indefinitely. We would actually need to declare the bankruptcy of the Federal Reserve and the dollar system. But this would create a huge panic, and a collapse of the dollar, not by 20-30%, but by 20 *times*. Therefore, Glazyev argued, the crash is sure to occur.

He continued by outlining his views on the principles of a new financial system. First, he said, no nation should be allowed to “privatize the creation of a reserve currency,” the way the United States has done after 1971. Second, all nations must agree to financial discipline in the creation of currency and reserves, as well as to rules concerning interest rates. Third, we will need a multilateral reserve fund, which could be financed by contributions or by a worldwide tax on financial speculation.

Who could initiate a new system? Glazyev considers, that the United States and Japan would not agree to the necessary limitations. Some other countries, however, have room for maneuver, and would not have to wait for the others. Among these is Russia, with its considerable reserves, as well as China and India, which have maintained control over their monetary systems. Some Arab countries might join, and if the European Union went in, this would provide an Eurasian basis for a new financial architecture. This matter is very delicate, and we don’t want to trigger the collapse, he said, but we should discuss it.

Prof. Stanislav Menshikov, former high-level Soviet diplomat, economist, and commentator on Russian and world affairs, took exception to Glazyev’s conclusions concerning the role of the United States and the dollar. First, he emphasized, LaRouche is not simply saying that the system is collapsing, but that the United States has to take responsibility to prevent the world from falling apart. This is a demand for *active intervention*, which is very important. Now, how are you going to have a new system, without the United States? Menshikov asked.

The euro is very close to being a fiction, Menshikov said. In the long term, nothing will work without a development of the physical economy, as LaRouche says. But we have the immediate problem, to prevent the world from going to pieces. For this you cannot eliminate the dollar. Without the United States, nothing will happen. We need a whole series of negotiations. This has to be worked out in detail.

Russia has a real interest in such a New Bretton Woods agreement, Menshikov said, suggesting that the Russian Duma take action similar to Lettieri’s initiative in the Italian Parliament.

But the next question is, he said, who should be the parties of the agreement? Clearly, it must be an agreement between states, not between central banks. The central banks cannot

do anything. And we will need better governments. We must throw out the neoliberals. Who will represent Europe? Menshikov asked. The recent votes in France and Holland, were against both the EU and the policy of their governments. The euro is a crazy thing, whose introduction was connected with a huge inflation that nobody wants to talk about. He suggested that the EU *per se* does not need to be included in the New Bretton Woods negotiation, but rather that the leading roles should be played by Germany, France, and Italy.

Monetary theory is rubbish, Menshikov said. But it is not enough to say, “let’s have fixed exchange rates.” We will need a set of guidelines for fiscal and monetary policy. Perhaps we need a basket of currencies. But in any case, Menshikov said, a long-term solution will require the real physical economic component. In this context, he endorsed Helga Zepp-LaRouche’s call (see below) for putting the Eurasian Land-Bridge back onto the international agenda.

The problem raised by several participants, concerning the future role of the dollar and the determination of values of currencies in a new world monetary system, was addressed at length by LaRouche in an exchange with Professor Menshikov, excerpted below. LaRouche emphasized, that this is not a financial-technical issue, but one of physical economy. “Throw out the accountants!” LaRouche declared, calling on people to give up the “crazy ideas about money” which are responsible for much of the economic disaster the world is now suffering.

Getting Bush and Cheney Out

Apart from LaRouche, two other main speakers highlighted the historical background and nature of the fundamental struggle going on in the United States today, and upon whose outcome depend the prospects of creating a new world monetary system and preventing a descent into a new dark age.

Dr. Clifford A. Kiracofe, a historian teaching at the Virginia Military Institute, cited the warnings of U.S. Presidents Abraham Lincoln, Franklin Roosevelt, and Dwight Eisenhower “against the power of entrenched financial and business interests to overturn the American republican form of government,” and he pointed to the nature of the imperial faction which has pushed the United States into the disaster in Iraq, and is pushing for a possible war against Iran now. Kiracofe explained that the policies of the American imperial faction are modelled on those of the 19th-Century British Lord Palmerston—a man who, among other things, was passionately devoted to the destruction of the United States itself, by splitting it into separate Northern and Southern confederations. When initial British attempts did not work out, Palmerston, Lord John Russell, and others framed the British policy of fomenting the southern secession and the ensuing U.S. Civil War.

After the defeat of the Confederacy—in which, Kiracofe



EIRNS/Wolfgang Lilge

Dr. Muhammad al-Sayed Selim of Egypt (left) and Dr. Yuri Gromyko of Russia.

emphasized, Russia had been a staunch friend of Lincoln and the Union—British strategy gradually moved toward “rap-prochement” with the United States against Germany, leading into World War I. Thereafter, the British continued their entente strategy, principally through an alliance of certain British and American financial circles, as typified by the Harriman interests and the Lazard banking establishment, laying the basis for the 20th-Century “Anglo-American establishment.”

Significant elements of this Anglo-American establishment, he said, promoted the fascism of Mussolini and Hitler. From there, Kiracofe traced the continuity of Palmerston’s evil tradition through to Henry Kissinger and Zbigniew Brzezinski, who have influenced U.S. imperial strategic thinking for almost half a century. Brzezinski’s mad geopolitics was carried over into the Clinton Administration by his former student, Madeleine Albright, and now by Secretary of State Condoleezza Rice, herself a former student of Albright’s father, Joseph Körbel.

Professor Kiracofe closed by noting that “the factional struggle in the United States, between a corrupt oligarchy favoring imperialism and those who support republican institutions, has roots in 16th- and 17th-Century England. After the organization of the British colonies in North America, the factional struggle came to our shores, and has not ceased,” he said.

“Will the American Republican and Democratic Parties liberate themselves from the pernicious influence of transna-

tional oligarchic circles?” he asked.

The prospects for accomplishing such a now-urgent “liberation” of the United States today, were presented by *EIR* Counterintelligence Director Jeffrey Steinberg. Steinberg briefed the participants on the key role of Lyndon LaRouche in the process leading to the defeat, on May 23, 2005, by bipartisan forces in the U.S. Senate, of an attempted coup against the U.S. Constitution by the Bush-Cheney forces. He told the story of how a top Republican Senator had been called into the White House and accused by Karl Rove and Dick Cheney, of working with LaRouche. This was factually untrue, but Rove had good reason to conclude, that an ongoing political change was occurring in and around the Senate, which could have “no other explanation, than that Lyndon LaRouche had effected a change of personality in U.S. institutions”: Suddenly, they had become infected with the living words of the American Founding Fathers!

How did that happen? Steinberg explained: First, was a series of some 20 strategic webcasts by LaRouche since November 2000, emphasizing, not least of all, the insanity and incompetence of Bush, and setting forth his analysis and strategy for how to get out of the mess. These webcasts permitted people in the Democratic Party, and around Congress and other institutions, to discreetly follow LaRouche, leading gradually into the advanced level of dialogue, people can see in the transcript of the last webcast. There it becomes clear how LaRouche has established his position as de facto Commander-in-Chief of the Constitutional forces opposing the Bush-Cheney regime.

A second key element, Steinberg stressed, was the unleashing of the LaRouche Youth Movement, including their concentrated deployments into the U.S. Congress, distributing huge amounts of material, and organizing hundreds of young Congressional staffers. This deployment confronted people in and around Congress with a paradox: On the one hand, they did not have the intellectual tools to organize such a Youth Movement—who of them would be able to teach a course on Gauss, for example?—while on the other hand, they could empirically see the extraordinary effectiveness of the Youth Movement as a political force. This put many in the position of having to reconsider their own approach to politics.

The work of LaRouche and his organization has put the White House in a state of hysteria. They are destabilized and wounded politically. Bush has become a lame duck faster than any other President in history. We are on the brink of bringing down Bush and Cheney, and we have activated some qualified political leadership in the country.

The American Concept of Freedom

In his opening remarks, and repeatedly in the course of the dialogue, LaRouche touched on the point, paradoxical to many, that the American System of economics is neither capitalist, nor socialist. At a certain point, Italian parliamen-



EIRNS/Wolfgang Lillge

Hon. Mario Lettieri, an Italian parliamentarian and leader of the fight for a New Bretton Woods.

tarian Lettieri asked LaRouche: How can you link the importance of the freedom of private entrepreneurs, to a strengthened role of the state? I have seen how an excessive role of the state can lead to a degeneration of the economy, Lettieri said.

LaRouche responded with some fundamental points on the true nature of freedom.

Under U.S. President Truman, and the influence of people such as Henry Luce, LaRouche said, the Congress on Cultural Freedom (CCF) was created to destroy the heritage of Classical culture, to deny the existence of rational creativity, and to instill fascist values in the name of educating people for “democracy” and “anti-communism.” This operation featured the influence of such figures as Adorno, Horkheimer, Hannah Arendt, and other friends of the outright Nazi, Heidegger. It produced a generation which has largely gone crazy, the generation that became known as the 1968ers or “baby boomers.” Its epitome is manifested in the green, anti-nuclear-power movements, and its members now dominate leading positions in society today. As a result, scientific education is virtually destroyed, and a cultural paradigm shift was effected, which made possible the downward changes in economic policy and practice, that have led to the present disaster.

It was with this as background, that LaRouche some years ago, acted to create a new youth movement, from young adults who had grown to despise the degeneracy of their parents’ generation—that is, the 1968er generation. After a few years of self-education, according to the standards set by LaRouche, which features Carl Friedrich Gauss’s 1799 attack on the scientific sophistry of Euler and Lagrange, and intense choral work focussed on Johann Sebastian Bach’s “Jesu, meine Freude,” members of the LaRouche Youth Movement have

become proficient in grasping scientific conceptions that are incomprehensible even to many professionals. They concentrate on the creative processes of mind, that are the definition of freedom.

Lack of freedom is not a problem of a system of government, but rather of the way a system of government is used. If you give people access to creativity, then you will not have oppression of society. The problem is the stultification of rational creativity. The only correction is to inspire people to discover the humanity in themselves. Don't seek a cure by imposing rules. It is periods of Classical cultural development, as the Renaissance or the revival of Classical culture in Germany around Lessing and Moses Mendelssohn, that produce the idea of freedom. We must organize society around cultural creativity, not Hobbesian competition.

The Time Has Come for the Eurasian Land-Bridge

Helga Zepp-LaRouche, wife of Lyndon LaRouche and an influential world political figure in her own right, began by presenting the reasons for her recent decision to run for Chancellor of Germany in the projected, early elections. We have a lack of leadership from all sides, she said. The economic and financial collapse is feeding into a condition of ungovernability. The Social Democratic Party (SPD) needs to retool itself, dropping the Greens and the Green ideology, which are a major basis for adoption of the so-called Hartz IV and Agenda 2010 austerity policies, and failure to overthrow the EU's Maastricht Stability Pact. The SPD is in a pretty rotten state, but the alternative parties (CSU-CDU-FDP) are far worse. The Christian Democratic Union (CDU) has abandoned the tradition of Konrad Adenauer and is now dominated by the neo-conservative Mont Pelerin Society. The CDU and CSU (Christian Social Union) coming to power would mean doom and disaster for Germany.

A major cause of the present situation is the way "Germany was forced to swallow a poison pill," she said, as a condition of reunification, including 1) replacing the deutschemark—a very strong currency—by the euro; 2) radical economic reorganization of East Germany, leading to a nearly complete de-industrialization and depopulation of countless towns and cities; 3) destroying the economies of the former Soviet Union and Eastern Europe, including the collapse of Russian industry to one third of its former levels.

At that time, Zepp-LaRouche said, we proposed the "Productive Triangle Paris-Berlin-Vienna," a program to build infrastructure development corridors, which could have exploited the industrial capabilities in the East, while modernizing them. But then came the assassination of Herrhausen and Rohwedder, Margaret Thatcher's "4th Reich" campaign to demonize Germany, George Bush senior's "New American Century," and the influence of French President Mitterrand.

After the collapse of the Soviet Union, we expanded our proposal into the "Eurasian Land-Bridge" program for trans-

continental infrastructure corridors, as a backbone for developing the agriculture, industry, and advanced technologies throughout Eurasia. But, again, a great opportunity was missed. As a result of the mistakes made, we are now in a collapse. There is only one answer: to put the Eurasian Land-Bridge program back on the table, now, in a big way.

Nobody should underestimate my candidacy for the Chancellorship, Zepp-LaRouche continued. I represent the only solution, with my direct connection to the United States (her husband, Lyndon LaRouche!). The partnership of Germany with the United States is key. My candidacy will catalyze cooperation among nations for a New World Economic Order.

Zepp-LaRouche spoke of the urgent need for a worldwide moral and cultural renaissance, to bring the political order of the world into cohesion with the "order of Creation." We must bring in metaphysical considerations, she said, citing the concept of "my friend, Nicholas of Cusa," that each microcosm must work for the development of each other microcosm. We must remember the words of the great poet Schiller, who said, that only in a beautiful mind can reality be reflected.

An optimistic note, concerning the prospects of development for the "southern tier" of the Eurasian Land-Bridge, was sounded by Prof. Muhammed Seyyed Selim, Director of the Center for Asian Studies at the University of Cairo, who is presently teaching in Kuwait. He reviewed in some detail the plans and ongoing projects among the nations of Southwest Asia, to develop a modern regional network of railway lines and other infrastructure connections. A major problem, he said, is the uncertain security environment in the region.

Chandrajit Yadav, former Minister and Member of Parliament of India, and President of the National Social Justice Movement, picked up a major theme of Helga Zepp-LaRouche, addressing the cultural and moral issue of the world crisis from the standpoint of India's role. The present monetary system has failed, he said. The common people are awakening, and raising their voice. One should learn from the Indian experience, including the qualities of leaders such as Mahatma Gandhi and Indira Gandhi, and the successes of India's mixed economy. The days are over, when the West can arrogantly dictate policies to the East, he said. Globalism is the enemy of poor people around the world. Just now, also, the huge increases in energy prices are having a devastating effect.

Yadav described as extremely promising, development of the "strategic triangle" of Russia, China, and India, originally put forward by former Russian Prime Minister Yevgeny Primakov. The recently concluded meeting in Vladivostok, Russia, included a 25-year trade agreement, an agreement for China to explore oil in Siberia, an agreement for cooperation with India in Central Asia, and pledges to drastically strengthen the trade and economic ties among the three nations. Over the last three years, Yadav said, trade between India and China has grown from a mere \$3 billion to some

\$13 billion per year, and it is projected to rise to \$30 billion over the next 7 years. At the same time, trade with Russia will grow to \$28 billion. Yadav closed his remarks by highlighting the challenges facing India's announced policy to become a "developed country by the year 2020."

Concerns of China

The paradoxical situation of China, with its rapid growth and increasingly key position in the world economy, featured prominently in the seminar discussions. While praising China's commitment to the development of its entire population, as a significant, positive feature of the world situation, LaRouche pointed out that 70% of China's population remain desperately poor. Moreover, the "globalization" policy of shifting production from infrastructurally developed areas in the United States and Europe, into "cheap labor" areas such as China, is actually collapsing the overall productivity of the world economy, and preventing China from carrying out the necessary, in-depth development of infrastructure, upon which its future depends.

Dr. Ding Dou, Associate Professor at the School of International Studies of Beijing University, began his presentation "On the Political Economy of RMB [China's currency, the renminbi] Revaluation" by reminding his listeners of the heavy pressure that the present U.S. Administration has been applying on China, to up-value its currency in relation to the

dollar. So far, he said, the Chinese government has steadfastly refused to yield to this pressure. Ding Dou noted that the huge growth of China's foreign currency reserves is mainly the result of the large inflow of foreign capital into the country, and of China's trade surplus. This currently includes a large inflow of "hot money"—betting on an upvaluation of the RMB—which is being closely watched by Chinese authorities, and complicates the issue of revaluation. This capital inflow also increases the money supply, threatening to cause inflation and overheating of the Chinese economy.

Although China's exports are being blamed in the U.S. for the loss of jobs, Ding Dou noted, there is no easy way for the United States, whose economy is 70% dominated by the service sector, to decrease its import dependency. China effectively subsidizes U.S. consumers. An appreciation of the RMB relative to the dollar would not automatically lead to a decline in the U.S. trade deficit, he said. Also, major U.S. business interests are profiting from China's export. Furthermore, China is presently a major holder of U.S. debt, with one third of its foreign currency being used to purchase U.S. Treasury bonds. An upvaluing of the RMB would mean losses to China, and would have possible effects on U.S. interest rates as well. Hence, both sides should be cautious.

In addition, Ding Dou said, there are important internal concerns in China. The fixed pegging of the Chinese currency to the dollar, since 1994, has provided an anchor for all kinds of financial transactions, helped ensure price stability, and bolstered subjective confidence in the RMB among the Chinese population. This, in turn, is a major factor that is maintaining confidence in the 56-year-old Chinese Communist Party, in the face of problems like unemployment and the growing income gap. The Chinese government is also concerned about the large amount of non-performing bank loans and the consequent dangers that might accompany any further liberalization of capital accounts.

The Chinese government, Ding Dou said, is following a policy of risk avoidance, and the risk of inflation, unemployment, and loss of social stability is larger, if the RMB were to be revalued, than if the peg were maintained at its present level. Although one could revalue the RMB overnight, adjusting the trade structure of China would take much more time. Finally, as Chinese Premier Wen Jiabao recently affirmed in a speech to the U.S. Chamber of Commerce, China has the policy and tradition, of never succumbing to foreign pressure.

For all of these reasons, he said, no one can say when the Chinese government might revalue. But it will take time.

The presentation by Dr. Song Hong, senior researcher at the Institute of World Economics and Politics of the Chinese Academy of Social Science (CASS), provided additional insight into the dilemma facing China and the world as a whole, as a result of the "globalization" policy of recent decades. China's recent, rapid growth has been powered, in large extent, by its integration into a new worldwide manufacturing system, that began to emerge decades ago, when Japan moved

America's Untold Story

How the trans-Atlantic republican movement waged a continuous fight for freedom, beginning with John Winthrop's Massachusetts Bay Colony in 1630.

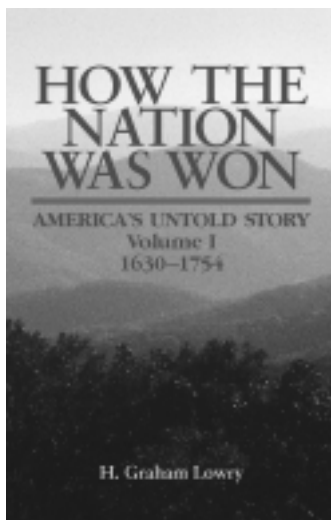
\$19.95

ORDER FROM:

**Ben Franklin
Booksellers, Inc.**

Toll free (800) 453-4108
(703) 777-5661 fax (703) 777-8287

Shipping and handling: Add \$4 for the first book and \$.50 for each additional book. Virginia residents add 4.5% sales tax. We accept MasterCard, Visa, American Express, and Discover.



labor-intensive production to South Korea and Taiwan, followed by the U.S. doing the same in Mexico.

Ninety-five percent of Foreign Direct Investment (FDI), he said, has been in the form of “green field” investment, and 70% of that has been concentrated in manufacturing sectors. But most of this involves processing, rather than complete fabrication: Components are imported, certain processing steps are carried out in China, and the product is exported again as part of a multinational manufacturing network. Thus, Chinese exports have become closely linked to imports: in order to export \$1 of value, China must import up to \$0.66 (two thirds of a dollar) in inputs. Song Hong also noted that the trade *surplus* of mainland China to the United States, for example, is connected with a trade *deficit* with Japan, South Korea, and Taiwan. Because of this growing interdependency, problems will require multilateral solutions.

In the discussion, it was pointed out by LaRouche and others, how exceedingly vulnerable China and other nations have become to the kind of chain-reaction crises that a dollar collapse would bring about. The world is interconnected as never before. China has a vital interest, therefore, in working together with the United States and other nations, to bring a new world monetary system and new world economic order into existence as soon as possible.

The Danger of War

The situation in Iran after the recent Presidential elections, the recent instability in Kyrgyzstan and Uzbekistan, and the possibility of a new U.S. military adventure in the region, were recurring concerns at the Berlin seminar.

Major General (ret.) Assir Karim, a respected Indian analyst of regional security issues, spoke about the worsening situation in Central Asia on the background of a result of a new “Great Game” between competing outside powers. Instead of being able to play a positive role as an economic and cultural bridge, Central Asia is locked into a state of permanent instability. Extremely rich in resources, Central Asia lacks the infrastructure needed to develop those resources. Ethnic groups go across the political boundaries, as do criminal syndicates and Islamic fundamentalist groups, which are now strongly on the ascent. The situation could still be turned around, he said, if outside powers would join together to do something for this region, looking at it as a major development area.

Above all, Karim said, its prospects would greatly improve, if the conflicts in Afghanistan and Iraq were resolved. Unfortunately, this is not happening. A new major conflict in this region would be extremely difficult to contain, tending to draw in one nation after the other, all the way to Europe, into a spiral of destabilization.

LaRouche repeatedly called attention to the British role, both historically and under Blair today, in fomenting regional conflicts as a method of imperial domination. Continuing British influence, as exemplified by recent events in Iran and



EIRNS/Wolfgang Lillge

Dr. Muhammad al-Sayed Selim is the director of the Center for Asian Studies, Faculty of Economics and Political Science, at Cairo University in Giza, Egypt.

Uzbekistan, in particular, LaRouche said, has rested on long-term, in-depth cultivation of leading families in each region, down to the town and village level, providing the British with an unequalled degree of “finger-tip control.” LaRouche recounted his own personal experience in India in 1946, when he “got a belly-full of the British empire” and its bestial methods.

LaRouche warned of the tendency, now, of the Bush-Cheney-Blair-Sharon connection, and their backers, to launch major new provocations. On the one side, the U.S. is running out of troops to deploy in any future military operation. But exactly in such circumstances there is also a great danger, of developments like those around 1922, in which a lot of people get killed, by assassinations, coups, and the like.

A German military expert stated his view, that there is no big risk of a U.S. military operation against Iran, in particular. The main reason, he gave, is that the Iranian military capability—unlike that of Iraq before the recent war—remains intact, and U.S. forces in the region are within range of Iran’s artillery.

LaRouche responded by warning that most people operate with axiomatic assumptions in their minds, about what is true and false, possible and impossible. Whereas, in military his-

tory, you have two types of situation, in which the seemingly “impossible” is made to occur. One is the case of a rational strategy, that exploits the strategic blindness of an opponent. The other is the case, in which one side, even if something may not make sense, might do it anyway. For example, the “chicken game,” the strategy put forward by the Rand Corporation in the 1970s, in which one side declares, in effect, “I am a madman.” So, today, you have the danger, also from Israel, that some idiot might be deployed to to something crazy, and the government says, we don’t care about the consequences.

Don’t overlook the danger that, according to a new Bush Administration policy, a regional element of the Air Force could drop a nuclear weapon. This is very much on the table today. If such a thing happens, where would that stop? The situation is highly unstable, LaRouche said. Bush, Cheney, and Blair are clinically insane, and the future of civilization depends on getting them out of power now.

Dialogue With LaRouche

How Do You Determine A Currency’s Value?

In the concluding panel of the seminar on June 29, LaRouche responded to a lengthy question from Prof. Stanislav Menshikov of Russia, asking how nations would come to a determination of the values of their currencies and relative exchange rates. The discussion here has been edited for publication.

LaRouche: I just want to focus on one particular point, which is crucial, which is one which has to be—the least likely to be understood, and the most important to be understood: On setting the rates of relative values of currencies in an emergency, new monetary agreement.

Now, the problem here, is a problem of method. It’s a problem, the distinction between the Aristotelean method of astronomy, that of Claudius Ptolemy, which is fraudulent, and the method of Kepler. Now, this is a very ancient issue. It’s the same issue which is raised by Leibniz. In the Ptolemaic model, it’s the mind of the accountant. And the first thing you have to do, in dealing with economics, is get rid of the accountants. It’s like getting rid of Claudius Ptolemy on the way to understand astronomy.

The value of a currency is not its statistical average value today, based on exchanges. The value of a currency is its *power*. Now the power of a currency is expressed, how? It’s

expressed by the rate of growth of the economy. If you invest, you’re talking about investing in a currency. Now, there is such a thing as an interest rate. But the question is, what is the real *earned* interest rate? What is the real *earned* rate of gain, of a currency? And that determines its relative value.

Now, you’re dealing with, today, if you take the statistics of today of any part of the world economy, and you try to negotiate on the basis of that, you are worse than Claudius Ptolemy, who committed a deliberate fraud. It wasn’t just a mistake or backwardness. The guy was a hoaxster. He was a Roman. And all Romans lie. So, you don’t start from there.

A Currency’s Power Must Be a Political Decision

The *power*: Now, how do we determine the power of a currency? That has got to be a *political decision* among the relevant governments. You don’t take an average—“Well, we’ll take an average of this currency; we’ll take an average of this currency”—this is absolute idiocy, which everybody will perform!

The question is, then, how do you do that? Well, you say, “What is the rate of growth?” Now, in the United States, for me, it’s very easy. People say the United States is a hopeless case. . . . Not true. . . .

The point is this, we can determine—we will determine the value of the dollar. And I estimate the value of the dollar, on the basis of what we can do with it. . . .

See, the key problem, now, is credit formation. The United States, in particular, has not invested enough money, in terms of credit, or created enough credit power, to build up the infrastructure of the United States. If I, as President, with the support of the Congress, generate an authorized issue of credit under the U.S. Constitution, and I commit that credit to a project of development of basic economic infrastructure, and on existing designs of projects which are ready to go—water projects, power projects, mass-transportation projects, health-care and facility projects, that sort of thing—we can automatically increase the net rate of output of the U.S. economy, *this year*, above breakeven. And it’s now been operating below breakeven for the entirety of the Bush Administration, and even earlier. Even nominally, since 1999-2000, the United States has been operating as a bankrupt entity. And it’s not bankrupt, because it’s a nation, and a nation has the power to make the decision to become *un*-bankrupt. Simply by a decision.

Now, if we make that decision, suddenly the U.S. dollar which is now in poor condition—if you increase the amount of credit issued at low interest rates, under a fixed exchange rate, for these projects which are needed, you immediately take a bankrupt economy, and suddenly, as Roosevelt did, especially as he did from 1940 on—you suddenly have the most powerful economy in the world.

So, what’s the value of the dollar?

The value of the dollar is the *effect*—determined by the *effect* of the decisions which are—that is, the performable decisions—which are made by governments.

Now, in a monetary conference, you don't say, "Let's bring the accountants in." No, I say, "Keep the accountants out. Because they will simply cloud the discussion with nonsense, and you won't get the discussion you want, because you'll be discussing nonsense forever. And debating it." Keep the accountants out, and get the economists in who understand this stuff. And say, "All right, now, here's what the U.S. dollar's going to do. By agreement, by commitment. A sovereign agreement: *We are going to grow. We are going to show you how we grew to be the most powerful economy, the world had ever seen in 1945. What're you going to do? What's your rate of growth? What are your technological commitments? What's your infrastructure development?*"

Increase the Amount of Credit Issued

Well, in Italy, I can go to Claudio Celani, and I can ask him. He's got a list of things that have to be done in Italy. He'll represent Italy. Because we have all these projects: the Mezzogiorno project. We have all the things that go with that, which are urgently needed by Italy! You're going to create credit? You're going to do that—fine. Now, your lira just increased in value.

Germany: Germany's an easy one. You set up an operation based on the Kreditanstalt für Wiederaufbau. You can revive the *Mittelstand*. Go into long-term projects of the type that Germany, and Russia, and China, and India are already developing. But they're now a joke, relative to what the need is. I mean, when I look at these figures relative to the size of these populations and countries, what is being talked about, about growth is important, but it's a joke, compared to what is required.

Now therefore, we go to these countries, and say, "What is your policy? Where's your power? What is your rate of physical growth that you decided to have? And is it feasible? Do you have the project designs, do you have the conceptions that will produce the benefits?"

If we come up with such a list among countries, we then say: Okay. These are the relative values. Are we all committed to them? Yes. Okay, we'll set up a thing. We can even set a two-tier currency system: In some cases you'll set a long-term investment currency system, which will be the official exchange rate of the currencies on a regulated



EIRNS/Wolfgang Lillge

Left to right: Dr. Stanislav Menshikov, Lyndon LaRouche, and moderator Dr. Jonathan Tennenbaum. Dr. Menshikov's intervention sparked an intensive discussion of how nations can determine the value of their currencies.

international market.

Now, take the case like the Russian ruble, which is a piece of trash in many respects. But Russia is a valuable nation, which, under certain programs, will immediately come back, so you want long-term investment. You create a protected area of the official Russian currency. You agree to defend that currency, which is based on a lot of investment in basic economic infrastructure. For example: We all need Russia's—that little institution, the Vernadsky Museum on Red Square, or what used to be called Red Square, in Moscow. . . . This is based on people who are in their 70s and 80s in age. This is the hard core of Russia's scientific capability. This is the Vernadsky capability, which is the potential science-driver of the world today.

And this is also the hard core of what the Russia-China-India complex is: Because infrastructure is the key! Infrastructure and development of natural resources, is the key for Eurasia. And therefore, when you create an agreed investment currency, a long-term investment currency, which you would protect, then you would try to get the other currency to come up into agreement with the long-term currency. The long-term, heavy currency would be the currency of account, for relations among states, at initiation. Then, you would work to bring up the performance of the currency of the state, the current internal currency, up to agreement with the long-term, agreed value of the official national currency.

Infrastructure Is the Key

Now, you define currencies by a tendency toward *equality of power of reproduction*. In other words, a Leibnizian concept; a *dynamic* concept; a Vernadskian concept, in the sense

that you no longer use the Cartesian method of accounting. If you find a Cartesian, you put them in one of these enlarged mental institutions, which you provide for them. . . .

You need to get away from this conception, this sterile, eunuch's conception of an economy. Eunuchs do not—most accountants are intellectual eunuchs—don't take into account the effects of reproduction. . . .

The power of a species is its power of reproduction. The power of an economy, the power of a currency, is a power of reproduction, the rate of improvement.

Menshikov: Can I interrupt you for just a moment? Will you yield?

You know, yesterday, I was listening to the Chinese interventions. They were talking exactly about what you're saying. They were saying, "Okay, the U.S. wants our currency rate to be changed towards the dollar. But that was *the* rate of currency that that helped our country develop in the long run—grow, etc." You remember. "That's the rate of the currency, that helped us to preserve economic growth, and political stability." They're already coming close to that kind of idea—I understand that your idea is more sophisticated.

LaRouche: No. They're not close to it. They're close to it in intention, but they're not close to it in effect.

Menshikov: I see. In intention, they are close.

But, whether it's the correct rate, or not, that's a different—because they are tied to the more immediate issue of

competitive power, you see. Of selling their goods in the world market, you see.

LaRouche: We have to change that immediately, anyway.

Menshikov: They want to do that. But then, you come in and say, "Look. You are selling your stuff for prices that are too low. Five times or six times lower than they should be," right? Now, if they start selling them for the price that you suggest, they will never have a surplus in their economy.

LaRouche: It's not true. It's not true.

Menshikov: According to the current rules—according to the current rules.

LaRouche: Ah!

Menshikov: Of course it's not true! It would be an absolutely different thing.

But—so there has to be absolutely different approach, like something like what you are suggesting now. It's a difficult thing, because, getting those rates, based on those long-term, dynamic features is not an easy thing. But, it can be done.

But, they are thinking in that direction.

LaRouche: Yes, well see, China to me is easy. China's a very easy problem in this respect.

Menshikov: Because they have a government that can do whatever it wants.

LaRouche: No, no. It's not that. It's China has a commitment to its people.

Menshikov: Yes, that's true.

LaRouche: In India, we have the problem with the caste system, which is an obstacle to accepting the responsibility for the poor, by certain leading circles. In China, you have leading circles which are concerned with the future of China, over the coming two generations. *Of all of the Chinese people.* Therefore, you need a power, which is a power of *all of the Chinese people.* Which is a problem which China faces now. I mean we had the discussion yesterday, the presentation yesterday—China does not want to be merely a vehicle to be exploited, by taking in certain things from other countries, processing it, and then re-exporting it. They want an independent *national position in control of their own economy.* And they should have it.

But the problem is, they are now forced to sell *below* market value, true market value, on the world economy. The result is, the skim-off by some Chinese billionaires diverts money from internal purposes. But the result of the relationship, the international relationship, is that there's not the inflow into China, which gives them the *rate of capital formation*, they need to assure reaching goals, which are implicitly set by the Chinese government, for the next 25 years, the next 50 years—a two-generation goal.

Look Two Generations Ahead

So therefore, in defining a *power* relationship, you're looking at least a minimum of two-generations ahead in every country. And you're saying, if you have a rate of development

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



Think Again.

READ

Friedrich List: Outlines of American Political Economy

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

—Friedrich List

\$19.20

ORDER FROM:

Ben Franklin Booksellers

P.O. Box 1707, Leesburg, Va., 20177

1-800 453-4108 toll free or 1-703-777-3661

www.benfranklinbooks.com

e-mail: benfranklinbooks@mediasoft.net

Shipping and handling: \$4.00 for first book, \$4.50 each additional book. Virginia residents add 4.5% sales tax. We accept MasterCard, Visa, Discover, American Express.



of these countries, which you agree to, as an international agreement of cooperation among these countries; and you say, “What’s your rate of growth?” On that basis, you can now set a currency value, based on a two-generation calculation.

Because, why? Because the way we’re going to grow, is by debt. We’re going to increase the indebtedness of the world. But we’re going to increase it, in a calculable way: Which means, we’re going to say, over periods of 25 to 50 years, depending upon what we’re talking about. We are going to create a debt, *which can be repaid* within 25 to 50 years. Therefore, we want to know where we’re going to *be*, as the time for repayment of the debt comes up.

We don’t want to be in position like the United States was in 1957, after I made my first forecast on this kind of thing. You don’t want to be in a position, in which credit is issued on a longer term than the physical life of the product against which you’re issuing credit. Therefore, you can issue credit indefinitely, for the growth of economy, as long as the *net rate of growth of the economy exceeds the amount of net growth of debt-obligation*.

So, rather than looking at it from an accounting standpoint, you’re looking at it from a functional standpoint. If we can develop an economy, up to a certain level, over 25 years or 50 years, we can then *create credit to allow it to develop itself, accordingly*. If it can not grow at that rate, then you can’t give it the credit—because that would be insane.

Long-Term Cycles of Development

So therefore, the *power* of the economy, the relative power of a currency, is its potential rate of growth *over the term for which you are calculating*. And the basic long-term rates—for example: A nuclear plant is a minimum of 25 years. If you’re investing in a nuclear power system, your basic inside estimate is 25 years. It may actually go to 35 years useful life. You have water-management systems, which tend to be a half-century, if they’re properly maintained and properly designed. You have other kinds of things, which are long-term investments, largely in infrastructure, or in heavy capital investment. Agricultural crop: a minimum of three years, for a simple crop. For the development of a land area, to be able to crop it, maybe five to ten years.

So, these long-term cycles, which are a half-generation, or a generation, or two generations, are the characteristic feature of a physical economy. And if we can determine what the physical economic power of development is, then we can set the currency rates *relative to the rate of growth which we can foresee—if we adopt a policy, which ensures that this will happen!*

So therefore, you can’t come and say, “Here’s the value of the currency. Get the accountants in the room and figure out what these currencies are, relative to each other.” That would be insane. And that’s what’s being done now, with bad calculations.

What you now have to do, is say, “What is the policy of

the nations—what must be the policy of the nations?” Then, the people who are the representatives in negotiations, report back to their government, and say, “This is what is proposed. If we accept this policy, this will be the power of our currency, and other governments will respect it, and will sign the agreements.” So, you get an agreement as a result, *not* of accounting calculations. You throw the accountants out of the room. And you say, “What are going to be our *physical economic decisions on investment*, over the coming 25 to 50 years? Over the coming two generations?”

And we have to get people into a consensus, on an agreement: This is what they’re willing to do, to *support each other’s development*. And therefore, instead of having an agreement based on a Hobbesian conflict basis, you must have an agreement based on a desire of participating nations *to help each other*. The same principle of the Treaty of Westphalia. That we can do.

Menshikov: Yes. Very good.

Money Is a Question Of Physical Economy

Here are LaRouche’s closing remarks to the seminar.

The most important thing is, that we’re dealing with a world in which there’s a conception of money, which is the popular conception of money *by* governments, and by leading institutions, which, from my knowledge, is insane, by the standard of the effect of the concept, the way it’s applied. That the value of money should not be determined based on some current accounting value. That accounting should be banned as a method for determining the value of money.

The value of money should be determined by a *scientific* principle, *not* an accounting principle. And the scientific principle is: What is a physically defensible determination of the will of governments and the ability of governments to perform in creating credit, over the long term, for the development of their economies and their productivities? And therefore, we among nations, should recognize this process, *use* this process, and set *values* in terms of credit, and exchange, on the basis of those determinations, which must be *physical, scientific determinations*. Because, the crucial thing is, what is the physical life of the investment? How is it going to be maintained? And how long is it, and what’s its quality? Those are the bases on which you should issue credit: on knowledge of the determination and competence of the government *to create value*, to create wealth, and to have sufficient wealth, *to repay the debt you are creating, in a timely fashion*.

This is a *physical* question, *not* an accounting question.

Undercutting Veterans' Care Backfires on Bush/Cheney

by Marcia Merry Baker and Anita Gallagher

Late on June 30, the House of Representatives voted unanimously for a rush-measure to provide supplemental funding of \$975 million to the Department of Veterans Affairs health-care system for FY 2005; this followed a unanimous vote the day before by the Senate for supplemental authorization of \$1.5 billion. With these votes, it was hoped that by the end of the Fourth of July week, a conference group of the two chambers would resolve the \$500 million difference, and get the money flowing as a stop-gap for the current VA health-care budget hole, revealed on June 23 to be \$1.2 billion or likely more. Acrimony at the emergency hearings in both Houses showed the White House sharply discredited by its exposed “chiselling” of vets’ health care, and Republicans furious that they had been misled, and made to defend that chiselling.

However, true to form, the White House began moving on July 1, to thwart any expedited moves for Congressional resolution of the funding amounts. There could be weeks of delay. In fact, it was the White House itself that reluctantly sent the low-ball request of \$975 million supplemental funding to the House of Representatives on the afternoon of June 30. Even in the President’s speech at Fort Bragg on June 28, less than a week after the news broke of the budget hole for veterans’ health care, Bush made no reference to it whatsoever in his ID-format, “support-our-military-to-fight-terrorism” script.

Despite White House denials and Vice President Cheney’s weekly bully trips to Congress, the hearings and revelations focussed attention on the shameful record of the Bush Administration on the matter of veterans, military health care, and even the related base-closing mania. Since 2001, the Administration has been not only undercutting the VA system,

but resorting to known-to-be incompetent projections of expected VA enrollment; initiating plans for closing VA hospitals nationwide; and covering up the whole situation to Congress as late as this Spring.

On June 23, Sen. Larry Craig (R-Idaho), chairman of the Senate Veterans Affairs Committee, joined with the Committee’s ranking Democrat, Daniel Akaka of Hawaii, Patty Murray (D-Wash.), and others, to tell the press that they are committed to take all necessary action.

Echoes of Halliburton

All kinds of scandal is pouring out about the Administration’s culpability. For example, *à la* the Cheney/Halliburton Iraq contracts, there are the private consulting agencies engaged by the Bush Administration to carry out the shameful undercutting of Veterans Affairs programs. Right now, accounting firm PriceWaterhouseCoopers (PwC) is in the middle of a \$9.6 million, 13-month VA contract, to conduct rounds of public meetings to present rationalizations for shutting down at least 18 major VA medical facilities (New York City; Pittsburgh; Boston; Walla Walla, Wash.; Waco, Tex.; and others).

This Bush Administration program is called CARES—Capital Asset Realignment for Enhanced Services. In PwC’s “Project Overview,” the goal is stated explicitly that VA property should be sold off for real estate gains! In its CARES promo material, the PwC describes its “PwC Role” as to help “Determine potential for VA to capitalize on valuable real property.”

Moreover, the forecasting model currently being used by PwC for rationalizing why the VA system can do without 18 major hospitals, is the very same one, done by the consulting

firm Milliman Co., which has recently been revealed as unable to predict VA enrollment for 2004-05!

Called "Forecasting VA Health Care Demand," the model uses 2002 as a baseline and makes projections of VA enrollment for the next 20 years, by gender, age, and so on. At the June 30 House Veterans Committee hearing, it came out that the Milliman Model projected 23,000 new VA enrollees would need care in FY 2005, when in fact, 103,000 have needed it so far. The model projected a rate of growth of 2.3%, versus the 5.2% which has occurred. It did not take into account the returnees from Iraq and Afghanistan; nor did it consider the enrollment of thousands of elderly and otherwise qualified vets, newly poor and without care.

So what? At a May 3 PwC hearing in Texas, on shutting the Waco VA Medical Center, PwC presented consultants who proclaimed that the "CARES [Milliman] model provides a reasonable analytical approach for estimating VA enrollment, utilization and expenditures."

There is a further scandal. The "beyond-model" increase in the VA enrollment over 2004-05, took place *despite the Administration's action in January 2003, to unilaterally suspend enrollment indefinitely for those vets fitting in VA Category 7 and 8*; this refers to veterans who served in the military in good standing and need health care, but may be in the middle-income range. There are now millions of such vets who have lost health care since 2000, given the number of companies which no longer provide any health care, or have closed down outright.

Out of the total number of nearly 26 million veterans in the U.S. today, some 7 million are in the VA system; but of the sub-group under 65 years old—which numbers about 17.1 million—at least 12% have no health-care coverage whatsoever.

Harm to Vets and to VA System

At the late June hearings on emergency funding needs, Congressmen themselves provided reports of the problems of veterans not getting care, and the acute unmet requirements of the staff, plant, and equipment of the VA system itself. One Representative reported a sign at the VA hospital in Vermont, that all three operating rooms will be shut for three months due to budget shortfalls. No non-emergency surgery will be performed at the Portland, Ore. VA hospital for six months; a sign also instructs families that no more meals will be served to patients; bring food from home! Rep. Bob Filner (D-Calif.) said there are 231 staff vacancies in the VA hospital in San Diego; 1,000 people on a waiting list; and no dental care for two years. He called for VA Secretary Jim Nicholson to resign.

The same kind of documentation was provided earlier this year to Congress. In the Senate in March, state-by-state inadequacies were reviewed. In Boise, Id., there was a \$1.8 million deficit at the VA facility. There was a hiring freeze, despite a 7% workload increase in FY 2005. There was no



U.S. Army/Staff Sgt. Carmen Burgess

World War II veterans commemorate the 60th anniversary of the Allied victory in Europe, May 6, 2005. The House and Senate are rushing to repair some of the damage of the Administration's bid to close down veterans' hospitals and deny treatment.

money for staff education. In Chillicothe, the psychiatric rehabilitation center was shut down. In Manchester, 30 nursing home beds were not opening as planned, in order to save \$1.3 million.

Sen. Susan Collins (R-Me.) provided more details on New England, where there was a \$14 million deficit at facilities, causing a hiring freeze and lack of equipment replacement.

Murray, Akaka, and others called for adding \$2.85 billion in March. This was derived by figuring \$1.4 billion needed for inflation, plus for modest salary increases. The new workload from Iraq and Afghanistan returnees is underfunded. In particular, mental health and prosthetics require increases. But Nicholson, then newly named VA Secretary, said that none of this was necessary.

In fact, Nicholson's predecessor, Anthony J. Principi, Secretary from 2001 to January 2005, did tell the House earlier this year that \$1.2 billion in supplemental VA funding was needed for FY 2005, given the increased expenses involved in the "unexpected" influx of enrollees, but said that the White House had denied his request. Soon after that, Principi was removed. Rep. Chris Smith (R-N.J.), the chairman of the Veterans Affairs Committee, was also forced out as chair and purged from the Committee entirely, for denouncing the White House VA medical undercutting.

On March 25, Principi became Commission head for the Base Realignment and Closure (BRAC) study of the Pentagon, calling for closure of 33 major military installations, including the flagship Walter Reed Army Medical Center. Principi had presided over the Milliman Forecasting Model, and the launching of the VA CARES project. Bush had to install Principi at BRAC as an Easter-break recess appointment, to avoid the wrath of the Senate at the time. Sen. Trent Lott (R-Miss.) had vowed to hold up Principi's nomination indefinitely.

Rumsfeld's Base-Closing Plan Attacks American Military Tradition

by Carl Osgood

So far, the arguments against Secretary of Defense Donald Rumsfeld's base-closing plan have focussed on the fate of particular bases, without considering whether or not the entire plan makes any sense. To some degree, therefore, the hearings of the Defense Base Realignment and Closure (BRAC) Commission have been "begging and pleading sessions," where witnesses—backed by hundreds or thousands of demonstrating supporters—are asking the commission to save their particular bases.

However, the 2005 BRAC round is taking place in a political and strategic context fundamentally different from that of earlier base-closing rounds—that of an imperial strategic policy of global perpetual wars, adopted by the Bush/Cheney White House, and by the same Defense Secretary who is proposing to close more than 30 "major" U.S. military bases, and scores of others, within the United States (**Figure 1**). With this preliminary report, *EIR* begins an assessment, to be continued in future issues, of Rumsfeld's plan, within the strategic context in which it is situated, as well as both its military and economic impact.

The four rounds of base closures and realignments that took place between 1988 and 1995, all came in the context of the end of the Cold War and the consequent reduction of military force structure. The military services were reduced from 2.1 million men and women in uniform in 1988, to 1.3 million by the mid-1990s. If one accepted the logic of that force reduction, reducing military infrastructure may have made sense. There is no force reduction underway in 2005, however. Instead, the military services are being retooled for aggressive war abroad, simultaneous with the destruction of the economy and republican military defense at home. Rumsfeld's base closing plan is part and parcel of that retooling.

The wars of the George W. Bush Administration, aggressive, and focussed as they are on Southwest and Central Asia, with threats to develop in East Asia, are calling forth a military force structured more like that of imperial Great Britain up through World War II, or that of Nazi Germany in the 1930s, than a force structured to defend a republican nation-state such as the United States was founded to be. There's a significant emphasis on a highly mobile force that can deploy

rapidly anywhere in the world, supported by minimal infrastructure. The reorganization of the military that Rumsfeld has been implementing, is predicated on that outlook. So, therefore, is the shrinking of the military infrastructure in the United States, contemplated in the Pentagon's plan.

As Secretary of Defense from 1989-93, Dick Cheney was promoting a preventive war policy, of which nuclear weapons were an integral part, even as the U.S. military force draw-down was getting under way in the late 1980s and early 1990s. That policy was rejected then, in 1991, by the George H.W. Bush Administration, and not resurrected until the George W. Bush Administration came into office in January 2001, with Cheney as Vice President. Along with Donald Rumsfeld as Secretary of Defense, Cheney is now overseeing the reorganization of the military services to carry out that policy of "perpetual war," which he put forward unsuccessfully in 1991-92, after the first Gulf War.

The reorganization that is under way, includes reorganizing the Army's ten divisions into 43—and later 48—"modular" combat brigades, better suited to rapid deployment and to long-term occupation duties on a rotational basis. It also includes the adoption by the Navy, of a posture where it can "surge" up to seven aircraft carrier battle groups within 30 days of being told to do so.

A Positive Mission for Military

The overall reorganization runs counter to the republican military tradition established with the founding of the United States, a tradition which includes that of the citizen-soldier. The U.S. Military Academy at West Point was founded, in 1801, as an engineering school, not only to make available the most advanced science and engineering then existing in Europe, but to develop it and propagate it throughout the United States.

One result was that throughout the 19th Century, engineers trained at West Point, built railroads across the country, and later, helped build them in other countries, including Peru, Thailand, and the Trans-Siberian Railway in Russia, as part of economist Henry Carey's 19th-Century Eurasian Land-Bridge policy to outflank the British Empire's control of the seas.



U.S. Air Force/Master Sgt. Dave Nolan

There is no military force reduction under way in 2005. Instead, the military services are being retooled for aggressive war abroad, simultaneous with the destruction of the economy and republican military defense at home. Rumsfeld's base closing plan is part and parcel of that retooling. Shown here is an Air Force bomber and a munitions technician at Ellsworth Air Force Base, South Dakota, which is slated to be closed.

That same engineering tradition was a key component of the logistical capability without which the United States could not have won World War II. The scientific analog of that tradition can be found at the Walter Reed Army Medical Center in Washington, D.C., which has been at the leading edge of medical science for almost a century, as documented in the July 1 issue of *EIR*. Yet, to the shock of medical professionals, veterans, and citizens alike, Walter Reed is today on the Pentagon's list for closure.

In response to a question at a September 2000 conference in Washington, D.C., Lyndon LaRouche defined a positive mission for the military as follows:

The function of strategy, and strategic thinking, is to secure the kind of world order which we require, as a result of commitments which were shaped, essentially, in the 15th-Century Golden Renaissance. That is, we are for a system of sovereign nation-states, each committed to the general welfare of all its people and their posterity, and who believe that the relations among such states must be joint action to ensure the common ability of each such state to efficiently defend the general welfare of its own people.

The military officer, functioning as a strategist, LaRouche said, "is not trying to find out what war to fight. He's trying to understand what the threat is, to the effort to defend and build this kind of state and this kind of relationship among states." LaRouche went on to specify that the enemy of the general welfare is the British monarchy, the British Empire, which wants to exterminate this general welfare principle, but without taking an unacceptable penalty to do so. "And therefore," LaRouche said, "we have to have the military means to back up our will, in terms of this policy. And that's

Classical strategy."

LaRouche went on to counterpose this to the "Cabinet warfare" doctrine, as exemplified by Henry Kissinger during the Vietnam War, where he would "turn the war on and off," in order to manipulate the Paris peace negotiations with the North Vietnamese, attempting to modify their behavior by the application of force. "This kind of foolishness," LaRouche said, "destroyed the U.S. military," which was "induced to destroy itself by accepting this kind of State Department directive on conducting Cabinet warfare."

LaRouche concluded by defining the principle of statecraft:

The principle of statecraft, as has been proven, is the establishment of sovereign nation-states, whose only legitimate authority is their efficient commitment to the promotion of the general welfare. *And*, the proposal of a system of relations among sovereign nation-states, where we assist each other, and cooperate with each other, in promoting the general welfare of the people of each nation. And we will fight as necessary to protect and promote that policy. That's Classical military thinking. And whatever is necessary to be known, or to be done, to fulfill that, is what is proper military conduct.

The strategic policy of the George W. Bush Administration is, in fact, targeted against the general welfare principle that LaRouche has identified as central to the Republic, not only in the United States, but around the world. The domestic counterpart of the Bush military policy is the budget-cutting austerity being imposed on social welfare programs—including health care—that tend to improve the general welfare.



DOD/U.S. Air Force Tech. Sgt. Cherie A. Thurlby

The Bush/Cheney White House and Defense Secretary Donald Rumsfeld are proposing to close more than 30 major U.S. military bases, and scores of others, within the United States. Here Rumsfeld testifies before a Senate committee about the Defense Department's Base Realignment and Closure recommendations, on May 16, 2005. Chairman of the Joint Chiefs of Staff Gen. Richard B. Myers (right) and Under Secretary of Defense for Acquisition, Technology, and Logistics Michael Wynne also testified.

Base Closings Are a Depopulation Tool

Historically, the engineering function of the military, as carried out by railroad building and the Army Corps of Engineers, tended to spread population across the undeveloped regions of the country. The Rumsfeld plan, however, whether by design or just by consequence, will have the opposite effect in some less populated areas of the country.

When first briefed on the Rumsfeld plan, on May 15, LaRouche described it as yet another intervention into the overinflated U.S. real estate bubble, in an attempt to keep that swindle going for a while longer. Certainly, the installations like Walter Reed Hospital and the Willow Grove Naval Air Station in Pennsylvania, sit on very desirable property for development. Other areas of the country affected by base closures will be left to collapse, however. In Alaska, South Dakota, and New Mexico, the proposals will not only cost jobs, in the range of 3-4,000 jobs directly, but could result in population outflow from the affected areas.

In Alaska, the Air Force's proposal to realign Eielson Air Force Base, outside Fairbanks, by relocating its flying units to other bases in the Lower 48, and maintaining it in a "warm" status (an oxymoron in Alaska), would take away nearly 3,000 jobs directly, without even a promise of future economic development to replace those jobs. Alaska State Senator Gary Wilken told the BRAC Commission that "The economic impact will be devastating and this small community will take a generation to recover." The local workforce, he said "would, by necessity, migrate far away to new opportunities." Alaska Gov. Frank Murkowski cited the case of Adak, Alaska, a town

in the Aleutians that, until 1997, hosted a Navy base with a population of 6,000 civilians, naval personnel, and their families. Today, the population of Adak is reported to be just 298. The Navy base at Adak is only one of dozens of installations that Alaska has lost in the last two decades or so.

A similar situation exists in South Dakota, where Ellsworth Air Force Base, outside Rapid City, is the second-largest employer in the whole state. Ellsworth's 4,500 military personnel and their 5,600 dependents make up a significant percentage of the overall population of Rapid City and its neighboring counties, which totals about 116,000 people. According to Professor Sidney Goss, of the South Dakota School of Mines and Technology, the Rapid City region is already experiencing out-migration, having experienced a net loss of population, between 1990 and 2000, of about 1,300 people. The loss of 10,000 people as a result of the closure of Ellsworth not only would

reduce the population to 1988 levels, but would result in the collapse of much of the community infrastructure, including education, health care, culture, and even emergency services such as fire, police, and search and rescue services.

This is clear because of the degree to which the Ellsworth population participates in the local community. Goss testified at the June 21 BRAC hearing in Rapid City, that the loss of those 10,000 people in one year "would be the equivalent of 76 years of out-migration for this area hitting us all at once."

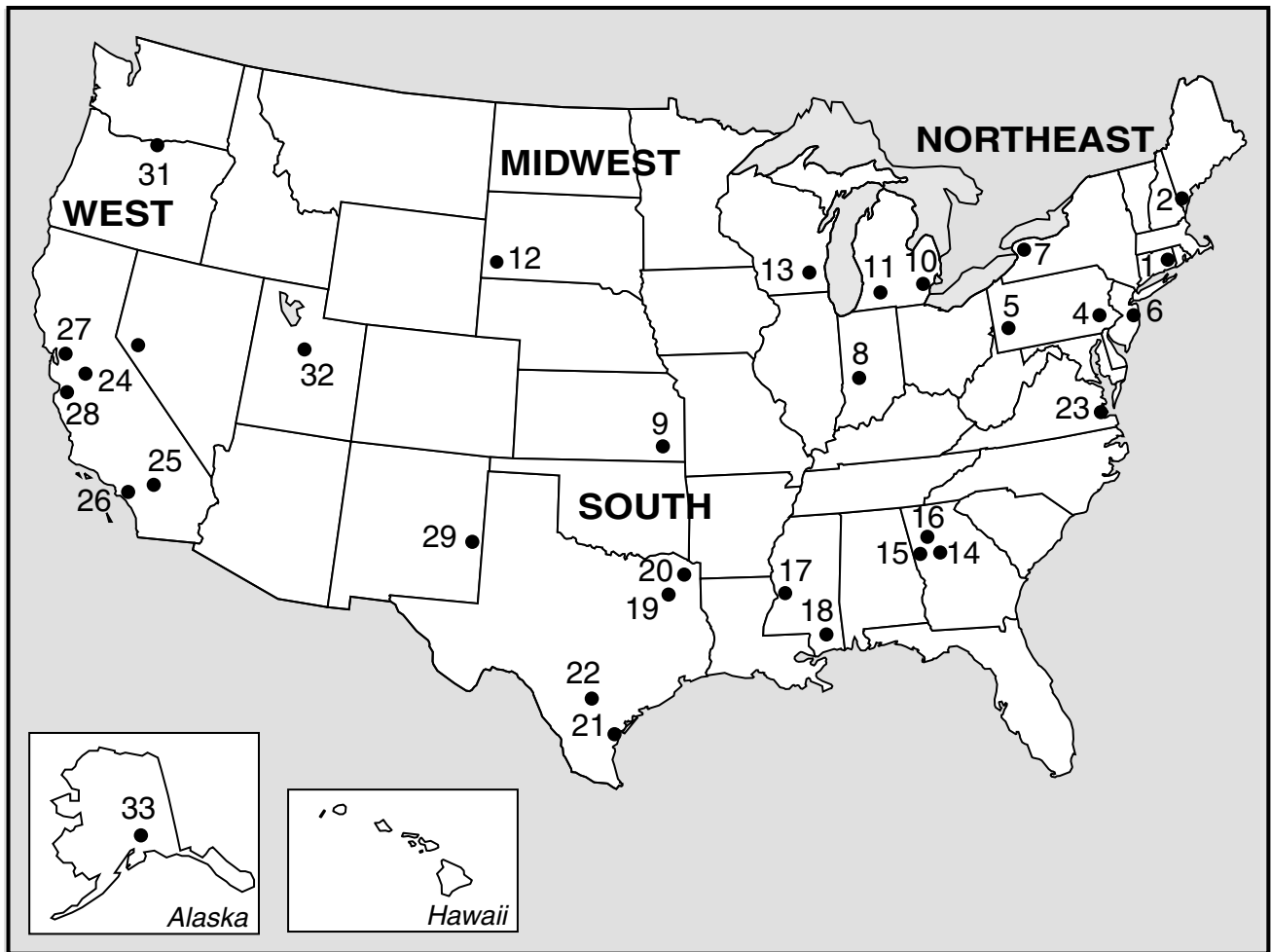
Violating Military Value Criteria

Economic impact, while considerable in many cases, is not the first criterion in the BRAC law that the Pentagon was supposed to consider in making its determinations. The first criterion is military value, defined as "the present and future mission capabilities and the impact on operational readiness of the total force of the Department of Defense, including the impact on joint warfighting, training, and readiness." Military value also includes "The availability and condition of land, facilities, and associated airspace," as well as "the ability to accommodate contingency, mobilization, surge, and future total force requirements," and "the cost of operations and the manpower implications."

In the cases of both Eielson and Ellsworth Air Force Bases, serious questions were raised by retired military officers as to whether or not the Pentagon competently followed these criteria. Both bases are located in sparsely populated regions, with little or no encroachment by development near

FIGURE 1

The 33 Major Military Bases Rumsfeld Would Close Down



Source: U.S. Department of Defense.

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Connecticut. Submarine Base, New London (Navy) 2. Maine. Naval Shipyard, Portsmouth 3. Massachusetts. Otis Air National Guard Base (Air Force) 4. Pennsylvania. Naval Air Station, Willow Grove 5. Pennsylvania. Pittsburgh International Airport Air Reserve 6. New Jersey. Fort Monmouth (Army) 7. New York. Niagara Falls International Airport Air Guard Station 8. Indiana. Newport Chemical Depot (Army) 9. Kansas. Kansas Army Ammunition Plant 10. Michigan. Selfridge Army Activity, Macomb County Battle Creek 11. Michigan. Kellogg Airport Air Guard Station, Battle Creek 12. South Dakota. Ellsworth Air Force Base, Rapid City 13. Wisconsin. General Mitchell Air Force Reserve, Milwaukee 14. Georgia. Ft. Gillem (Army), Atlanta 15. Georgia. Ft. McPherson (Army), Atlanta | <ol style="list-style-type: none"> 16. Georgia. Naval Air Station, Atlanta 17. Mississippi. Mississippi Army Munitions Plant, Vicksburg 18. Mississippi. Naval Station, Pascagoula 19. Texas. Lone Star Army Munitions Plant 20. Texas. Red River Army Depot, Texarkana 21. Texas. Naval Station Ingleside, Corpus Christi 22. Texas. Brooks City Air Force Base, San Antonio 23. Virginia. Fort Monroe (Army), Hampton Roads 24. California. Riverbank Army Ammunition Plant 25. California. Naval Support Activity, Corona 26. California. Naval Weapons Station, Seal Beach 27. California. Concord Detachment (Navy) 28. California. Onizuka Air Force Station, Sunnyvale 29. New Mexico. Cannon Air Force Base 30. Nevada. Hawthorne Army Depot 31. Oregon. Umatilla Chemical Depot (Army) 32. Utah. Deseret Chemical Depot (Army) 33. Alaska. Kulis Air Guard Station (Air Force), Anchorage |
|---|--|

the bases that could impact military operations. The low population density of both regions also means that there is little civilian air traffic to interfere with military training. Eielson, home to Air Force A-10 and F-16 fighter squadrons, is located close to Fort Richardson, home to an Army airborne brigade and a Stryker brigade. This maximizes joint training opportunities between the Air Force and the Army.

“DoD’s recommendation to convert Eielson to warm status will defeat jointness in our state by taking all of the aircraft out of this interior Alaska area and eliminating all close support aircraft—exactly the capabilities we are employing today in Iraq,” testified Sen. Ted Stevens (R-Ak.) at the June 15 Fairbanks hearing.

Ellsworth in South Dakota is home to 28 of the Air Force’s 67 B-1 bombers, the remaining aircraft being stationed at Dyess Air Force Base in west central Texas. The Air Force proposal would consolidate the entire fleet at Dyess. The question, then, is whether or not it makes sense to put the entire fleet in one place. The conclusion put to the BRAC Commission in Rapid City was, “No.”

Sen. John Thune (R-S.D.), who campaigned for election against then-incumbent Sen. Tom Daschle (D-S.D.) in 2004, on the basis that Thune could save Ellsworth, emphatically told the Commission that not only would concentrating the entire fleet in one place make it more vulnerable to terrorist or other type of attack; it would also place the fleet at higher risk of tornados, as Dyess is located in the Texas stretch of the Southwest Plains’ “Tornado Alley.” “We simply cannot afford to risk our nation’s security on the whims of a single deadly tornado that could destroy or damage our entire B-1 fleet,” he said.

Witnesses testified that putting the entire B-1 fleet in one location would also reduce operational readiness. Retired Air Force General Michael Loh, who commanded the Air Force’s Air Combat Command from 1992-95, told the Commission, via videotape presentation, that operating more than 36 heavy bombers at one base is “very inefficient” because “Operational readiness suffers, because too many crews must share too few training ranges and training airspace. Logistics suffers because there’s too little support infrastructure to handle greatly expanded maintenance.” General Loh called the proposal “a recipe for unmanageable congestion and never-ending chaos that spells inefficiency, waste, and degraded operational readiness for the B-1s.”

Adding to the inefficiency is that a major training area, called the Powder River Military Operating Area, is literally 7-8 minutes from the end of Ellsworth’s runway, but close to two hours flying time from Dyess, increasing the costs of training missions while reducing their effectiveness.

Whither the Citizen Soldier?

Of course, the military value criteria exclude the above-noted engineering and scientific traditions of a true Republican military policy. These are capabilities which Secretary

Rumsfeld seems to be in a great hurry to exterminate wherever they do not serve his notions of “military transformation” and the “war on terror.”

That another target of Rumsfeld’s campaign is the citizen soldier, is exemplified by the Air Force’s plan to consolidate the Air National Guard. Under the plan, 28 states will lose some of their Air National Guard units’ aircraft, and five states’ Guards will lose their flying missions altogether.

Proponents of the Air National Guard frequently point out that it flies 34% of the Air Force’s missions on 6% of its budget. Air National Guard pilots and crews are often older and more experienced than their active duty counterparts, and have deep roots into the communities in which they live. These proponents argue that the Air National Guard is best situated for homeland defense missions, and is also a valuable asset for governors responding to natural disasters; yet, the Air Force plan seems to not take any of this into account.

Sen. Kit Bond (R-Mo.), testifying at the June 20 BRAC hearing in St. Louis, said that behind closed doors, the Air Force “chose to take a path where homeland defense, as a factor, was considered but rejected. The result was a BRAC process that has no questions on homeland defense, awarded no points for homeland defense, and weighed no answers on homeland defense.”

The state adjutants general—chiefs of the National Guard in each state, and military advisors to their governors—are also complaining very loudly, that the Air Force did not consult them in the development of its plan. Maj. Gen. Roger Lempke, the adjutant general of Nebraska and President of the Adjutants General Association, testified at the same St. Louis hearing that “Until very recently, the Adjutants General were excluded from deliberations to develop what’s called the Air Force future total force, the overall guide used to develop the Air Force BRAC plan.” He said that a review of the still-incomplete information released by the Pentagon “has revealed that the Air National Guard capabilities and operational efficiencies were not properly assessed, resulting in flawed recommendations.”

One example of the problem General Lempke pointed to, is the Air National Guard unit at Charleston, West Virginia, which the Air Force is recommending be closed, and its eight C-130’s distributed to other bases. The Pentagon says the tarmac at Charleston can only handle eight aircraft. But when BRAC Commission chairman Anthony Principi visited Charleston on June 24, there were 13 C-130’s on the ramp, with room for more.

The BRAC Commission has apparently been impressed with the arguments regarding the Air National Guard. Principi told reporters following the June 28 hearing in Buffalo, New York “We’re struggling with this issue of the Guard and Reserve,” according to the *Buffalo News*. When asked to elaborate, he called the Air Force plan “far-reaching,” and said, “We will make sure it’s in the best interests of the states and of homeland security.”

‘Manhattan VA Medical Center Is Irreplaceable’

Dr. Glickman is the Dean of New York University School of Medicine, of NYU Medical Center in New York. He is serving as a member of the New York City Local Advisory Panel of CARES, a several-year Veterans’ Affairs (VA) study. CARES is supposed to be developing criteria for the closing or consolidation of some VA medical centers around the country. Dr.



Glickman, who is opposing any shutdown of the Manhattan center, was interviewed by phone on June 29 by Patricia Salisbury.

EIR: We have been covering the threat to Veterans’ Hospitals around the country represented by the CARES assessment process now underway. One of the situations we would like to present in detail is that of New York City, since I understand that there is a possibility that the Manhattan VA Hospital could actually be shut down. Is that the case, and what are the implications?

Glickman: The Manhattan VA Hospital and the Brooklyn VA Hospital are being examined with the idea could they be combined. The models are: First, one site could incorporate the other; or, both sites could disappear with a consensus site being built somewhere else; or, the third model is, leave it alone. So the CARES Commission and PriceWaterhouse-Coopers are trying to analyze the various cases based on volume, demand, need, where the veterans live, programs, education, research, and the economics of having the Manhattan site go to Brooklyn, the Brooklyn site go to Manhattan; are the sites big enough, what does it take to do that? And when all is said and done, have you produced any positive advantage?

EIR: I have seen you referred to in the New York newspapers, as a member of the Committee to Save the Manhattan VA Hospital; and I’ve seen that you are listed as a member of the CARES Local Advisory Panel. Is this accurate?

Glickman: Well, I’m on all those things. The reason I am, is I have a number of jobs. I’m the Dean of the NYU School of Medicine, so when I have that hat on, I’m for saving the

Manhattan VA, because we have major programs with them.

EIR: Could you spell out for us why we should save the Manhattan VA, assuming an argument is needed at all? To some it seems that it is crazy to even consider shutting the hospital.

Glickman: The reason is, there are about five or six programs that are true regional centers of excellence that don’t exist for over 100 miles. Those are heart surgery, vascular surgery, brain surgery, neurosurgery, AIDS, dialysis, and rehabilitation—they make joints there. Those programs just don’t exist, they’re not anywhere [else]. And this VA, for example, has the best record for heart surgery for any VA in the country. So these are true centers of excellence, These are not replaceable. The reason why this is a unique place, is that literally, it is two blocks away from the NYU Medical school. So doctors literally walk up and back.

EIR: How long has the relationship between the Manhattan VA Hospital and the NYU Medical Center existed?

Glickman: Fifty years. What that means, is that if you have a very expensive, super-duper brain surgeon, you can get that person’s services, without having to employ him or her all the way, because you couldn’t afford him. So the quality of care—between people based only at the VA and people shared between the NYU School of Medicine, Bellevue Hospital (there are three hospitals within five blocks)—that is an incredible resource. Because the faculty are really, really good. And the VA and Bellevue get the benefit of just tremendous faculty [at NYU] who can have pieces of their time which they split. That VA is integrated into this medical school. So are all of the training programs; that is just one third of the training. You have the private hospital, Tisch Hospital; you have Bellevue, which is a city hospital; and the have the VA hospital. So you have 1,000 interns and residents that are shared among these three hospitals. So as a result, you get an unbelievable collection of talent—the teachers and their programs. So the veterans, I believe—in the most impartial way I can be—really get terrific care. These [doctors] only do that because it is proximate and it is part of a whole program. These people couldn’t go to Brooklyn. You couldn’t replace it [the Manhattan VA Hospital].

EIR: Along the same lines, I read that something like \$14 million in research is being done by the Manhattan VA, but primarily by NYU Medical Center doctors.

Glickman: Everyone at the VA has an NYU Medical School appointment, so they are faculty of the medical school. They may be deployed by the VA, but academically, they are our faculty. They get grants; sometimes from the NIH, some from the VA. So we are the infrastructure that runs those grants.

EIR: Are the institutions treating wounded from Iraq at this point?



eol.jsa.nasa.gov.

This satellite picture shows the close proximity of the Manhattan VA Hospital and two of the nation's leading medical institutions, the NYU School of Medicine and Bellevue Medical Center. The three lie within seven blocks of each other in the circled area on the map, part of the area New Yorkers affectionately refer to as "bed pan alley," because of its density of medical institutions. This close proximity has fostered a situation in which 250 physicians from the NYU Medical Center treat patients at the VA Hospital, and every medical student at the NYU school does a rotation at the VA Hospital.

Glickman: They have some. It is not the veterans' first port of call, I believe, but certainly in the rehabilitation side, and as they come back to the New York area and need these particular services, this VA is there. But I think they are distributed first down in Washington to Walter Reed.

EIR: Which of course is also proposed to be shut down.

Glickman: I understand. It seems like the timing is not great for this other VA Secretary [new VA Secretary Jim Nicholson]. Wasn't he just defending the VA budget which was a billion and a half short?

EIR: Yes, I wanted to ask about that, because there were two Congressional hearings yesterday, one in the Senate and one in the House, in which the shortfall was discussed. As various Congressman involved in the testimony seemed to indicate, really no one knows at this point the extent of the actual shortfall situation. In fact, the head of the House subcommittee indicated that they that were going to do their own independent investigation because the models used were so faulty

in projecting the actual shortfall. Now, one of the things *EIR* will be running is an op-ed from a state legislator in Pennsylvania, Harold James, who has actually called for a "time out" or a moratorium on all medical cutbacks, including the VA Hospitals. Representative James's statement predates yesterday's hearings, but it would seem relevant, given the completely chaotic picture, the use of a model that not only does not account for war wounded in Iraq, but also neglects to account for the elderly veterans who are flocking into the VA systems, as other health-care systems around them close or become unaffordable. It has become impossible to appraise what the VA system is facing in terms of an increase in enrollment. What do you think of the proposal made by Representative James that a moratorium or a "time out" on these kinds of shutdowns be declared by the Congress?

Glickman: Well, I certainly think that would be the prudent thing to do. I would hate, from a very practical point of view, locally speaking, to delay a decision. To hold it in abeyance means it is hard to plan, if it is just years in limbo.

EIR: Wouldn't limbo could be better than Hell?

Glickman: It would be, yes, except that the facts are such, that these particular circumstances here could be decided on their merits, and don't have to be on hold. Yes, compared to closing them, that [moratorium] would be better. So it's a guess what's the best strategy. I think the point is—with some basis—that this Manhattan VA is not an easily replaceable resource.

EIR: Taking a slightly different perspective, in a few of the cases where the CARES process has proceeded—I'm thinking, particularly, of out in Washington State, where Sen. Patty Murray has been active in defending the VA Hospital in Walla Walla—the process has actually produced a proposal for rebuilding the entire facility on the current site. I'm wondering if there is any of that kind of thinking going on around the Manhattan VA Hospital. In other words if you weren't constrained by the threats of cutbacks, what actually would be desirable there from the standpoint of upgrading?

Glickman: I think that is something the PriceWaterhouse-Coopers people are actually examining. They will work it up. If Brooklyn were to close, would that move to Manhattan? Would Manhattan VA be big enough to handle it? If not, what would we have to do increase the capacity?

EIR: But hypothetically, if we kept them both open, and in those circumstances, I understand that the Manhattan VA plant is somewhat old: Are there things you would like to see done there to improve the situation in terms of plant, or any other aspect?

Glickman: I think it is not a bad plant. It is reasonably recent.

Congresswoman Maloney: What Is White House Aim?

Rep. Carolyn Maloney (D-N.Y.) spoke by phone to a VA-sponsored hearing in Brooklyn on May 3, releasing a statement on CARES, "Is Planned Study Part of a White House Strategy to Close and Sell N.Y. Vets Hospital?"

Congresswoman Carolyn B. Maloney (N.Y.) challenged the U.S. Veterans Administration under President Bush not to use a newly begun study on possible consolidation of Brooklyn and Manhattan VA Hospitals, as a thinly veiled strategy to slash health services to New York veterans, for a cash infusion to government coffers.

Maloney said: "While the Manhattan VA Hospital may sit on valuable real estate, the services it provides to veterans are priceless. The VA should be in the business of

serving veterans, not speculating in real estate. Veterans should not have to spend hours traveling so the VA can gain a temporary real estate windfall."

Stressing the essential unfairness of diminished health services to veterans while the country is at war, Maloney said: "At a time when U.S. military personnel are engaged in conflicts in Iraq and Afghanistan and other parts of the world, it would be a terrible mistake to reduce veterans' medical services here at home. . . . Closing the Manhattan VA hospital would leave many veterans without the means to access treatment.

"The New York Metropolitan region currently has 1.3 million veterans, and veterans are being asked to wait for appointments at VA medical facilities. Demand for services is projected to continue to grow."

A letter signed by 40 New York elected officials opposing the closure or diminishment of the Manhattan VA Hospital, is at <http://maloney.house.gov/sites/maloney.house.gov/files/documents/olddocs/veterans/091503PrincipiLtr.pdf>.

But I think that is too much to hope for—keep them both open and put a lot of money into improving them both. I think the more winnable argument is, if one is going to close. . . . One thing would be to keep them both open, and then, round two would be, "let's fix them up better." But I think that is a lot to ask. One of the things PriceWaterhouseCoopers will deal with, is that neither site is big enough to handle the other. So if one were going to refresh and enlarge a given site, that would accomplish part of what you are saying.

EIR: You might want to consider part of what is revealed in these Congressional hearings, which is, that to paper over the shortfall in the current budget for the VA Hospitals, they are reallocating funds earmarked for maintenance and new acquisitions. So it would be interesting, given that kind of crisis, to consider whether any promised rebuilding will actually occur.

Glickman: Yes, but I think the process [CARES] can't actually be derailed. The PriceWaterhouseCoopers thing is the process, so if we are going to do something like that, it would have to pretty well be in that context.

EIR: Some political figures, like Congresswoman Carolyn Maloney (D-N.Y.) and Councilwoman Margarita Lopez, have pointed to a desire for commercial use of this property, as part of what is motivating what some might say are proposals that made no sense at all. Can you say anything about such commercial motivations?

Glickman: I think that is all implied. All we know is that the property is valuable Manhattan property. Were it to be

available, I think there would be many potential users for it. Whether that is a driver, I can't tell you; I doubt it. I think it will enter into the discussion of what the economics of closing one or the other of the sites would be. But I would not think it is predominantly the main reason for closing one or the other.

EIR: What is coming in the near future? I understood the pace was moving rather rapidly.

Glickman: I think there are meetings of the CARES Commission. We are proceeding with the pace of the Commission. I think there is a meeting scheduled for early Fall, September. And I think that is when the PriceWaterhouseCoopers people present some of the models they have thought about and have them critiqued. And then three or four of them will be selected to develop more.

And we have a whole idea of "Save the VA," as you know, to try to exert whatever influence we can.

EIR: *EIR* founding editor Lyndon LaRouche has proposed a return to Hill-Burton [Act] standards in health care, with which I'm sure you are familiar. This would involve a massive increase in building of hospitals, and medical infrastructure throughout the country.

Glickman: This is a bit beyond me; it is such a big set of questions. I'm not sure I can do it justice—at this time I can't comment on the whole rebuilding of the health-care system. This is another subject, which I would be pleased to talk to you about, but it requires a lot of thinking, about making comments about such a big subject.

Can the Nation Really Afford To Close Walter Reed Army Medical Center?

by Pam Lowry

11:50 p.m. Dec. 31, 1900. Only ten minutes of the old century remain, lovie, dear. Here I have been sitting, reading that most wonderful book—*La Roche on Yellow Fever* written in 1853. Forty-seven years later it has been permitted to me and my assistants to lift the impenetrable veil that has surrounded the causation of this most dreadful pest of humanity and to put it on a rational and scientific basis. I thank God that this has been accomplished during the latter days of the old century. May its cure be wrought in the *early* days of the new century! The prayer that has been mine for twenty or more years, that I might be permitted in some way or sometime to do something to alleviate human suffering has been answered!

12 midnight. A thousand happy New Years to my precious, thrice precious wife and daughter! Hark! there go the twenty-four buglers all in concert, sounding taps for the old year! How beautiful it floats through the midnight air and how appropriate!

So wrote Walter Reed to his wife from Columbia Barracks in Cuba, where his team had just solved many of the mysteries surrounding the dreaded yellow fever, creating the possibility that the disease could soon be controlled and perhaps eliminated. This wonderful sense of opening horizons and expanding possibilities for mankind, had been a driving force in American medicine since the middle of the 19th Century, when Louis Pasteur disproved the theory of spontaneous generation in 1862, and opened the door for the resultant great discoveries in bacteriology and virology.

Using Pasteur's theory that bacteria can cause infection, Joseph Lister of Great Britain began the practice of antiseptics for his surgery in 1865, using both sterile instruments and sterile bandages. In Germany, the discoveries of scientists such as Jacob Henle, Robert Koch, and Karl Ludwig had drawn first scores, and then hundreds of American doctors and researchers to be trained in their laboratories. By 1914, approximately 15,000 Americans had journeyed to France, Germany, and Italy to learn the scientific methods which had enabled the discoveries to be made.

Pasteur's development of a vaccine against anthrax, and his spectacular victory over hydrophobia (rabies) in 1885, gave hope to the world that infectious diseases could be cured, and even prevented. Hearing of Pasteur's work, the citizens

of Newark, N.J., raised enough money in one week to pay boat passage to France for five children who had been bitten by the same rabid dog. They were accompanied by an American doctor to Paris, where Pasteur succeeded in curing all five.

Before the end of the 19th Century, American research had begun to add its contributions to the developing field of microbiology and medicine. The excitement of being able to combine laboratory research, advanced training for physicians, and patient care and cure, led to the founding of major research hospitals, and the Army hospital named for Maj. Walter Reed was one of these. The story of that hospital begins with American efforts to stop the terrible epidemics of contagious diseases, such as typhoid and yellow fever, which would cause hundreds or even thousands of deaths, and then disappear as mysteriously as they had come, only to return again at some unpredictable future time.

The terrible yellow fever epidemic, which hit the Mississippi valley in 1878, sickened 120,000 people and killed 20,000 of them. In the light of Louis Pasteur's and Robert Koch's discoveries that specific microorganisms caused specific diseases, the American medical and scientific community determined that the cause of these scourges could and must be found, and that preventative measures must be put into place as soon as possible.

Into this mission stepped Walter Reed, a Virginia doctor who began his practice by serving on the Boards of Health in Brooklyn and New York. In 1875, Reed joined the Medical Corps of the U.S. Army and served at a number of frontier garrisons. When he was moved East and stationed at Mount Vernon Barracks in Alabama, he provided care to Apache Chief Geronimo and 400 members of his tribe. Despite his comparative isolation from the work being done in medicine, Reed's experiences on the frontier helped develop his ingenuity, flexibility, and ability to initiate measures, because there was little to support him in his work.

In 1890, Reed was assigned to Baltimore, enabling him to pursue graduate study at the emerging medical center of Johns Hopkins. He had briefly attended lectures there ten years earlier, and was eager to learn about the breakthroughs which were putting American medicine on a scientific basis. After a brief course in clinical medicine, he was attached to the pathology laboratory, where he specialized in bacteriology. The director of this program was Prof. William Welch,

who had been trained in Germany by Karl Ludwig and Robert Koch. Welch had chosen a talented group of associates and trainees, who came to be known as the Welch Rabbits. In the course of his study, Reed became especially interested in the bacteriology of erysipelas and diphtheria. He argued for the treatment of diphtheria by antitoxin, and favored government control of the preparation of biological remedies.

Although Reed had wished to continue his studies, he was rotated out to a post at Fort Snelling, Minn. Unwilling to let his bacteriology training lie fallow, he went out of his way to meet members of the local medical community, and became friends with Louis Wilson, a local high school biology teacher. Wilson later became the director of the Mayo Foundation. Wilson helped Reed set up a bacteriology laboratory, where he processed throat cultures in order to diagnose diphtheria. While he was at Fort Snelling, the first of Reed's many scientific papers was published, dealing with the contagiousness of erysipelas, a skin infection. The paper had grown out of his work at three frontier posts, one of them a rough-and-ready railroad town in Nebraska, between 1882 and 1887. The medical journal which published his paper was the predecessor of the *New England Journal of Medicine*.

The Army Medical School Is Established

In 1893, an internationally known bacteriologist was named to the post of Surgeon General of the U.S. Army. This was George Miller Sternberg, a Civil War officer in the Union Army who, like Reed, had served at frontier posts. In 1881, he had photographed the germ of tuberculosis, discovered the same year in Germany by Koch. His 1884 book on photomicroscopy was of great use to the pioneers in the field. Among other interests, such as pneumonia and malaria, Sternberg worked on finding the cause of yellow fever for more than 25 years.

Sternberg immediately established the Army Medical School in Washington, D.C., to train doctors who had graduated from civilian medical schools in the practices of Army medicine. Capt. Walter Reed was called to Washington to take on duties at the school, as well as to serve as the curator of the Army Medical Museum. The Medical Museum had been founded in 1862, to study the illnesses and injuries which affected the Union troops during the Civil War.

The coming of the Spanish-American War in 1898 brought with it a severe typhoid outbreak in the Army camps, in particular in the training camps on Long Island. The sheer size of the outbreak—the epidemic killed more than 50 times as many soldiers as did the combat—caused a public scandal, and Surgeon General Sternberg set up a committee to investigate the causes and mode of transmission of typhoid fever. Walter Reed was appointed chairman of the committee, which proved that the virus was not transmitted by contaminated water, as had been thought, but by flies and contact with infected feces. This enabled the Army and public health officers to take the necessary precautions to contain the disease.

When the Spanish-American War resulted in the Ameri-



Courtesy of John R. Pierce, M.D.

Walter Reed Army Medical Center, established in 1909, grew into a "mini city," where today 5,000 staff provide services for 600,000 patient visitors per year.

can occupation of Cuba, yellow fever lost no time in appearing among the American troops stationed there. In 1900, Reed was again appointed head of a commission of Army medical officers to investigate the disease. He and his assistant, Dr. James Carroll, had already disproved the theory of Italian scientist Dr. Giuseppe Sanarelli, that the bacillus *icteroides* was the cause of yellow fever. Now, Reed and Carroll were joined by Dr. Jesse Lazear, an entomologist, and Dr. Aristides Agramonte, a pathologist. The members of the Yellow Fever Commission sailed to Cuba and set up a research facility at a small American post.

Because animals were not affected by yellow fever, the commission decided they had to use human test subjects. The brave volunteers consisted of both Americans and Cubans. The theory that mosquitoes caused yellow fever had been proposed by several doctors, but it had never been proven. During carefully controlled experiments, 22 cases of yellow fever were produced, fortunately without any fatalities. In early uncontrolled experiments, while Reed had been called back to Washington, Dr. Carroll contracted a serious case, but recovered with collateral heart damage, and Dr. Lazear died from the bite of an infected mosquito.

Uncovering the Cause and Course Of Yellow Fever

Seven months of experimentation brought conclusive proof that yellow fever is transmitted by the female *Aedes aegypti* mosquito. For the mosquito to pick up the virus from an infected person, the yellow fever in that person must be of less than four days' duration. The incubation of the virus in the mosquito requires at least 12 days, and then the mosquito is infective for at least 57 days. The experiments also showed that yellow fever could also be produced by injecting blood taken from a person suffering a fresh case of yellow fever, and that the serum that remained after filtration of the blood



Hench-Reed Collection, CMHSL, UVA

Walter Reed (1851-1902), physician, bacteriologist, and leader of the medical teams that conquered typhoid and yellow fever, died prematurely at age 50, but is memorialized by the Army Medical Center that bears his name.

was also infective. The commission also found that the clothing and bedding of yellow fever patients were not infective.

These were extremely valuable findings, which enabled doctors and public health personnel to eradicate the disease in the United States and Cuba. The mosquitoes laid their eggs in fresh water, so the technique to destroy them consisted of putting a thin film of oil on the water surface of rain barrels or any other collected water. By 1902, there was not a single case of yellow fever in Cuba, and by 1905, the last, difficult epidemic of yellow fever was finally defeated in New Orleans.

Dr. Carroll returned to Cuba and discovered that the yellow fever virus could be weakened by heating it, and that it could not be filtered out—that is, it was so small that it would even pass through the new Berkefeld filter which had been designed to capture even the smallest bacteria. It was not until the advent of the electron microscope that the virus could actually be seen.

Reed returned to Washington and resumed his work at the Army Medical School and the Army Medical Museum. He also taught pathology and bacteriology at the Columbian University Medical School, the precursor of George Washington University. In the Fall of 1902, he ignored the warning pains of chronic appendicitis, and when his friend, Maj. William C. Borden, operated on him, he found a burst appendix and possible peritonitis. Major Reed died five days later at the age of 50, and was buried in Arlington National Cemetery.

A Hospital Is Born

Dr. Borden, who was the commander of the Army hospital at Washington Barracks, was devastated by the loss not only of a friend, but of a gifted and highly moral scientist who had many more discoveries to make. He resolved to persuade the Army and Congress to build a new hospital which would be named after Walter Reed, and which would embody the scientific and medical tradition which Reed represented.

Borden went to the Secretary of War, who approved his blueprints for the hospital, but told him he would have to find the funding himself. For several years, Borden haunted the halls of Congress, trying to get the appropriation he needed. Many people began to call the projected hospital “Borden’s dream.” But one day, Dr. Borden chatted with the doorkeeper of the Senate chamber, asking about the state of his health. The man’s arm had been amputated because of a Civil War wound, and he told Borden about the pain he was suffering. Borden operated on him and successfully removed a neuroma from the stump.

To return the favor, the doorkeeper told Dr. Borden that projects in the District of Columbia usually succeeded if a certain colonel backed them. Borden went to the colonel, who took him to the chairman of the House Appropriations Committee. The chairman was favorable to the idea, and sought \$500,000 for initial costs, but this was reduced to \$300,000 in the joint conference committee. It became law in March of 1905, and an additional appropriation in October stated that the hospital was to be named the Walter Reed United States Army General Hospital.

The first patients to be treated at the new hospital were transferred from Washington Barracks on May 1, 1909. The 80-bed hospital grew rapidly, especially during and after World War I. Then, piece by piece, other Army institutions were moved to Walter Reed Hospital’s campus, transforming it into a major medical center which combined patient care with research programs and specialized training for Army doctors. In 1923, the Army Medical School, founded by Surgeon General Sternberg, and which had counted Walter Reed among its faculty members, was moved to the hospital grounds. A new Armed Forces Institute of Pathology building was dedicated in 1955, and in 1971, the National Museum of Health and Medicine, successor to the 1862 Army Medical Museum where Walter Reed had served as curator, also moved to the campus.

World War II greatly expanded the medical center’s operations, and after the war a new Commander, Major General Heaton, brought Walter Reed Army Medical Center into national and international prominence. Heaton made long-term plans to ensure the center’s future beyond his own lifetime and into our present century.

It was then that all Americans knew that if a member of the military were suffering from a complicated medical problem, he should be sent to Walter Reed. If the President of the United States became ill, he would be treated at Walter Reed. Dignitaries from foreign governments came to be treated there. Letters from all over the planet, addressed simply to Walter Reed, would always be delivered to the right place.

A Mini-City Grows Up

In 1977, a large new hospital, one of Commander Heaton’s planned improvements, was dedicated by Daisy Royce, the granddaughter of Walter Reed. It was subsequently named



Library of Congress

The work of the great French scientist Louis Pasteur prepared the way for future researchers of infectious diseases, and saved the lives of future millions, who were able to live because of his method of vaccinations for killer diseases.

the Heaton Pavilion. This present hospital was designed as a state-of-the-art medical facility. The completed building had 5,500 rooms, 28 acres of floor space, 1,280 patient beds, and 16 operating rooms. The interstitial space between floors was designed to include air conditioning, heating, electrical, plumbing, and life-support systems, as well as a monorail track system to handle linen and medical supplies. Even a patient food-cart system was built into the monorail delivery design. There was also a separate tele-lift system, which was to carry administrative materials, laboratory samples, and patient records.

Today, Walter Reed Army Medical Center occupies a campus of 113 acres in the Northwest quadrant of Washington, D.C. It has grown into a mini-city, with its own fire department, police, and other units which provide support services. It has about 5,000 staff members, who, in one way or another, provide services for the 600,000 visits a year by members of the military and their families to its main hospital and satellite clinics. The hospital now normally operates 260 beds out of its capacity of 1,280, but the unused wards have been turned into specialty clinics. The medical center contains 60 such clinics, which offer a full range of medical specialties and sub-specialties.

The strong tradition of medical research at Walter Reed is demonstrated by its nearly 800 clinical research projects. These include work on hepatitis, prostate cancer, breast cancer, the AIDS virus, and Persian Gulf illnesses.

There are also 65 graduate medical training programs in more than 50 fields, offering internships, residencies, fellowships, and associated health courses for members of all the military branches. At the Armed Forces Institute of Pathology, the successor to the U.S. Army Medical Museum, there are 250 pathologists who help diagnose difficult or unusual cases. They also teach pathology to hundreds of physicians, both military and civilian, every year.

Yet, Walter Reed Army Medical Center has been selected for closure under the new Base Realignment and Closure

cycle. Its functions will supposedly be transferred over a period of five years to a new, not-yet-built building on the campus of the National Naval Medical Center in Bethesda, Md. There is nothing wrong in proposing a new building for Walter Reed Medical Center, but perhaps, thinking in the tradition of Dr. Walter Reed, we should look at the circumstances surrounding that offer.

Given the Rumsfeld/Cheney Pentagon policy of a leaner American Army, whose work will largely be done by such weapons as the proposed low-yield nuclear weapons called bunker-busters, what need will the Pentagon planners have of a major medical facility to treat and rehabilitate wounded soldiers? Given the attack on American health care, which has already accomplished massive cuts in the services provided by the Veterans Administration and Medicaid, and which sponsors the cost-cutting and health-care-denying policies of the health maintenance organizations, is it reasonable to think that the new hospital for Walter Reed will have no difficulty in obtaining funding?

Beware the Ghost of D.C. General

The ghost of D.C. General Hospital and its world-class Trauma Unit should make us pause and consider. When the proposal was made for closing D.C. General, the capital's only public hospital, and using its valuable land for another purpose, the residents of the District of Columbia were assured that the high-level patient services provided by the hospital could be easily provided by another. They were also assured that ambulances bound for D.C. General could easily reach the other District of Columbia hospitals, which, of course, would have the funding and staff to absorb the flood of new patients. But when D.C. General was closed in 2003, none of the promises was kept; patients died because the Trauma Unit no longer existed, and under the current cost-cutting policy, no other hospitals were geared up to replace it.

There is one more consideration. Walter Reed Army Medical Center is a leading asset of the national security of the United States. There are signs that the avian flu found in Asia may indeed be capable of jumping to human beings, and could build into a pandemic. There are also indications that "mad cow disease" is in no way under control. The flu epidemics which generally hit the United States every year are of varying severity, but once in a while, like the terrible worldwide pandemic of 1918-19, the virus is capable of causing millions of deaths. And the current difficulty in obtaining enough vaccine for even the normal flu seasons compounds the possible problem. If the scientific and medical capabilities of Walter Reed, built up over decades, were diluted and scattered over the next five years, would we be able to stop those pandemics in time?

The author would like to thank John R. Pierce, M.D., author of Yellow Jack, and Harvard Research Professor Donald Fleming, author of William H. Welch and the Rise of Modern Medicine, for their help during the research for this article.

Ohio Corruption Scandal Smells A Lot Like Rove and Delay's Texas

by Richard Freeman and Edward Spannaus

The stink of Karl Rove/Tom DeLay-style corruption is getting worse, as more dirt emerges around the Ohio “Coingate,” or “pay to play” scandal (see last week’s *EIR*). Ohio is beginning to look more and more like Texas, as run by Bush political guru Karl Rove and House Majority Leader Tom DeLay on behalf of the George Shultz-directed Bush machine. It also bears strong similarities to the way DeLay runs the U.S. House of Representatives as a one-party dictatorship, and how he threatens lobbyists that they also have to “pay to play”—by forking over large campaign contributions to Republicans, while cutting off contributions to Democrats.

Additionally, investigators are continuing to examine the links between the Coingate scandal and the theft of the Presidential election last November for the Bush-Cheney ticket in Ohio.

Tom Noe, the rare-coin dealer and top Republican operative who was Rove’s man in northwest Ohio, was also, along with his wife, the dominant influence in the Republican Party in Toledo and surrounding Lucas County. His wife, Bernadette, chaired both the Lucas County Board of Elections and the Republican Party.

As Democratic State Sen. Teresa Fedor told the June 20 *Toledo Blade*: “Connect the dots. Bernadette Noe was the head of the [Lucas County] Board of Elections. There is no mistake that Lucas County had the highest [percentage] of provisional ballots rejected in Ohio. Tom Noe was chairman of the Bush-Cheney campaign in northwest Ohio, a Pioneer.”

On Election Day 2004, there was chaos and confusion in Lucas County, as the situation has been described to this news service. Voters who had lived and voted in the same place for years were told that they were not registered, and that they had to vote with provisional ballots—treated as second-class citizens. Then, many hundreds of provisional ballots were not counted.

That Noe allegedly robbed funds from the public Ohio Bureau of Workers’ Compensation—he was entrusted with \$50 million in funds to manage, but cannot account for \$10-12 million of it—is no accident, based on the looting pattern of the Shultz-Rove-Cheney machine. The Bureau’s responsibility is to provide compensation to workers who are out of work because they were injured on the job. The Rove-Cheney

machine has tried to loot trillions of dollars from Social Security, through its infamous “privatization,” but has been blocked. This same apparatus has allowed airlines and other corporations to underfund their pension plans by tens of billions of dollars, and then dump the underfunded pensions onto the U.S. government’s Public Benefit Guaranty Corporation.

This political machine is characterized by overt corruption and thievery, plundering public bodies of funds that are committed to the general welfare. Indeed, Tom Noe used a convicted drug-money launderer in his operations to allegedly steal public money and funnel it into the Cheney-Bush 2004 campaign.

Paying To Play

The expanding “Coingate” scandal revolves around Ohio Bureau of Workers’ Compensation funds which were handed over to Noe to invest in rare coins and other “collectibles,” and to other private fund managers who invested, and lost, state monies in hedge funds and other speculative operations.

Indicative of how the corruption worked, is the revelation by the June 26 *Cleveland Plain Dealer*: A survey of the financial management firms that were contracted to manage Bureau funds since 1997, shows that almost all of their campaign contributions (and those of their parent companies, which were included in the survey) went to the Republicans. “Almost two-thirds of the 212 companies hired by the Bureau to invest its money gave a total of nearly \$5 million to Republicans and their causes, while virtually ignoring the Democrats [contributing only \$292,000 to Democrats],” the *Plain Dealer* reported.

These data include only contributions to candidates for statewide office, and to the Republican and Democratic Federal election committees in Ohio. They do not include contributions to national Federal campaigns. Nor would the data include off-the-books contributions which many observers believe were used to finance vote-suppression operations around the November 2004 elections.

An earlier report by the *Toledo Blade*, examining a smaller group of the private financial managers handling Bureau funds, showed that 88% of their contributions went to Republicans.

Slush Fund

As one state legislator put it in a discussion with *EIR* on June 23: “The Bureau’s funds were used as a slush fund for the Republicans. The Republicans told people, ‘The Democrats are the party of losers, give to the Republicans.’ They became arrogant. They became an oligarchy and ruled through rhetoric. Tom Noe is a poster-child for one-party rule gone wrong.”

Prior to a 1996 change in Ohio law, organized by “free enterprise” Republicans, the Bureau’s Office of Workers’ Compensation Fund managed its own money in-house, and was restricted to investing strictly in bonds. The law change loosened the standards, so that the funds could be invested in stocks, real estate, and rare coins. Instead of the internal management of the Workers’ Compensation Fund, the monies were parcelled out to external money managers.

In 1997, the first year this change went into effect, there were five external managers managing Workers’ Compensation funds; but once this lucrative contract became known, the number of external managers swelled to 156. The Republican Party encouraged many of these firms to skim off a portion of the fees they earned from managing the funds, into the Republican Party, modelled on the mechanisms that Tom DeLay has used in Texas, to make it a one-party state.

Alleged Theft of Funds

Noe is now the subject of multiple state and Federal investigations, both criminal and civil. Federal authorities have an ongoing investigation into the possible means by which Noe allegedly laundered tens of thousands of dollars into the Bush-Cheney 2004 election campaign. This is a criminal violation. A Federal grand jury is subpoenaing witnesses in this probe.

Parallel, and complementary to the Federal probe, is the investigation of the Lucas County and Franklin County (which includes Columbus) Offices of the Prosecutor into Noe’s inability to account for \$10-12 million of Bureau of Workers’ Compensation funds. The distinct possibility has been raised that Noe diverted some of this money into the Bush-Cheney campaign.

On May 26, state law enforcement officials, acting on behalf of the two prosecutor’s offices, raided Noe’s Vintage Coins and Collectibles, in suburban Toledo. Prosecutors are still trying to find out what became of \$10-12 million of the \$50 million of Bureau funds entrusted to Noe to manage. The affidavit underlying the search warrant charges that Noe committed widespread criminal activity. If it proves to be true, the affidavit presents a vivid picture of Noe’s outright stealing, siphoning off, and squandering of Bureau of Workers’ Compensation funds.

The Affidavit reports these scams:

- The “1-cent” coin deal: “According to records pertaining to Numismatic Professionals [a Noe Vintage Coin subsidiary], and obtained by state authorities, a coin assigned identi-

fication number NP44032749 was purchased at a cost of \$122,9000.00 on or about Nov. 20, 2001. Subsequent inventory records from Numismatic Professionals indicate that this coin was sold to ‘One Time Customers’ on or about Sept. 10, 2002, for *one cent*—incurring a net loss of \$122,989.99. Based upon the education, training, and experience of this Affiant as well as that of other officials involved with this investigation, the latter transaction constituted a theft offense believed to involve BWC [Bureau of Workers’ Compensation] property” (emphasis in original).

- Two additional incidents involve coins worth \$300 and \$540, each of which was sold for *zero cents*.

And the Affidavit goes on to list more such items. By these, and similar and repeated criminal means, Ohio BWC funds were looted. This may be the start of the answer to the question: Where did Noe get funds to launder into the Bush campaign?

‘Poster-Boy for One-Party Rule’

But with his filching of funds, Noe (like those in his network) became arrogant. Exemplifying this are the stunning entries into the May 26 search warrant, involving the case of Mark Chrans, a convicted drug-money launderer, whose \$850,000 debt was written off by Noe, using BWC funds.

In the early 1980s, Chrans had sold rare coins specifically to launder \$30,000 in drug money, for which operation he received \$3,000 as payment from a cocaine dealer. In 1986, Chrans pleaded guilty to fraud and perjury charges, stemming from this case in U.S. District Court in Springfield, Ill. He served one year in prison.

In the early 1990s, police found in Chrans’s car, two plastic bags with mushrooms containing psilocybin, a hallucinogenic drug. In 1992, Chrans pleaded guilty to a felony charge. He was fined, but somehow a deal was made, so that he got three years’ probation.

In 1998, Chrans’s life was falling apart: He filed for bankruptcy, claiming to possess only \$300 in clothing, a \$1,500 car, and a little cash. However, right at that moment, the convicted drug-money launderer Chrans got a contract from Noe to manage a subsidiary of Vintage Coins that Noe had set up, called Visionary Rare Coins, which, according to the affidavit, was for “the express purpose of assisting [a Noe subsidiary company] with the purchase and sale of BWC investments.”

Noe started sending Chrans \$25,000 a month as advance payments *from State of Ohio money*. According to the affidavit, eventually, “Noe and/or his related business entities lent or fronted Mr. Chrans \$835,000 to \$850,000 of BWC funds.”

At one point, Chrans’s coin transactions allegedly went bad. He stated he could not pay the money back. Noe simply wrote it off as a bad business debt. Yet, Chrans was an employee of Noe’s BWC contract. This was Ohio Bureau of Workers’ Compensation money. An accounting of where the money went has not yet been made.

Know Where Your Food Is Grown? Globalization Destroys Farming

by Marcia Merry Baker

Globalization—a proven disaster—will be presented as the first priority on July 7 in Nashville, Tenn., when the U.S. Department of Agriculture starts its first in a months-long series of public-comment “Farm Forums” on the policy for a new five-year U.S. farm bill, to take effect in 2007. The first of six discussion topics, released in June by the USDA, asks: “How should farm policy be designed to maximize U.S. competitiveness and our country’s ability to effectively compete in global markets?”

In reality, over the past 30 years, the shift of food supplies away from nation-serving farming patterns, to “global sourcing”—as its called in the argot of free-trade—has been, predictably, deadly in its impact. Africa is food-short to the point of genocide. Mexico, once a net grain exporter in the 1960s, today has developed extensive, official “hunger zones.”

In the United States, the once highly productive, highly capitalized, high-infrastructure farm regions—from dairy, to grains, livestock, fruits, and vegetables—have been *destructured*, even to the point of mass depopulation from rural counties. The few new U.S. food production centers rely on low-pay, immigrant labor. As of June 2004, the United States became, in money terms, a net food importer—that is, the value of its imported foodstuffs exceeded U.S. food exports. For many basic food items, the volume of U.S. consumption—by weight of product—is now dependent on foreign production.

In July, a series of maps and animations of the economic patterns and sources of the American food supply, will be released by *EIR*. They are commissioned by Lyndon LaRouche as part of his ongoing mobilization of lawmakers and citizens to understand the physical economy, and to intervene with emergency measures in the collapse process now under way in the economy and financial superstructure gener-

ally (see “Recreating Our Economy” at www.larouche.pac.com).

There are two main features characterizing the takedown of U.S. food and agriculture output capacity over the past 35 years. Both involve the imposition of agriculture and trade practices intended to serve the interests of a select few commodities multinationals, and associated financial circles, over and above sovereign nations. First, there was outsourcing of production in the name of “free” (rigged) trade, and international “competition,” especially through successive international changes enforced through the 1980s Uruguay Round of the GATT (UN General Agreement of Tariffs and Trade), the 1989 Canada-U.S. Free Trade Agreement (CFTA), the 1994 North American Free Trade Agreement (NAFTA), and the creation of the World Trade Organization (WTO) in January 1995.

Second, there has been sweeping destructuring of traditional domestic, high-infrastructure American farm production, to on-the-cheap, cartel-controlled output centers.

U.S. Food Import Dependence

Table 1 shows a summary picture, by major food group, of the increasing degree to which the United States has become dependent on foreign sources for its basic food supply over the past 20 years. Since the time these figures were assembled (February 2004), the pattern has intensified. The figures show import share of consumption, in terms of volume, not money value. In these terms, the import dependence for consumption of fish and shellfish, for example, has risen to close to 80%; the import share for U.S. consumption of fruits, juices, and nuts now stands at over 33%.

This latter category, plus many vegetable crops, comprise what is called “horticulture products” in agriculture trade,

which as a group has been driving the U.S. import surge over the past ten years. About 43% of all U.S. agricultural imports in 2003 were horticultural products—tomatoes, peppers,

asparagus, onions, etc. In turn, as of 2001, Mexico alone was the source of 27% of U.S. fruit imports, and 38% of vegetable imports. The particulars of this import flow make the point

TABLE 1
Import Share of U.S. Food Consumption Is Rising, By Weight, 1981-2002

Food Groups	Average Percent				Percent in 2002
	1981-85	1986-90	1991-95	1996-2000	
Total Food					
Consumption	9.0%	9.7%	10.5%	12.0%	13.0%
Animal Products ¹	3.4	3.7	3.5	4.1	5.3
Red Meat	6.7	8.1	7.3	7.7	9.5
Dairy Products	1.9	1.8	1.9	2.5	3.5
Fish, Shellfish	50.9	56.0	56.0	64.4	78.6
Crops and Products ²	14.0	14.9	16.1	18.2	19.1
Fruits, Juices, Nuts	21.0	26.6	27.3	28.6	31.0
Vegetables	4.9	6.0	5.5	8.0	9.6
Grains and Products	1.7	2.9	5.6	5.9	5.3
Vegetable Oils	15.5	17.6	17.4	18.0	15.5
Sweeteners, Candy	35.8	25.6	29.4	34.2	28.0

1. Includes poultry meat; animal fats.

2. Includes coffee, cocoa, and tea whose import shares are 100%; and beverages.

Sources: Economic Research Service of the U.S. Department of Agriculture; U.S. Census Bureau.

FIGURE 1
Major Tomato-Producing Greenhouse Sites In North America, for U.S. Consumption



Source: U.S. Department of Agriculture, *Amber Waves*, April 5, 2005.

about the *disorganization* this kind of trade and production represents in the farming, transportation, handling and distribution, and other aspects of the physical economy, for the United States, Mexico, and other nations which are partner to this destructive, “free” trade.

The continental United States has the agro-climatic potential for nearly year-round self-sufficiency in all but tropical and certain specialty crops—bananas, pineapples, coffee, etc. This comes mostly from open-field production, and certainly also from “protected” agriculture—glass, plastic, and other forms. The relevant Winter-crop counties are in California, Arizona, Texas, and Florida, besides Hawaii and Puerto Rico.

However, once NAFTA phased out tariffs on Mexican fruit and vegetable imports into the United States, huge for-export operations were started up in Mexico, by various corporations of the global cartel networks. This is true for frozen and various processed foods, as well as fresh. Accordingly, farm counties declined in the United States where fruit- and vegetable-growing were centered. Alongside this pattern, seasonal truck-gardening around cities likewise disappeared, as farming was displaced by suburban sprawl.

The case of the dramatic rise in tomato imports from Mexico and Canada illustrates the process, as shown in the map of locations of for-export tomato greenhouses, in **Figure 1**.

U.S. Farm Regions Subverted

Apart from the imposition of food import dependence on the United States, and export-sourcing forced on Mexico, Canada and elsewhere for certain kinds of food products, which have displaced large areas of U.S. farming, there are some other commodities that are still mostly supplied domestically in the United States, but by downgraded methods. There have been sweeping shifts made, away from traditional, highly organized farming counties, into “new,” on-the-cheap production centers run by the globalizing commodity cartels.

This is especially the case for dairy, hogs, poultry, and certain crops such as soybeans. For example, as of the 1960s, pork production

was concentrated in the “hog belt” running from Ohio westward, centered in Iowa and Illinois. In 1981, of 58 million hogs in the U.S. inventory, fully 16 million were in Iowa. Nearby Illinois, Minnesota, Nebraska, and Missouri had 18 million head. Family farming predominated. With Iowa’s nearly 90% land area considered arable, the swine effluent was handled for fertilizer, and otherwise disposed of. Pork-processing plants were located throughout the region. Feed was grown likewise in the region. As of the 1970s, railroads still served farm needs for inputs and marketing.

Then, over the intervening 25 years, pork—and all meat processing—became highly consolidated under the control of very few global companies, which, in turn, either set up their own hog “factory farms,” and/or dictated the terms (type, price) of animals they would buy. Thousands of Midwestern family farms went out of operation. At the same time, the world’s largest pork processor, Smithfield, headquartered in Virginia, moved, with a few other multinationals, to set up gigantic hog operations in North Carolina.

Whereas in 1981, North Carolina had 1.98 million hogs, grown by family farmers throughout the coastal plains, today the state has 9.7 million hogs, mostly raised by Smithfield, and others in the consortia. Livestock feed is brought in from Brazil, through a new port the meatpacker consortia set up in Wilmington, N.C. Immigrant labor gangs tend the hog buildings. In the event any livestock disease outbreak occurs, the automatic result will be a hit on the national food supply.

The amount of swine effluent is so great relative to the arable land in North Carolina—more than half of the state is uplands and forest—that even if all the slurry of urine and feces is applied to the farm fields in the most high-tech, subsoil fashion, there is simply not enough surface area to accommodate the volume of swill. In June 1995, during flooding season, a huge dump of hog waste overwhelmed the New River.

In the Midwest, the former hog-producing counties have, overall, experienced a loss of family farms, infrastructure—rail, hospitals, urban centers—and are becoming depopulated. Iowa itself still has the same number of hogs, 16 million, as in 1981, but far more are produced either in larger family-run operations, where family members must work off-farm for needed income; or in mega-hog corporate production facilities. The surrounding states have 2 million fewer hogs than in the 1980s.

Warning: ‘Just-In-Time’ Food Supply?

The implications of the decline in the U.S. domestic food production were the topic of a *Kansas City Star* feature article, posted on May 29 (kansascity.com), “Old Plains Ranching, Farming Traditions Disappearing,” by Jack Coffman and George Anthan, longtime Midwestern farm state journalists. “‘We now have a just-in-time delivery system for food,’ is the description for the vulnerability of the U.S. food supply to shortages, by Dr. William Heffernan, of the University of Missouri. ‘Anything that disrupts that system, including a terrorist attack, we come up against it pretty fast.’”

‘Fresh’ Tomatoes: Over 30% Are Now Imported

by Marcia Merry Baker

By volume, more than 30%—and that share is rising—of fresh tomatoes consumed in America are imported, mostly from Mexico and two provinces in Canada. This results from the past 15 years of increasing “global sourcing,” in which a network of international financial interests has dominated decisions about location of farm commodity production, labor rates of pay, technology, trade, transportation, and what people do or do not eat.

True, America has for decades been a net importer of fresh tomatoes, buying more, mostly from Mexico in December and January, than it exported, mostly to Canada. But as a share of U.S. consumption, this was no more than 5-10% as of mid-20th Century. In 1990, it was 19%. However, over the past 15 years, there has been a dramatic rise in fresh tomato imports from Mexico (both field grown and hot-house) and Canada (all hot-house), to the point of importing 7 out of the 19.4 pounds (8.8 kilograms) of fresh tomatoes consumed annually per capita.

This pattern is in complete contradiction to the actual agro-climatic potential of the continental United States, from which fresh tomatoes could easily be supplied domestically year-round. In only a couple of Winter months are protected conditions required.

When domestic output met consumption in past decades, railroads were utilized for farm-to-city transport, with truck gardening close-in around metro areas. Up through 1970, U.S. supplies of tomatoes and other garden crops—lettuce, celery, beans, cucumbers—were transported in bulk quantities by rail for long-haul to major metro centers. The California “lettuce trains” to the East are legendary. In New York City, for example, in 1970, there were more carlots of fresh vegetables unloaded by train, boat, and air, than by truck. No longer.

Nationally in 1970, the timing and source states of domestic commercial production of fresh tomatoes still reflected the profile of the country’s growing seasons. As reported for 1970, in the 1973 U.S. Department of Agriculture *Statistical Abstract*, this fresh fruit was supplied by the following states: in **Winter**, Florida; in early Spring, Florida, California, and Texas; in **late Spring**, South Carolina, Texas, Georgia, and Louisiana; in **early Summer**, California, Alabama, New Jersey, Virginia, Arkansas, Tennessee, North Carolina, Missouri, Kentucky, and Ohio; in **late Summer**, Michigan, New York, Pennsylvania, Indiana, North Carolina, Ohio, Illinois, Connecticut, Massachusetts, Washington, and Colorado; in **early Fall**, California; in **late Fall**, Florida, Texas, and Hawaii. The

total U.S. production of fresh tomatoes was 18.234 million hundred-weight (100 pounds).

Given the development of advanced cultivation methods of all kinds—“soil-less” (hydroponics), irrigation, protected

agriculture (plastic and glass hot houses), plasticulture, etc., domestic production could easily continue to meet growing consumption needs indefinitely. But not under the practices of the free-trade era.

Over the 1990s, U.S. imports of fresh produce, and also processed fruits and vegetables, soared, as tariffs and other trade restrictions were eliminated, in particular with Canada and Mexico. By 2003, fully 12% of produce was imported from Canada and Mexico. In the category of fresh tomatoes, the level reached 36% of U.S. consumption supplied by Mexico and Canada in 1998. In terms of money value, imports from Mexico account for about 70%, and those from Canada, 17%.

Accordingly, during just the five-year period 1992-97, when NAFTA kicked in, the number of U.S. farms producing tomatoes declined by 7%. The number of such farms in Florida dropped by 38% over that period.

One dramatic marker of this process of increased out-sourcing of the fresh tomato supply in the United States is the flow of hot-house tomatoes. **Figure 1** on p. 43 shows the locations of the main greenhouse centers of production of fresh tomatoes in North America. Huge high-tech growing operations are in British Columbia and Ontario, and more low-tech operations throughout Mexico.

The facilities vary in size, but the common characteristics of this highly concentrated continental production are cross-border corporate operations, private investor financing, and tight control. Of all the greenhouse fresh tomato production in the United States, the four largest firms account for 67% of it, and are located in coastal California, Arizona, Texas, and Colorado. The largest year-round producer and marketer of greenhouse tomatoes in the United States is Eurofresh Farms, headquartered in Willcox, Arizona.

During the UN Development Decades, there were hopes and initiatives to apply hot-house technology to uplift agricultural methods and improve nutrition where most needed in the world. Even hydroponic livestock forage for small animals was produced economically in South Africa. These initiatives were crushed by the onset of globalization and the dictates of the GATT/WTO era. Technology and trade practices are now deployed, in effect, to undermine national economies. In Mexico, for-export farming operations have been set up to take advantage of low-wage labor, and exploit scarce water and other infrastructure. The shortfalls of food production for Mexican domestic consumption have led to extensive, needless hunger.



EIRNS/Stuart Lewis



EIRNS/Stuart Lewis

Two of six different kinds of imported tomatoes, on sale in a single Giant supermarket outside Washington, D.C. The Giant brand (left) is on a pint of “grape tomatoes,” a variety (Pure Santa) promoted heavily over the past ten years, because it holds up well under the for-export plantation-cultivation in Mexico, and it tolerates long-distance shipping. Many of the recent new novelty tomatoes—cherry, cocktail, on-the-vine, etc., including hydroponic types—have been promoted for the same reason: They have the resilience to withstand free-trade shipping and handling. On the right are Canadian cocktail tomatoes, called Splendido (Santalina variety), produced and packed under the Sunset brand of Mastronardi Produce, Ltd., of Leamington, Ontario.



EIRNS/Stuart Lewis

A trademark “Heirloom UglyRipe” tomato (a traditional beefsteak variety), from Florida, distributed by Santa Sweets, Inc., a division of Procacci Brothers, Philadelphia, one of the largest growers and handlers of fresh tomatoes worldwide. Under a Federal Marketing Order, the UglyRipe variety shown is not permitted to go outside Florida from Oct. 10 to June 15, because it doesn’t conform to uniform size for marketing. This is being contested.

G-8 Meet To 'Manage' Hedge-Fund Crisis

by Lothar Komp and Nancy Spannaus

The meeting of the Group of Eight industrialized nations, to be held in Scotland July 6 to 8, is reported as dealing with issues like debt forgiveness for the world's poorest nations, and global warming. But just a week before the scheduled meeting, the Bank for International Settlements (BIS) released its annual report, indicating that a very different set of topics is likely to be on the agenda: how to manage the barrage of risks that could devastate the global financial system. The BIS report summarized the discussions ongoing among governments and international banking circles about whether the world needs a new "international macro-financial stabilization framework," and said that three approaches to this question are being discussed:

1. The establishment of a single international currency;
2. Reverting to "a system more like that of Bretton Woods"; and
3. "Informal cooperative solutions," that is, crisis management.

A highly placed U.S. intelligence source has informed *EIR* that the discussions on returning to a Bretton Woods system, indeed reflect debate about Lyndon LaRouche's proposals, but, as the BIS report indicated, the bankers will be pushing hard to get a crisis-management arrangement, with structures defined by the bankers, who are desperately trying to preserve their control under conditions of impending meltdown.

Among the largest risk factors, according to the BIS report, is "the widening current account deficit of the United States," which "could eventually lead to a disorderly decline of the dollar, associated turmoil in other financial markets, and even recession. Equally of concern, and perhaps closer at hand, it could lead to a resurgence of protectionist pressure."

Another area of grave concern is the credit derivatives market. The "explosive growth" of CDS and other credit derivatives contracts belongs to "the most significant developments in finance in recent years." "The notional amount outstanding on CDS contracts globally reached \$4.5 trillion at end-June 2004, up sixfold from end-June 2001."

In spite of the recent turmoil triggered by the downgrading of GM and Ford, the real stress test of the credit derivatives market is still to come, says the BIS: "It remains to be seen how the CDS and CDO markets would handle a string of

credit blow-ups or a sharp turn in the credit cycle. . . . One concern is the impact of highly leveraged positions on the balance sheets of financial institutions when markets turn. Another is the nature of the systemic role played by highly leveraged institutions such as hedge funds in affecting market liquidity; two-way markets could conceivably disappear as protection sellers exit at precisely those times when default insurance is needed most." As investors were able to anticipate the downgrades of General Motors and Ford, the report states, "the events of spring 2005 might not be a true reflection of how these markets would function under stress."

To put it more plainly: The BIS says that the situation in the credit derivatives market is already precarious; however, it will get worse, and it might entirely collapse.

Hedge Funds: The Corpses Multiply

And then, there are the hedge funds, whose corpses are beginning to float to the surface. The hedge funds and derivatives trade divisions of the major banks are currently in a near panic, desperately trying to limit the shock waves of derivatives and hedge-fund losses that were apparently triggered by the collapse of General Motors. They are trying to avoid even the hint of danger for the system, but it's not working.

It's not unusual for one out of ten hedge funds to collapse in the course of a year, without fanfare. Almost always these are small or medium-sized funds. But now, suddenly, and for the first time since the LTCM drama in Fall 1998, the large hedge funds are coming onto the radar screen. Three of them have recently acknowledged their dissolution:

Bailey Coates Cromwell Fund, London. It was founded in July 2003 by Jonathan Bailey and Stephen Coates, formerly working at the London section of the U.S. securities firm Perry Capital. The fund was able to accumulate \$1.3 billion in capital and another \$2 billion in bank credits. Bailey Coates was exposed in particular to bets on U.S. stocks, and for the past few months, it has found itself on the wrong side of such bets. Initial losses led to large withdrawals by investors.

According to EuroHedge, a private institution that tracks the European hedge-fund "industry," the capital of Bailey Coates imploded to \$635 million by early June. On June 20, the management announced the fund's immediate liquidation.

Marin Capital, California. The fund was founded in 1999 and raised \$1.7 billion in capital. Marin Capital specialized in credit derivatives related to convertible bonds. Exactly these kind of bets led to extreme losses after the downgrading to junk of General Motors. In mid-June, the management decided to liquidate the fund.

Aman Capital, Singapore. The fund was set up in September 2003 by top derivatives traders at UBS (the largest bank in Europe), and Salomon Brothers, and was intended to become Singapore's "flagship" in the hedge-fund business. But by the end of March, the fund's capital already had shrunk

to \$242 million. In April, Aman Capital suffered large derivatives losses. In a statement published by London's *Financial Times* on June 20, the managers of Aman Capital acknowledged that "the fund is no longer trading," and that they will distribute whatever is left of the capital to investors.

UBS is believed to have lost several hundred million dollars which the bank had invested in Aman Capital. Temasek, Singapore's government investment agency, reportedly also lost money at Aman Capital.

London in the Lead

More hedge funds, with capital in the range of billions, may find themselves in a declining situation and could face liquidation soon. Among these are 2 of the 16 hedge funds of GLG Partners in London, one of the largest hedge-fund groups in the world. The GLG Credit Fund, from January to the end of May, had already lost 14.5% of its capital, in the range of \$1 billion; the Neutral Fund of GLG lost about 17.2%, or \$2.5 billion. The latter fund had worked with the same contracts as Marin Capital. Recently, nervous investors took out about \$1 billion from the Credit Fund and the Neutral, after being informed of the new situation at the end of May.

The GLG Group was established in 1995 by three partners of Lehman Brothers. A fifth of the start-up capital came directly from Lehman Brothers. The invested capital of GLG today stands at around \$14 billion and exceeds that of LTCM many-fold. One could put it this way: What Argentina was for the loans of sovereign debtors, and General Motors was for investment loans, so was GLG Partners for the European hedge-fund sector.

At the beginning of June, GLG held the designation of the "most respected" hedge fund in London. The now-collapsed Bailey Coates Cromwell Fund was also winning prizes. Two of the four funds of another leading hedge-fund group in Europe, Vega Capital, also must have suffered serious losses this year.

At the same time, the leading investment banks have achieved their worst quarterly results in years. On June 18, Goldman Sachs announced a collapse in profits of 20%. On Wall Street, this has been combined with ongoing turbulence among the hedge funds and credit derivatives. Goldman Sachs's Financial Officer David Viniar tried hard to deny the situation: One can "not always be on the winning side," he said, and "rumors that the firm must have put up with quarterly losses due to bets on GM and Ford Motor, are exaggerated."

On May 22, Morgan Stanley announced a collapse of quarterly profits by 24%. Chief Executive Philip Purcell was forced out only nine days later.

Interest Rates and Loans

These events are directly linked to the so-called Greenspan "conundrum." In his address to a June 6 banking conference in Beijing, Federal Reserve chief Alan Greenspan again

picked up the issue of the alleged "mystery" of the contrary movement of short-term and long-term interest rates. Although central banks, in particular the Federal Reserve and the Bank of England, had recently pushed up short-term interest rates, the yields on medium- or long-term government bonds are still falling—in some cases even below short-term rates. In a statement on June 20, Lyndon LaRouche noted that there isn't any "mystery." The discrepancy is "exactly what should have been expected as a result prompted by the way in which the General Motors crash has exposed the unstoppable character of the collapse of the marketable credibility of the already 'lame duck' George W. Bush Presidency," LaRouche said.

Obviously, the European Union, particularly in its current precarious state, cannot "provide even a relatively short-term refuge from a collapsing U.S. financial system," LaRouche said. This means that "everywhere, in the real universe, there is no longer any security for the present world monetary-financial system, even during the short term." Under such circumstances, government bonds, regardless of their yields, are now appearing as the only form of financial paper that offers any long-term value. LaRouche emphasized: "In short, it is the survival of the principal, not the rate of the premium on the relevant paper, which determines its perceptible value to any moderately sane investor."

In line with this assessment, the rush into government bonds reached dramatic dimensions in the trading week ending June 24. This panic-buying again pushed up the prices and drove down the yields of government bonds. Further contributing to this dynamic is the expectation that central banks will soon be forced to cut short-term rates in reaction to economic and financial emergencies. The Swedish Riksbank cut its prime rate from 2.0% to 1.5% on June 21, and there is speculation that the Bank of England and the European Central Bank might soon follow. On June 22, U.S. Treasury prices had their largest gain in seven months, pushing down the yield on ten-year Treasuries below the 4% mark, to 3.93%. Japan the following week saw the biggest decline of government bond yields, down to just 1.205%, since October of last year. In Britain, yields on two-year government bonds fell to 4.17%, the lowest since January 2004.

Perhaps the wildest action took place in the Euro-zone. In Germany, the yield on ten-year government bonds fell to 3.10% on June 24, the lowest since the Bundesbank records began in 1973. Since mid-March, ten-year yields have plunged by 70 basis points. According to reports, German government bond yields are now actually the lowest since the times of Bismarck in the 1890s. Since June 22, investors buying two-year German government bonds are being promised a yield of less than 2%, that is, less than the short-term interest rate set by the European Central Bank. But investors buy nevertheless. In the two days of June 21-22, Euro-zone government bond yields experienced their biggest drop since Sept. 10, 1998; that is, exactly the time between the Russian GKO default and the collapse of LTCM.

U.S. States Slash Medicaid Spending

by Linda Everett

Over 2001-05, as the U.S. economy has drastically declined during the Bush Administration years, enrollment in the joint Federal-state Medicaid program, which provides health care to indigent, elderly, and the most disabled citizens, has shot up from the range of 33 million to over 53 million today. At the same time, those without insurance have also increased.

On the state government level, instead of demanding Federal intervention in the economy overall, many governors and legislatures have resorted to insane attempts to reduce services and undercut health facilities.

For example, current Federal law prohibits states from requiring “cost-sharing” from certain Medicaid populations. That means states can’t force the poor to pay for emergency care, or for homeless or indigent pregnant women, to pay for prescriptions or doctor visits. But the National Governors

Association (NGA), in its *Medicaid Reform* proposal of June 15, says these rules have been in place since 1982 and are obsolete, since they prevent Medicaid from utilizing market forces and insisting upon personal responsibility. Therefore, they want a “new vision” for cost-sharing, in which states would have broad discretion to establish premiums, deductibles, or co-pays for all populations. They say they’ll cap some fees and states could waive some if they curtail access to health care; but don’t believe it. Once the Federal law is off the books, it is gone.

At a June 15 Senate hearing, Sen. Jay Rockefeller (D-W.V.) said the NGA plan implies everybody gets some care; but he expressed the concern that current Federal medical requirements would no longer apply, such as the Early, Periodic, Screening, Diagnostic, and Treatment program (EPSDT), which does not exist in the private sector. This program supplies vital childhood interventions that ensure against life-long disabilities. Gov. Mark Warner (D-Va.) assured Rockefeller that it wouldn’t happen to the poorest children, but that we do need a “flexible” benefit package for other populations, meaning all other children above a state’s Medicaid income-eligibility level would not get that service. To which Rockefeller replied, “Hence, my worry.”

The following is a short round-up of the situation as of the final days before July 1, the beginning of Fiscal Year 2006 for most states.

Medicaid Enrollment by State (for June 2003)



Source: The Henry J. Kaiser Foundation.

In the past four years, Medicaid enrollment increased from 33 million to more than 53 million. Although Medicaid enrollment can vary month to month, the shading indicates those states that have the highest numbers of poor and disabled.

South

Florida: Some 2.2 million low-income, elderly, or disabled residents are enrolled in Medicaid in Florida. As of July 1, Gov. Jeb Bush’s (R) plan requires that physicians prescribe only the least expensive treatments first. Only if that treatment fails, can a more expensive treatment be used. Medicaid beneficiaries are limited to four name-brand psychotropic drugs per month as well as four generic drugs. No name brand anti-depressants are allowed. Patient advocates warn that changes for many patients will result in increased emotional crisis, emergency room visits, and hospitalizations.

The president of the National Mental Health Association characterized Governor Bush’s Medicaid reforms as “legalizing malpractice for Medicaid populations.”

Mississippi: In 2005, one-quarter of the state’s population participated in Medicaid, or 780,000 people. As of July 1, the state reduced the number of prescription drugs to beneficiaries to five per month (two name brand, three generic). That would limit anti-retrovirals, the drug regimes HIV-positive people need. HIV/AIDS patients need at least three anti-retrovi-

Wal-Mart Employees Resort to Medicaid

The effects of the “Wal-Martization of the economy” are coming under Congressional scrutiny, as legislators have discovered that many Wal-Mart employees get paid so little that they are eligible for Medicaid. Sen. Edward Kennedy (D-Mass.) introduced the Health Care Accountability Act in the Senate on June 22; a similar bill was introduced in the House by Rep. Anthony Weiner (D-N.Y.). The bills would require states to report annually on the number of employees of large companies who receive health-care coverage through taxpayer-funded health care and not employer-based plans.

There are more than 600,000 Wal-Mart employees who are forced to get health insurance from the government with Medicaid and SCHIP (States’ Children’s Health

Insurance Plan). Kennedy said, “They should not underwrite the profits of large companies like Wal-Mart.”

The problem is caused by an increase of low-wage and non-union jobs, and a decline in manufacturing jobs. Right now 15 states which require disclosure demonstrate that Wal-Mart is the biggest abuser of taxpayer-subsidized health care, costing more than \$210 million in taxpayer dollars, including \$61 million in Florida, \$47 million in Tennessee, \$32 million in California, and \$3 million in Massachusetts. Representative Weiner said, “This legislation will allow us to paint a fuller picture of the Wal-Mart debate than a superficial examination of the price of a pair of jeans.”

Currently only 41-46% of Wal-Mart workers are insured under the company plan, while nationally 68% of workers in large companies have health coverage in employer-sponsored health plans. Wal-Mart’s benefit policies deny coverage to some workers and make the plan too expensive to purchase.—*Greg Murphy*

erals to effectively treat the virus. Harold Henderson, director of infectious diseases at University of Mississippi Medical Center, said patients receiving this inferior care “are more likely to develop a drug-resistant viral strain, which is harder, more costly, or even impossible to treat.”

The elimination of benefits for 50,000 people in the Poverty Level, Aged, and Disabled (PLAD) program has been held off until Dec. 31. Should these people lose medical benefits, such as dialysis, and nursing home care, many will die. Gov. Haley Barbour (R) will reduce home health visits from 60 to 25 per year.

South Carolina: Gov. Mark Sanford (R) will shift all 850,000 to 1 million Medicaid beneficiaries into managed care and give them debit cards to spend limited funds from their personal health account on whatever is most important for them. For example, the diabetic elderly will have to choose between getting treatment of an ulcerated leg sore that could lead to amputation, or chest pains that could be a heart attack.

Tennessee: Gov. Phil Bredesen (D) is in the process of eliminating 325,000 uninsurable, chronically ill people from the state’s extended Medicaid program, called TennCare. His second phase of limits prescription drugs (two brand-name, three generic), and cuts services dramatically for 396,000 adult beneficiaries who remain in Medicaid. It eliminates methadone clinic coverage entirely. *All* private duty nursing for adults, including patients dependent on ventilators, is eliminated. As of July 1, only five prescription drugs are allowed per month; only 12 physician visits allowed per year; only a few hospital days per year. Since Bredesen is cutting 30,000 mentally ill from TennCare and the state will no longer pay for their medications, the cost of treating any suicidal or

violent behavior will be borne by hospitals, jails, public health centers, and the public health safety net, which is also expected to take up the medical needs of those half million TennCare enrollees who will soon lose coverage. Tennessee has applied for a Federal waiver to exempt it from providing methadone treatment for adults over 21 years of age. The state hospital association said the Medicaid cuts will lead to profound, irreversible changes, and will likely cause some 20 rural hospitals to close.

Texas: The Medicaid population in Texas for 2004 was 2,683,229. Of these, some 1.45 million children did not get basic medical check-ups in 2004, up from 1 million in 2000. This is the basis of a 12-year-old legal battle against the state. This year, Gov. Rick Perry (R) will cut Medicaid funding to nursing homes by \$1 billion. Texas nursing homes already rate 50th in the nation in per-capita Medicaid funding. New Medicaid cuts now only allow the cheapest drugs available for the mentally ill, those with HIV/AIDS, and other disabled individuals. Medicaid will allow four name brand drugs a month. Some of the state’s sickest, most disabled patients will be forced onto Medicaid managed-care programs.

Midwest

Michigan: Gov. Jennifer Granholm (D) characterized the House-passed bill that cuts benefits for 30,000 parents and caretakers and 13,000 healthy 19- and 20-year olds as unprecedented in its cruelty. Michigan has 1.4 million Medicaid enrollees. Republican lawmakers are levying new \$5 monthly premiums; higher \$3 copayments for doctor visits and medications; and \$25 payments for emergency room use for non-emergency services. The Michigan Hospital Association said

that after three years of cuts, "We are at the train wreck stage."

Missouri: As of February 2005, there were 1,003,864 people in the Medicaid program, or one in five residents. As of May, both houses agreed to cut income eligibility for adults to just 23% of the Federal poverty level of \$16,900 per year for a family of three. That means, if a family of three lives on more than \$175 a week, they are no longer eligible for coverage. That would eliminate over 100,000 working parents. Other cuts eliminate 40,000 other Medicaid enrollees. Gov. Matt Blunt (R) is intent on eliminating the program entirely by July 2008. The budget initially eliminated coverage of services for the elderly and disabled enrollees and for wheelchairs and prosthetics devices, but reinstated these only for as long as there are state revenues for them.

Kentucky: Gov. Ernie Fletcher (R) will move the entire Medicaid population into managed-care plans and will levy premiums per doctor visits. The state is seeking a super-waiver to bypass Federal regulations that limit how much the state can charge Medicaid beneficiaries. The state seeks higher than allowed premiums and copayments, while cutting services and tightening eligibility. It seeks a bare-bones insurance plan for those with higher than allowed Medicaid-eligible incomes.

Minnesota: As of June 30, Minnesota-subsidized health plans, including Medicaid, stopped payments to hospitals and some clinics, when legislators failed to break a budget impasse. Minnesota subsidizes three safety net insurance pro-

grams—MinnesotaCare, General Assistance Medical Care, and Medicaid, called Medical Assistance. Medicaid covers 500,000 people. The shutdown halts \$158 million in payments to managed-care plans and \$84 million to fee-for-service providers in July. Payments will be sustained to providers deemed critical, such as pharmacies, nursing homes, home health agencies, rural health clinics, and community-based mental health providers, totalling \$270 million in July. Delayed payments will affect 22,000 fee-for-service providers and nine health plans, Minnesota's Department of Human Services said. If there is not a resolution, they have made initial plans to continue critical services, but if a shutdown goes on for a longer period, they will be assessing impact on clients and providers and asking for changes, MDH Commissioner Kevin Goodno said in a statement. Health plans will draw on reserves to pay for care until the state resumes reimbursement.

Ohio: Over 2 million people, or 18% of the population, are enrolled in Medicaid in 2005, 1 million of them children. Gov. Bob Taft (R) and the Senate will consider capping enrollment in Disability Assistance that cuts 15,000 disabled people, a bill that requires *all* Medicaid beneficiaries to make copayments, regardless of their income; cuts eligibility for 25,000 people; requires copayments for prescription drugs; lowers income eligibility for families to 90% of poverty levels (\$14,481 for a family of three); and reduces funding for nursing home care. It would also eliminate adult dental and vision care.

East

Maryland: As of June 30, there was still debate about whether Gov. Robert Ehrlich's (R) elimination of Medicaid support for pregnant immigrant women and children applies to this session. He eliminated Medicaid funds the legislature had set aside for coverage of legal immigrants; this may be overridden next year. On July 1, Medicaid services to all of the state's legal immigrants were cut, and the elimination of prenatal care and care of newborns will affect 4,000 people statewide. Medicaid serves 650,000 people state-wide.

New Hampshire: This is the only state in the country to charge families with *no income* a monthly premium of \$10-20 a month per child to receive Medicaid services. Gov. John Lynch (D) oversees the Medicaid program, which has 95,000 people enrolled. As of July 1, the state capped Medicaid payments to hospitals, to which Medicaid already only pays 77% of the real expense of care. The state will make major other hospital cuts, including to rural hospitals.

West

Washington: Starting out with a \$2 billion deficit, the legislature was ready to close wards of mental health hospitals, but put this aside to focus on curbing the use of pharmaceutical drugs. Gov. Christine Gregoire (D) signed into law a budget that will limit the use of brand name anti-depressants for Medicaid enrollees.

Now, Are You Ready To Learn Economics?



The economy is crashing, as LaRouche warned. What should you do now?

Read this book and find out.

\$10

Shipping and handling: \$4.00 for first book, \$.50 each additional book. Virginia residents add 4.5% sales tax.

We accept MasterCard, Visa, Discover, American Express.

ORDER NOW FROM

Ben Franklin Booksellers
P.O. Box 1707 Leesburg, VA 20177
1-800-453-4108 toll free
or 1-703-777-3661
www.benfranklinbooks.com
e-mail: benfranklinbooks@mediasoft.net

Expand Health Care; No Cuts in Medicaid

The following statement, entitled “No to Any Cuts in Medicaid, Vets Care, or Other Medical Services: Expand Health Care Infrastructure,” was released by the office of Pennsylvania State Rep. Harold James (D-Philadelphia) on June 27.

The attempt to “adjust” to the Medicaid funding crisis by agonizing over how to limit and cut medical care for our poor and disabled—now taking place frantically in Harrisburg and dozens of other state capitals—is wrong and foredoomed: We should declare a national time-out against any cuts; act together to force Federal intervention to rescue our collapsing economy; and expand, not contract, our vital physical infrastructure in health care—hospitals, clinics, public health staff, nursing homes, etc.

This goes hand in hand with the economic emergency measures needed overall for infrastructure-building for Amtrak, locks and dams, repairing our sewers and water supply, and many other basics. This, in turn, will set up the demand for skilled jobs, steel, machining, and inputs of all kinds, which built up Pennsylvania as an industrial state in the first place.

Instead, our Commonwealth—along with the former Midwest industrial belt, is suffering the results of years of shrinking of our productive economy under out-sourcing and globalization. We’ve reached the point where, over just the last four years, 28 counties out of our total of 67, lost population! This includes Philadelphia, Allegheny, and the whole northern tier rural counties! Overall, Pennsylvania’s population is barely static.

During this drastic contraction, thousands of our citizens have been made poorer, and come to be dependent on Medicaid, or have no health insurance at all. In Pennsylvania, we went from 1.422 million on Medicaid in December 2000, up to 1.8 million today. At this rate, we expect at least another 100,000 Medicaid enrollees in the next 12 months. Nationally, Medicaid enrollment soared from 33.4 million in December 2000, up to over 53 million today.

Accordingly, our rural and inner-city hospitals have a high dependence on Medicaid and Medicare payments. Therefore, for our legislature, or the Federal government, to mandate cuts in Medicaid now, out of a non-thinking “we have no money” mentality, will hurt the sickest and the poorest, and eventually may kill people, and bankrupt our medical facilities at the same time. There’s no excuse for resorting to the lie that, “there’s no money.” For example, we can find



EIRNS/Stuart Lewis

Pennsylvania State Rep. Harold James (D-Philadelphia), shown here when he announced his endorsement of Lyndon LaRouche for President on April 12, 2004, now calls for a Federal intervention to rescue our collapsing economy.

money within the state by taxing tobacco and beer. The truth is, we must face the crisis of the economic collapse, and intervene.

Politically, we can force the issue. In Washington, both the Senate and House are on record opposing cuts in Medicaid for FY 2006. Ignoring this, the Bush/Cheney Administration is attempting to bull through \$10 billion in Federal Medicaid cuts over the next five years. This must be blocked. Economist Lyndon LaRouche has a “Recreate Our Economy” program, with the how-to’s that can be initiated by the U.S. Senate. Resolutions based on this program have already been passed in the City Councils of five Midwest cities, and have been introduced in the legislatures of four states so far.

In the immediate term, we need a moratorium on any and all proposed cuts in existing facilities, services, and programs, across the whole combined system of health-care delivery in Pennsylvania and the nation. The laws and premises behind the past 35 years of the HMO-era of so-called market-based health care, must be set aside, and the nation returned to the “Hill Burton” principles which built up the health care system in the first place. This refers to the 1946 Hospital Survey and Construction Act, mandating levels of community-hospital-

based medical infrastructure to be present in all counties of the nation.

Preserve and Expand Medical Infrastructure

With this in mind, look at the parameters of Pennsylvania.

- **Medicaid:** Nearly 250 facilities across the state—acute and specialty care, primary care, long-term care, home health, etc.—provide the services covering Medicaid and other patients. Medicaid finances care for 65% of all people in nursing homes, for example. It is estimated that for any \$1 cut in Medicaid payments, there will be a loss of \$5.10 to the community. Thus, if the Washington/Harrisburg-proposed Medicaid budget cuts of \$316 million are made in Pennsylvania (\$149 million state, and \$169 million Federal), this will add up to an impact of \$757 million lost to the community, and harm and death will be the toll on the patients not treated. Don't do it.

- **Nursing-homes:** Pennsylvania has 732 long-term care facilities, which employ overall some 200,406 in health-care and other industries in the state. If the proposed Medicaid cuts, and Medicare scale-backs are implemented, this will both toss out patients, as well as undercut the medical-care infrastructure and job base in the area. For example, the Philadelphia Metro area has 141 nursing homes, supporting a total of 55,100 jobs statewide (in vendors and related employment). The Pittsburgh Metro area has 128 nursing homes supporting some 31,000 jobs statewide. (Statistics from the March 31, 2005 report by the Pennsylvania Health Care Association).

- **Veterans Affairs:** Pennsylvania is home to 9 of the 168 nationwide VA Medical Centers, which the VA is now committed to scale down. One of two in Pittsburgh is being phased out. Others threatened with shutdown include Altoona and Erie.

There are additionally eight VA-run nursing homes for Veterans, which the VA system intends to scale-down: Altoona (40 beds), Coatesville (281), Erie (52), Lebanon (136), Philadelphia (240), Pittsburgh-Aspinwall (336), Wilkes Barre (106), and Butler (97).

The Commonwealth itself operates five facilities for Veterans: Erie (175 beds), Hollidaysburg (515), Pittsburgh (236), Scranton (200), Spring City (342), and Delaware Valley (171). Nationally, there are some 117 similar facilities across all states, providing 20,100 beds for long-term care for Veterans.

Bush and Cheney got us into this war in Iraq, and it's a shame they now want to cut back VA benefits and services. All these Veterans' care facilities must be expanded, and the intended Bush/Cheney FY 2006 cuts in the VA program (per diem payments, etc.) be defeated.

In reality, we need to double and triple in size the various components of the health-care infrastructure of Pennsylvania and the nation, to end the disparities of diseases and mortality among our people, and build our economy in the course of it.

Will Privatization Derail Pension Crisis Action?

by Paul Gallagher

A June 24 vote by the U.S. House of Representatives surprised the GOP leadership, and showed that the bipartisan membership of the Congress is becoming serious about tackling the worsening collapse of pensions and retiree health insurance, which is hitting millions of older and retired workers. Thirty-one Republicans joined primarily Democratic sponsors in the House, to pass, 219-185, a measure to roll back the bankrupt United Airlines' default on its pension plans. The amendment, which has sponsors and prospects of passage in the Senate as well, would block, for six months, the dumping of any large pension plans onto the troubled Federal Pension Benefit Guaranty Corporation (PBGC). But it is the United Airlines case which shocked Congress into action, through strong efforts by Rep. George Miller (D-Calif.), the ranking Democrat of the House Education and Workforce Committee. United, on May 11, had moved to dump pension plans which had operated successfully for more than 60 years; and its default immediately raised the specter of more airline—and then, much larger, auto—pension defaults coming. Miller sounded that warning, and in early June held an “electronic hearing” on United Airlines, because the House Committee chairman, Rep. John Boehner (R-Ohio), refused to hold one in House chambers.

Congress now recognizes the urgency of action to stop the collapse of pensions. But the chance of constructive intervention will be ruined, if the GOP leadership continues to play with the idea of linking such action to President Bush's notorious schemes to privatize and loot Social Security. That will make any pension protection legislation instantly unworkable. This warning was raised at Ways and Means subcommittee hearings on June 28 by Rep. Lloyd Doggett (D-Tex.).

That the U.S. pensions crisis can potentially devastate the retirement of millions of veteran skilled workers, was graphically shown by the testimony on the United case to Miller's “e-hearing.” That the crisis is rapidly worsening, requiring urgent and unpostponeable action by Congress, was shown by a new report released on June 23, the day before the surprising House vote. A study by Watson Wyatt Worldwide consultants showed that the abandonment of pension plans by the largest companies in the United States, is accelerating.

Of America's 1,000 largest companies, about 700 maintained defined-benefit pension plans going into 2003. These large firms' plans included the majority of the 43 mil-



www.the-mechanic.com

The failure of the Pension Benefit Guaranty Corp. and the Bush Administration to live up to the law which mandates that the PBGC seek ways to strengthen the defined-benefit system, will wipe out or greatly reduce pensions for United employees. Here, in March 2001, members of the Aircraft Mechanics Fraternal Association picketed in front of the White House.

lion American workers who still had single-employer or multi-employer defined-benefit pensions. But in 2003, the study found, at 45 of these companies, the plans were terminated (defaulted to the PBGC or another insurance company) or “frozen” (allowing no more accruals for workers enrolled, nor any further enrollment of new workers hired). In 2004, the study reported, 71 more companies, or 11% of the total, terminated or froze their plans. In sum, nearly a fifth of the largest pension plans in the economy went down in two years.

The major reasons were: 1) the fall of rates of return on the plans’ assets, due to the stock market’s plunge since 2000 and Federal Reserve Chairman Alan Greenspan’s low interest rate policies; and 2) years of corporations not making new contributions to the plans, justifying this by using “Enron accounting” to fluff up and “smooth” assumed rates of return on the plans’ assets. These practices spread during the IT stock-market bubbles of the later 1990s. The example of United’s pension plan in 2000 was cited: Its assets earned \$21 million that year; but, by Enron accounting, they were booked as earning \$740 million! This turned a real loss for the whole company in 2000, into a reported profit.

The U.S. pensions crisis is thus heading toward the scale of Britain’s pension emergency, where 75% of *all* remaining defined-benefit plans are frozen, or “closed.”

The figures often given for “underfunding” of major corporate pension plans, reflect asset and benefit estimations for decades into the future, and so vary widely even for the same

company—a point of much contention in the debate about how to stanch the crisis. But what is unmistakable, is the dire overall direction. All U.S. corporations’ guaranteed pension plans combined, which were \$19 billion in surplus (“overfunded”) in 1999, within five years were \$480 billion underfunded by the end of 2004, according to the same PBGC methods of estimation.

The PBGC was never intended or equipped to absorb the outsourcing and drastic shrinkage of all of American industry. For most of the last three decades’ “globalization” and de-industrialization of the U.S. economy, real wages of American workers have stagnated or fallen; while increased pension and health benefits—easier to promise, because they’re to be paid decades in the future—have appeared to compensate. The assets of corporate pension plans appeared to grow rapidly in the 1990s IT and “Y2K” stock bubbles, then crashed from 2000-01 onwards. Despite the Bush Administration’s “Snow job” about a 2003-04 recovery, the pension underfunding crisis continued to grow worse, indicating the real state of affairs in the economy.

‘Globalization’ the Problem

Real wages are continuing to fall, at their fastest rate since 1991. Speaking after the June 24 House action, Miller said, “This vote sends a strong message to United Airlines, and any other employers looking to follow United’s lead: . . . Dumping pension plans onto the Federal government is not a way to cut your labor costs.” He noted the findings of his “e-hearing”: Dumping the plans onto the PBGC would *cut 120,000 United workers’ retirement pensions by 25-50%*—probably costing them their health insurance as well. These same employees had already taken huge cuts in their wages in recent years because of the carrier’s bankruptcy. Including some of the most skilled and longest-standing employees in the American workforce, many of these airline workers will now have only Social Security benefits standing between them and an old age in poverty. Miller said, “The vote shows a growing frustration in both parties with the failure of Republican congressional leaders and the Bush Administration . . . to address the private pension crisis.” Republican House Speaker Dennis Hastert, for example, has United’s headquarters in his Illinois district, but has never done or said anything to ameliorate the savaging of its employees’ living standards.

It will take several months for Miller’s amendment to be passed, signed by the President, and take effect. And it only states an intention of Congress to act in this crisis, not establishing what it can and must do.

The fundamental problem is globalized “free trade”

(lowest-wage) economics, and the resulting deindustrialization of the United States. Many industrial pension plans in shrinking industries have as many or more retirees as active workers (compare to Social Security's 3.3 employed payers for each beneficiary). The collapse of the industrial pension plans can only actually be reversed by Congress' intervention into the physical economy, with an FDR-styled infrastructure and reindustrialization policy, causing new, younger workers to be employed at rising wages and skills in those sectors. Lyndon LaRouche has introduced this policy outlook into Congress' thinking. Other actions being discussed can only ameliorate the crisis. One example is the proposal at Miller's "e-hearing" that lower-cost, lower-wage companies without pension plans, which have entered economic sectors with a beneficial legacy of established pensions—this applies forcefully to the auto and airline industries—should make Congressionally regulated contributions to industry-wide pension plans. The model is the 1919 Railroad Act's Railroad Retirement Fund.

The misuse of bankruptcy statutes and courts to eliminate pension obligations can also be stopped by Congress. The current double standard of bankruptcy is extremely glaring: Congress just passed bankruptcy reform demanded by the Bush White House, which makes bankruptcy more difficult and mandates some level of continued debt payments even by bankrupt individuals; yet some of the largest U.S. corporations are using Chapter 11 bankruptcy filings to abandon their pension obligations entirely. Legislation to cut off this practice was introduced into the Canadian Parliament, by the Liberal government there, on June 4.

Bush Must Drop Privatization

The progress of Miller's actions is having an impact on the Pension Protection Act of 2005, H.R. 2830, of Education and Workforce Committee chairman Boehner, due to pass the Committee on June 29. Boehner dropped, like a hot potato, the George W. Bush Administration "pension reform" plan he was once supposed to introduce. That plan was exposed, to all, as an attempt to protect the government insurer—the PBGC—from its own growing deficits, shoring it up by methods which would *increase* the rate of abandonment of pension plans. Boehner's committee has acknowledged that this violates the PBGC's statutory purpose, also that of Congress now: "To encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."

There has also been a discussion between Miller and Boehner on the crucial matter of allowing the public to see the reports corporations make on their pension plans' funding to the PBGC. Not even employees are allowed to see their employers' PBGC filings, and only a few Members of Congress have been granted access. Miller has insisted that these reports are, in many cases, dramatically different from the *public* reports on the same pension plans, filed with the U.S.

Labor Department. Unless these drastic discrepancies are understood, and the "Enron accounting" of pension-plan assets they represent is rooted out, Congressional legislation may inadvertently *increase* the rate of pension collapse, Miller warned Boehner on June 17. And in the Senate as well, Finance Committee chairman Charles Grassley (R-Iowa) wants to make these so-called "4010" reports public.

But, there is a huge monkey-wrench threatening the Congress' work, which came out in hearings in the Ways and Means committee on June 28. That spanner is Social Security privatization. When Representative Doggett warned against it at that hearing, the witnesses present reacted by forswearing any connection between the pension crisis aid they were urging, and George W. Bush's obsessive, losing drive for Social Security privatization. But Boehner has agreed to turn over his "Pension Protection Act" to be part of Ways and Means Chairman Bill Thomas' (R-Calif.) smorgasbord bill on "retirement." And Thomas may still try to include in *that* bill, the discredited Social Security privatization scheme. If so, it will derail Congress' urgent attempt to deal with the worsening pension crisis.

Documentation

'The United Decision Was Not PBGC's Only Choice'

Excerpts from the testimony of Dr. Teresa Ghilarducci, Ph.D., Associate Professor of Economics and Director of the Monsignor Higgins Labor Research Center, at the University of Notre Dame, Indiana, to the e-hearing held June 13 by California Democrat Rep. George Miller on the United Airlines Pension Crisis.

What is happening in airlines happened in railroads in the early 1900s. The first private defined-benefit pension plans were established by railroads in 1865; they were the airlines of their day. In 1919, the maturing defined-benefit railroad pension plans were threatening to default for two familiar reasons. Workers were beginning to retire in large numbers, and small start-up companies, that paid low wages and provided no benefits, invaded the legacy railroads' routes by slashing haul rates.

The nation could have chosen to allow what the PBGC and United Airlines agreed to happen—let pensions default and have the workers pay for the industrial restructuring. But the American decision-makers viewed that solution as unfair, and the government mandated a multi-employer pension plan, the Railroad Retirement Fund, that all railroads pay into. The

rationale was that the low-cost, start-up companies were taking advantage of the infrastructure the mature, legacy railroads and their workers created, and needed to pay for the legacy benefits they were enjoying. To this day, railroad workers have a strong defined-benefit plan, portable anywhere in the industry, regardless of the death and birth of individual railroad companies.

Solutions

The PBGC should have had a different orientation in the United Airlines case, and sought a creative solution to the airline industry crises. The PBGC is, by law, the advocate for the DB [defined-benefit pension—ed.] system. One good idea is to segregate the airline liabilities from the other PBGC liabilities. The agency does this occasionally with idiosyncratic bankruptcies like TWA. Since the airline pension liabilities were created by industrial restructuring, the industry should pay off the debt incurred when the industry made its investments in establishing air travel as a popular and profitable business. All the airlines, workers, customers, and shareholders—United, and the low-cost start-ups like Jet Blue, etc.—could pay a \$1-2 surcharge on a plane ticket to restore the airline workers' pensions. (Congress and Secretary of Labor Elizabeth Dole created a similar tax for coal, to pay off miners' health liabilities.)

Another creative solution is to put all airline employees into an airline retirement fund like the railroad workers. Delta and the [other] airlines will keep their DB plans, not be forced to follow United and crash their plans. Once airlines are out of the PBGC and into a multi-employer plan for the industry, the rest of the defined-benefit system will be in better shape.

I am mostly disappointed in the PBGC and the Bush Administration for not living up to the law¹ that mandates [that] the PBGC seek ways to strengthen the defined-benefit system. By siding with United Airlines, the PBGC is violating its statutory responsibility and weakening the DB system.

Future of Defined-Benefit System

It would be wrong to take away the lesson from the United Airlines bankruptcy and pension default that the idea of pension insurance is deeply flawed or that defined-benefit pension plans are extinct and of no further use to employers. Companies sponsor defined-benefit plans for vital economic reasons: They help retain valuable employees; they provide long-service workers with a certain pension source, that, combined with Social Security and some home equity and health insurance, can carry a middle-class worker into a middle-class retirement.

1. The Employee Retirement Income Security Act: (Title 29 Chapter 18, Subchapter 111 USC Sec. 1302) gives three duties to the Pension Benefit Guaranty Corporation. The first is "to encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."

'Life or Death for Retirees'

Testimony of Robert Roach, Jr., Transportation General Vice President, International Association of Machinists and Aerospace Workers, to the June 13 e-hearing.

Thank you, Congressman Miller, for giving me the opportunity to testify today on an issue that will have a profound impact on America's working families. United Airlines and the U.S. airline industry are trying to pull the retirement rug out from more than 100,000 employees by terminating their pension benefits. That is wrong and Congress should not allow it to happen. We support your efforts to stop corporate America's attempt to dump billions of dollars of their pension responsibilities onto the U.S. taxpayer, and rob millions of workers of a retirement with dignity after a lifetime of work.

As the general vice president of transportation for the International Association of Machinists and Aerospace Workers (IAM), AFL-CIO, I represent more than 150,000 active and retired members who work in America's airline and railroad industries. Furthermore, as a former TWA employee who had his own pension terminated, I know firsthand how it feels to have a company break its pension promise.

Our airline members are dedicated professionals who repair airplanes, take reservations, greet passengers at the ticket counter and gates, keep passengers safe in the air, load and unload aircraft, and perform the behind-the-scenes jobs that make commercial aviation the safest mode of travel in history. IAM members and thousands of other airline employees have made extraordinary sacrifices since the Sept. 11 attacks that struck at the heart of our industry. Airline workers have endured bankruptcy proceedings, pay cuts, short-staffing, and all manner of hardships. Yet they've stayed at their jobs and keep the public safe when they fly. Our members have struggled through tremendous hardships, yet they give their all, day in and day out. As evidence, United Airlines entered bankruptcy in 2002, but remains an industry leader in on-time performance. . . .

Airline employees have paid too high a price and they need help. As members of Congress, you can provide that help. As the heart-wrenching stories our members and other airline workers will put before this hearing, you will hear the real consequences of airline managements' actions. Taking over airline pensions may be a balance-sheet problem for Pension Benefit Guaranty Corporation accountants, but for our retirees it means a choice between having food or medicine, or working until death to make ends meet. And for retirees with serious health problems, cutting retiree health benefits literally means life or death for them.

The Machinists Union has made extraordinary efforts to

alleviate the crisis in the airline industry. . . . But corporate America must live up to its responsibilities. Their relentless efforts to dump pensions and retiree medical coverage are turning what should be the golden years into a living nightmare. America can't have a safe and efficient air-transportation system without career airline employees. And you won't have that, if airline management is allowed to go back on its promises and responsibilities to its workers. . . .

'The PBGC Decision Is Just Wrong'

Excerpts of testimony by United Airlines employees, retirees, and their families, submitted to the June 13 e-Hearing.

Ellen Saracini, Yardley, Pa.

My name is Ellen Saracini. My husband, Capt. Victor J. Saracini, was the captain of United Flight 175 that struck the south tower of the World Trade Center on Sept. 11, 2001, at 9:03 a.m. While no one could have imagined the events of that infamous day, neither could Victor have imagined what would be happening right now to his wife and his two daughters. . . . I am currently receiving the spousal portion of Victor's pension, which is 50% of what he thought would be there for his family. After United took away our ESOP stock [Employee Stock Option Plan of 1993—now worthless, but accepted by employees to keep United in business—ed.], this pension is how I am supporting our two daughters and myself.

I was given a choice to sue the airlines, Port Authority, and others, or join in the victims' compensation fund set up by the government. I pledged I would not sue and proceeded with the fund; after all, this is the company Victor was so proud to work for. . . . Every bit of preparation that Victor and I worked for was used against the claim. Life insurance was deducted. My full pension was deducted from the award. Now I will have a double jeopardy, as I will again lose my pension with no recourse on either side. . . .

I can't help but to ask myself at what point are companies allowed to take away so much from the lives of dedicated employees and families? . . . The PBGC's decision to allow United Airlines to end their pensions is just wrong.

Michael Fitch, Clearville, Pa.

I am a United pilot who retired in 2002, following 37 years of service. . . . We set up our post-retirement lifestyle based upon the expectation of living within the means of my pension, which is based upon deferred compensation from my working years. Recently retired pilots such as myself appear to be about to lose 70 to 90% of promised pensions. Because Federal law requires we retired at age 60, there is no way I can return to the workforce in my profession in an

attempt to recoup some of the losses. Most recently retired pilots are not yet eligible to receive Social Security benefits, and many will be forced to take a reduced amount by electing benefits to begin at age 62.

Also, recent modifications to United retiree medical benefits have substantially increased my living costs. We anticipate that eventually they will attempt to also terminate all of my medical benefits. Replacing our health coverage in the open market may well consume half of any amounts I might receive from the PBGC.

United's attempt to unlevel the playing field in order to achieve a massive, unconscionable, and immoral competitive advantage in the airline industry, will inevitably trigger other Chapter 11 filings and pension terminations; this will produce a staggering domino effect which will involve any worker who has a defined-benefit pension. . . .

Angela M. Mogaverok, Schenectady, N.Y.

I am a flight attendant who retired in June 2003, after 32+ years. I retired earlier than I had intended, as did so many others, because of United's promise to continue medical benefits at lower cost and higher coverage for people who retired before July 1, 2003. Because of my age, I took a 24% cut in my pension, but I thought it would be offset to a degree by lower medical costs.

I was concerned about the medical coverage because I am the lone parent of a disabled child who had six surgeries the year that I was forced into retirement. Of course, six months into that retirement, United broke its promise, and our medical costs soared. . . . After 32 years of work, my *full* pension is only \$1,300/month, and that is *before* medical deductions, taxes, etc.

What is wrong with this country? Health care is a luxury, companies declare bankruptcy and are rewarded for it with legal loopholes, while hard-working individuals who may *need* to declare bankruptcy (particularly for medical reasons) are placed in a stranglehold. . . .

The PBGC is in worse financial straits than United. If this decision is allowed to stand, other companies will surely flood the gates to rid themselves of the burden of defined-benefit pensions. This will be followed by either the demise of the PBGC, or by great burdens to taxpayers. . . .

Thomas A. Gardiner, Bainbridge Island, Wash.

I am a captain for United Airlines with a total of 27 years of service. . . . If the PBGC takes over the pilots' defined-benefit plan, I will lose at least two thirds of my promised pension. This is *after* voluntarily agreeing to formula changes two years ago that reduced my expected benefit by about 30%. In short . . . the PBGC maximum payout to me will be about 20% of what I originally expected.

The FAA regulations require me to retire at age 60. The PBGC considers that to be "early," and takes away 35% of what I would otherwise receive from them.

I feel United and the PBGC have rushed to judgment of

this matter. . . . I am retiring in 16 months, and have no time to recover these losses.

Sunny Miller, San Diego, Calif.

Congress recently changed the individual bankruptcy law so that a person who has the ability to pay can't just declare bankruptcy and dump their debts. If United stays in business sometime in the future, they will have the ability to pay. There is enough funding now in the pension funds to continue with them for some time. If the liability of the pensions by United could be stretched out, they would have the ability to pay. United and other companies should be held to the same standards as individuals in bankruptcy.

Adam Thomas, Oceanside, Calif.

I am 28 years old, and have been flying for United for eight years. I am young and have plenty of time to work and build a retirement income. But it would be the mistake of my generation to give up defined-benefit pension plans in exchange for 401(k) or defined contribution plans. Things have become exponentially more expensive for my generation. . . .

Donna Hart, Glen Ellyn, Ill.

I have been a single working mom since my children were ages four and two. I am currently 51 years old and have served honorably in my profession as a United Airlines flight attendant for over 26 years. . . .

According to the PBGC literature I received, I will likely receive only \$200-400 of my pension. Estimates, if I had retired with 30 years of service, and age 62, were a modest pension of \$1,700. My pension, combined with Social Security, was to provide me with a modest retired income of \$2,800 per month for a lifetime of work. How, at age 51, can I possibly make up my pension losses?

Michael O'Meara, Chester, Va.

My wife and I both retired from United Airlines in 2003. I had 34.5 years and she had 15. We were told by United that if we retired before July 1, 2003, with a reduced monthly benefit, that United would continue to provide our medical insurance at a very modest cost to us. That "promise" lasted less than one year. In 1994, we were forced to join an ESOP [Employee Stock Option Plan], whereby in exchange for reduced pay, we would accumulate United stock. The accumulation of that stock offset or prevented contributions to 401(k) plans. In July 2004, United said they could no longer fund our pensions. Despite this they have still lost a record amount of money.

Object mismanagement of the airlines has been brought about by the Airline Deregulation Act of 1978. There is too much "competition," too much wasted energy resources, "fare sales" when oil is \$50 per barrel, cheaper airfare "entitlements," frequent-flyer schemes, etc.

Now we are retired with a potential fractional pension

from the PBGC, little or no 401(k) because of the ESOP, and a bleak future for both Social Security and Medicare. No surprisingly, all the former CEOs are multi-millionaires.

Tony Pasannante, Boring, Ore.

I retired Oct. 1, 2004, after being lucky enough to enjoy almost 38 years of flying for United. . . .

Pension income is more than a promise. It's an obligation. An obligation that all of us already paid for in the form of deferred compensation. The money in these funds belongs to the collective "us," and now we find that United can simply walk away from their obligation. . . . Complicit in all of this is the U.S. Government in the form of the PBGC and the pact they signed with the corporation devil.

Why can United afford to issue \$1.5 billion in notes and equities, but cannot afford to work out an alternative to summary termination?

I believe there is a good chance that the PBGC, by agreeing to this evil pact, is in violation of the mandate imposed on it by ERISA [Federal Employee Retirement Income Security Act]. Is anyone investigating this?

Ken van Wormer, Alpine, Calif.

If this UAL/PBGC action is not stopped, what do you think will happen to America? This is just the tip of the iceberg. How many other companies do you think will follow? The S&L bailout will look like a bag of peanuts compared to what is about to happen. What do you think will happen when the auto manufacturers do the same thing with their pensions?

Dan Duke, Evergreen, Colo.

I am a senior captain with United Airlines. . . .

United's strategy of dumping its pension liability, creative as it is, will cascade throughout our industry. Congress needs to stop the strategy now.

. . . You could force any company that wants to continue in operation to continue to fund its pension obligations as a cost of doing business. (All of these plans have stopped accruing benefits—we are only talking about past obligations.)

You could move the pension liability up the priority order in bankruptcy court. I can guarantee that if wages and pensions ranked above secured creditors and non-secured creditors, we would not be faced with the option of dumping our liabilities on the PBGC. . . .

WEEKLY INTERNET
AUDIO TALK SHOW
The LaRouche Show
EVERY SATURDAY
3:00-4:00 p.m. Eastern Time
<http://www.larouchepub.com/radio>

Zepp-LaRouche: The Chancellor Candidate for Germany's Future

Chancellor Gerhard Schröder, as expected, lost a “vote of confidence” in the German national parliament on July 1. Failing to get the required absolute majority of 301 votes for a continuation of his government, Schröder was hit by 296 votes against him (almost all from the opposition Christian Democrats and Free Democrats), demanding an end of his government.

The voting among Schröder's own Social Democratic Party (SPD) and among his Green Party coalition partner showed some surprises: 151 voted to support him, while 148 abstained. Three members of parliament who have no standing as a parliamentary group also voted against Schröder. Of the total 601 members of parliament, 6 were absent and did not vote. Schroeder had asked his party members to abstain, so that he would lose the confidence vote, and be able to compete in early elections. That so many did not heed him, underscores the fact that many Social Democrats expect to lose an election, should it go ahead.

Since opposition leader Angela Merkel, with the 294 votes of her Christian Democrats and of the Free Democrats, has no majority either, a decision by German President Horst Köhler in favor of dissolution of the parliament and early elections is likely. Köhler has three weeks in which to make his decision, and has indicated that he plans to take all the time he needs.

Zepp-LaRouche: My Candidacy Is Necessary

Immediately after the parliamentary result, Helga Zepp-LaRouche, the national chairwoman of Germany's Civil Rights Movement Solidarity (BüSo), issued this statement on the situation, titled “Reality Not Mentioned—My Candidacy For Chancellor Is Now More Important Than Ever Before”:

“Chancellor Schröder has achieved what he wanted; he did not receive the required majority of votes in the vote on

July 1. Now, it is the turn of President Köhler, who is in a constitutionally complicated situation.

“The main problem with this debate was that the actually determining reality was mentioned by none of the speakers: The problems in Germany such as unemployment and decline of production are not German problems, but are a consequence of the worldwide financial and economic crisis. The main reason for this world crisis is the Anglo-American neo-liberal paradigm of the free-market economy, which has reigned much longer in the world economy than Schröder has been in office. If these underlying questions are not addressed, a solution of the world economic crisis is impossible. If the axioms on which the flawed development of the past 40 years is based are not corrected, it does not really matter which party wins in future elections.

“The American economy and the world financial system are, especially since the collapse of the U.S. automobile sector and the hedge fund crisis triggered by it, at the eye of a storm, the effects of which will soon be felt very dramatically in the rest of the world. [SPD Chairman Franz] Müntefering did address a vital aspect, with his remarks about the attacks by ‘locust capitalists,’ and so did Chancellor Schröder with his call for transparency of hedge funds, but both interventions lagged far behind what was required. The result of unbridled predator capitalism—Pope John Paul II in his 1987 encyclical *Sollicitudo rei socialis* spoke of *structures of sin*—is that the so-called system of globalization today is in the end phase of its collapse.

“The lack of a discussion about the condition of the world financial system underlines why my candidacy for Chancellor is more important than ever before. Somebody must tell the truth and put the themes on which the future of the nation depends, on the agenda. The question is: Will there be a world in which Germany can exist? This will only be possible, if the



EIRNS

Helga Zepp-LaRouche addresses a meeting of her party, the Civil Rights Movement Solidarity (BüSo). In her July 1 statement, she said, "In this country, there must be at least one candidate for Chancellor who stands up for the real interests of Germany, who has a program for overcoming the world financial and economic crisis."

necessity for a new financial architecture, for a New Bretton Woods and for a new, just world economic order, is put on the agenda.

"Chancellor Schröder has made clear in his address that he wants to continue his reform [austerity] policy; it may be hoped that he quickly arrives at better insights, and turns around the mood of the approximately 9 million jobless, through a state investment program of at least 200 billion euros, before the end of this year. Angela Merkel demonstrated with her Freudian slip about the 'capacity for action by the Red-Green coalition' and with her recurring remarks about a 'well-designed policy,' that she is avoiding saying anything concrete about her government program, not because she wants to hide it, but rather because she does not know what to do, either. Her commitment to a coalition with the Free Democratic Party and therefore, her implicit announcement that she wants to go far beyond the austerity measures of [the SPD's] 'narrow-tracked Agenda 2010,' is as incompetent as it is miserable.

"In conclusion: I will promote my candidacy with energy. In this country, there must be at least one candidate for Chancellor who stands up for the real interests of Germany, who has a program for overcoming the world financial and economic crisis, and who has, in view of the falling star of the Bush-Cheney Administration—the *New York Times* already

spoke of impeachment—the right relations to America in the tradition of the American Revolution—the America of Abraham Lincoln and of Franklin D. Roosevelt."

International Implications

The importance of Zepp-LaRouche's candidacy, as her husband Lyndon LaRouche had pointed out in a recent address, is that she prominently represents, through her name and her record of leadership, the potential for a positive relationship with the United States, around the necessary new economic and political relationship elaborated in LaRouche's New Bretton Woods proposal. Zepp-LaRouche, who is also very well known internationally as the founder of the Schiller Institute, has been a prominent spokesperson for not only the New Bretton Woods, but the grand development program for a worldwide recovery called the Eurasian Land-Bridge, having travelled to China, India, Russia, and Eastern Europe to promote this new era of development.

In line with this role, Zepp-LaRouche took the occasion of her speech at the June 28-29 Berlin EIR seminar (see *Feature*) to declare that she would use her candidacy to campaign for the convening of a conference of nations on the new monetary system and Eurasian development, by the end of the year.

This conference should be really big, she said, a "government-level conference, with live TV transmission in all channels in all participating countries, and the world would change! The world needs nothing more than a vision how to get out of this misery, and we can make a real revolution in the thinking of people."

There is no question but that Zepp-LaRouche's candidacy, should the elections go ahead, will play a major role in shaping German national policy. Already, she and her husband have been identified, and attacked, in recent months in the major German press outlets, such as the *Frankfurter Allgemeine Zeitung*, as being the leading proponents of a return to the policies of Franklin Delano Roosevelt. While the LaRouche FDR perspective alarms the synarchist bankers, it simultaneously has found an echo in the labor-linked section of Schröder's Social Democratic Party, which has been demanding a return to state credits for job creation, in the midst of the mass unemployment situation in Germany. The activation of this base, through Zepp-LaRouche's campaign for the creation of 10 million jobs and participation in the Eurasian Land-Bridge, will be decisive as to how the election campaign turns out.

Beyond Germany, Zepp-LaRouche and her campaign will represent the outlook required for positive cooperation between the United States and Europe, within a new monetary system based on economic cooperation for peace.

India-U.S. Strategic Ties: Fool's Gold?

by Ramtanu Maitra

Indian Prime Minister Manmohan Singh will be in Washington on July 18 for a several-day visit to the United States. Preparations are afoot to use the Indian Head of State's trip to strengthen the Indo-U.S. strategic partnership. Perhaps the prudent questions to ask are: What are the objectives of setting up such a partnership? And what mutual benefits will be derived from this partnership?

Despite all the hype in New Delhi about the visit, it must be pointed out that the preliminary work for the trip has been carried out by R. Nicholas Burns, the U.S. Undersecretary of State for Political Affairs and a career diplomat, on behalf of Washington, working in close cooperation with India's Deputy Planning Commission Chairman Montek Singh Ahluwalia. Ahluwalia has long been recognized in India as a World Bank-International Monetary Fund (IMF) asset and a proponent of developing a close economic and financial relationship with the United States at any cost. It is also important to note that more senior members in the Bush Administration, such as Secretary of State Condoleezza Rice, or Deputy Secretary of State Bob Zoellick, were busy dealing with the insurgency in Iraq and consequently have not been heard on the subject.

Nonetheless, it has become evident from Burns' recent trip to India and his interaction with officials in New Delhi, the direction in which the United States would like this partnership to progress. According to Burns, nine proposals for Indo-U.S. partnerships under the UN will be put before the Indian Prime Minister in Washington. Also on the agenda will be an attempt to forge joint armaments production agreements by the two countries. As a precursor to the Prime Minister's July trip, Indian Defense Minister Pranab Mukherjee came to Washington on June 25 with a high-level team to work out an agreement on Research Development Testing and Evaluation (RTDE). However, his visit has drawn scant press attention.

Energy Cooperation, or Conflict?

It has been reported that Burns and Ahluwalia in New Delhi discussed a gamut of energy cooperation propositions including use of civilian nuclear energy. Despite India's request to its strategic partner for its support on the Iran-India gas pipeline project, Burns said, "Our problem . . . is with the

government of Iran. We believe that Iran, as a state funder of terror, has been extremely unhelpful in the Middle East." In other words, despite being the strategic partner of India, the United States is not particularly concerned about India's energy requirements. On that score Washington has no compunction in trotting out the old adage: "Our enemy cannot be your friend."

What is significant in this context is that the so-called India-U.S. strategic partnership, far from being based on mutual benefit, is built on expectations devoid of hard realities. At the moment, New Delhi's main goal is not on concentrating on what China has already partially achieved—that is, improving its dilapidated infrastructure and providing a sustainable backbone for its future economic growth on its own efforts. Instead, India is courting Washington, among other nations, to become a veto-less permanent member of the United Nations Security Council. To earn this "privilege," New Delhi considers Washington the key.

During his recent visit to India, Burns told New Delhi that Washington has a "flexible" approach on increasing the number of permanent seats and felt that India has a "perfect right" to put forward its candidacy. Needless to say, Burns' statement has brought a tide of joy in the Indian foreign office. The expectation is that Washington will lend its support and silence the opposition.

FDI Illusion

Another major expectation of the Manmohan Singh government is that India will receive hundreds of billions of dollars of foreign direct investment (FDI) from the United States, particularly in the infrastructure sector. Such investments, Prime Minister Manmohan Singh and Montek Singh Ahluwalia claim, would help India to build up an infrastructure comparable to that of China's.

It is evident that on the FDI issue, New Delhi does not want to face up to the reality that the United States is the most indebted nation on the face of this Earth. It has gotten itself into a military quagmire in Iraq—whether the White House admits it or not.

The White House also does not admit the economic and financial quagmire the country is in. Instead of handling the economic problems and removing Wall Street's straitjacket on the U.S. financial sector, the Bush Administration has put all its efforts into building up yet another "bubble" economy to satisfy its Wall Street friends and keep the financial sector propped up till the end of Bush's second term in 2008. If Washington possesses any interest in investments anywhere, such investments would come in areas where financial returns are quick. Infrastructure is not such a sector. Hence, Washington's commercial interest in India will remain rivetted on selling things—arms, for instance—and investing in India's highly unregulated financial market.

Another expectation that drives New Delhi is that Washington will open up its debt-infested consumer market to let



Press Information Bureau of India

India's Prime Minister Dr. Manmohan Singh in New Delhi on June 27, 2005. When he visits Washington on July 18, he will be taking with him a number of illusions about the prospects for U.S.-Indian relations.

Indian goods flow uninterrupted into the United States. This would, of course, increase India's export potential significantly, and India would have some "real" money for domestic consumption.

A Bankrupt United States

If New Delhi had its ear close to the ground, or believed in reality, it would find that the "business as usual" situation in the United States is now under a great strain. The war expenses, rising Medicare costs, bankruptcies of domestic corporations, growing unemployment in certain parts of the country, and lack of investment in the physical economy have virtually straitjacketed any future growth potential. There are serious discussions going on in the United States on how to stop the uninterrupted flow of Chinese consumer goods into the country. No decision has been taken yet, but it is almost a certainty that India's request to allow unlimited Indian goods to come into the American market will be turned down. Washington, in return, may demand that India further open up its market for American goods. If India does that, it is not the American goods, but cheaper products from all over world that will flow into the Indian market, destroying parts of India's weak manufacturing sector.

There are also expectations that the United States, after years of stalling India's nuclear-energy development, is now eager to help India's nuclear-energy sector. Yes, that may

happen, but it will not come free. Years of experience suggests that such an agreement will be attached to multiple strings that will pull India in all kinds of wrong directions. For example, it is almost certain that one such string would be attached to the Proliferation Security Initiative (PSI), President Bush's favorite subject. Washington would pressure India to participate in stopping ships on the high seas that are suspected of carrying items that could lead to nuclear proliferation. In other words, India will be asked to act as an assistant to the self-appointed policeman in charge of preventing nuclear proliferation by any means.

Pakistan Mania

In addition, of course, New Delhi could never think of a strategic relationship with the United States without putting Pakistan into the equation. Despite the fact that for 57 years India has refused involvement of any third party in resolving its Kashmir dispute with Pakistan, almost everyone at the policymaking level in New Delhi believes that the Kashmir dispute can be resolved only if the United States gives Pakistan a nudge. This belief has strengthened further since 9/11, when the United States declared war against Islamic terrorists, and India wholeheartedly endorsed Washington war. The support was partly based on an illusion that the United States would go after Pakistan—widely recognized as the protector of al-Qaeda and organizer of the Taliban.

Of course, the United States did not deliver what the Indians thought it would. The reasons were clear—except to the Indian policymakers. Even today, at least one senior Cabinet member in the Manmohan Singh government recently wondered why the United States is not pressing Pakistani President Pervez Musharraf to make raids along the Line of Control in the disputed Jammu and Kashmir border inside Pakistan to ferret out the extremists. Under U.S. pressure, Musharraf has used his army to attack the terrorists along the Afghanistan-Pakistan border, this Cabinet member pointed out. It is evident that New Delhi continues to refuse to recognize the reality of the U.S.-Pakistani relationship.

At the same time, Washington suffers a similar illusion in figuring out how to use the strategic friendship with India to achieve its bigger objectives. For example, behind the façade of admiring the Indian democracy, the Bush Administration believes—however absurd it may seem—that India could be a partner in the future "to stop the surging China." A large section of Washington's policymakers, who gaze regularly at their crystal balls, are sanguine that China will pose a serious threat not only to the United States' global dominance but also to its physical security. Therefore, to stop this "surging China," the United States wants to protect physical resources of the world and its own interests.

These policymakers believe that Japan would guard the Pacific Ocean while India would prevent China from moving southwest in an effort to capture the Arabian oil and gas fields. In addition, with very competent military, and growing naval

capabilities, India will then be the front-line state facing the “Chinese wrath” in case of a conflict between the United States and China, taking casualties while helping the United States to stay alive and well.

India Against China?

The second illusion of the United States vis-à-vis India is that it would join the United States in developing a missile-defense system to stop “incoming Chinese missiles.” While there is no question that Indian defenses in the future will be geared toward meeting Chinese offensive capabilities, India has absolutely no reason to antagonize its next-door neighbor. India will be particularly reluctant to dance to the American tune because China, after years of aloofness, has come forward with open arms to settle some of the major disputes that clouded the India-China relationship for decades.

One of the weakest links in this strategic partnership concept is that Washington does not want to believe—although it shouts from the rooftops India’s democratic character—that the India the U.S. does not know, is the one that holds the key to India’s relations with other nations. For example, Manmohan Singh’s government’s survival depends on 65 Communist Party members who support the ruling United Progressive Alliance (UPA) coalition in the Parliament. This scene is not going to change soon. In fact, it is likely that it could become more complex, because the national parties of India—the Congress Party, represented by Manmohan Singh, and the Bharatiya Janata Party (BJP), represented by former Prime Minister Atal Behari Vajpayee—are in deep trouble, losing their voter base by leaps and bounds. What is emerging instead, are state-level parties that do not have a cohesive and clear objective for the nation.

More important, the United States still does not understand the Indian military, which, not unlike the Chinese military, puts higher priority on maintaining regional harmony and stability. And in that context, it would have no qualms about working with China, Japan, and Southeast Asian nations as long as these nations do not exhibit hegemonic tendencies. The United States, on the other hand, is a well-established hegemon. The Indian military sees some good coming out of a friendly relationship with the U.S. military, but knowing what they know of the Pentagon, it is a certainty that wherever New Delhi could prevail, it will not allow the United States to set up new military bases in Asia.

To reach us on the Web:
www.larouchepub.com

Political, Financial Crisis Rocks Brazil

With the global economy hanging by a thread, international financial sharks are panicking over how quickly Ibero-America—particularly the debt-laden giant Brazil—could explode. In presenting their annual report on June 27, executives at the Bank for International Settlements fretted about the size of Brazil’s debt and its vulnerability to “external shocks,” while the International Monetary Fund’s renewed bludgeoning of Argentina reflects fear that President Nestor Kirchner’s continued defiance of IMF austerity demands will have international as well as regional repercussions.

The panic is justified. Brazil’s \$500 billion debt bubble has become highly unstable as a result of the insane IMF austerity policy imposed by Finance Minister Antonio Palocci, with President Lula da Silva’s blessing. Interest rates are fixed at 19.75%—the highest in the world.

The political crisis rocking the Lula government, which implicates leaders of the ruling Workers’ Party (PT) in bribing allied Congressmen, has less to do with corruption than it does with the existential question facing Brazil right now.

Challenge From Argentina’s Kirchner

As the world economy blows apart, will the government dump its suicidal commitment to wrecking the economy through IMF policies, as President Kirchner has been urging it to do? Time is short—the word “impeachment” has already been floated. Lula agreed to the forced resignation of his Chief of Staff Jose Dirceu, a vocal critic of Palocci’s policies, but the scandal is snowballing, and the country is deeply polarized. Lula is being squeezed by his base, which is demanding lower interest rates and greater public spending and infrastructure investment, while Palocci and his international banker allies are maneuvering to impose even deeper austerity.

In a May 31 meeting with leaders of Ibero-American political parties in Buenos Aires, President Kirchner challenged his Brazilian counterpart to abandon his dangerous pragmatism toward the IMF. Kirchner is angry that Brazil’s support for Argentina in its own brutal fight with the IMF has existed in words only, but his point was a broader one. Given the problems of poverty, unemployment, and underdevelopment which afflict the region, he said, “we have to have an absolutely clear approach, and not be fearful of multilateral lending agencies and those who lead globally and are a reference point for the world”—the United States. There are no individual solutions to the current regional and global crisis, Kirchner stated. But neither can there be integration and building of regional organizations, unless everyone is operating from the same standpoint.

International Intelligence

France Finally Chosen for International Fusion Site

The partners participating in the International Thermonuclear Experimental Reactor fusion program (ITER) have finally put their differences aside and chosen Cadarache in France to be the site of the multi-billion-dollar, multi-decade experiment. For a year, the United States, Japan, and South Korea have backed a site in Japan, while Europe, Russia, and China endorsed the French alternative. U.S. support for Japan was widely seen as political payback for French criticism of Bush's Iraq War.

At a meeting of the ITER partners in Moscow on June 28, an agreement was released, reflecting Japan's acquiescence to the French site. Europe had threatened to go ahead and build the ITER, with or without the other partners. Japanese Science Minister Noriaki Nakayama said that his country dropped its bid for the site, because it believes "that the ITER project must begin as soon as possible, for the future of mankind."

According to the agreement, Japan will be a "sub-host" of the project, entitled to supply 20% of the equipment needed for the fusion reactor, in exchange for a 10% contribution to the construction cost. Europe will pay half the total cost, and the rest of the partners will make up the balance. Alexander Rumyantsev, head of Russia's Atomic Energy Agency, said that the construction of the fusion reactor will begin as soon as the agreement on the final conditions of the project are signed. ITER was conceived by Russian Academician E.P. Velikhov and suggested to the United States in 1985.

De Villepin Calls for Revitalizing Europe

French Prime Minister Dominique de Villepin published a commentary in several European dailies on June 29, warning that either Europe revitalizes itself, or it will degenerate into a huge free-trade zone.

"Europe is in a crisis," he declared, citing the threats posed by outsourcing and globalization. "Either we give ourselves the resources to build this new political Europe,

or we resign ourselves to making our continent a vast free-trade area, governed by the rule of competition."

He proposed five priority projects: 1) establish an institution for dialogue between the governments and the European Central Bank, a kind of economic government which would deal, for example, with oil prices and common European Union management of strategic reserves; 2) keep the Common Agricultural Policy, but with the main emphasis on securing food supplies at affordable prices; 3) the decision to build the International Thermonuclear Experimental Reactor (ITER) in France should encourage Europe to establish one or two new institutes for research in France as well, dealing with physics, mathematics, and chemistry; 4) greater cooperation for common EU defense; and 5) a European voluntary service for young people, to anchor the ideas of democracy and a European identity in their minds.

The proposals are a mixed bag, with the most dangerous being the first, which enhances the power of the independent central banking system, as against the nation-state. The projects all remain embedded in the flawed framework of the supranational EU.

Taiwan Politician Forced Out for Views on China

Lee Hsien-Jen, a leader of the pro-independence Taiwan Solidarity Union (TSU), was forced to resign, after recommending meetings with officials of mainland China. His party is a key ally of the ruling Democratic Progressive Party. On June 28, Lee had indicated in an internal party meeting that the TSU was going to take a more "pragmatic approach" to China, and start to have bilateral talks. However, on June 29, he resigned from the TSU, saying that his ideas were not welcomed by others in the party.

In order to appease the radical anti-China sections of the TSU, Chairman Shu Chin-chiang had to speak about the TSU not giving into the "China fever," the term used to describe recent visits by Taiwanese opposition parties to China.

But after Lee's comments on more flexibility toward China were publicized, Shu

held a news conference on June 28 to clarify the TSU's stance. "The TSU has not changed its policy toward China," he said, but "the TSU realized that China's policy toward Taiwan has become much more flexible under Chinese President Hu Jintao and Chinese Premier Wen Jibao." He also said he did not mind party members making trips to China.

Shu said that the party will not abandon its core platform of "One Taiwan, one China, two countries."

Southeast Asia Could Be Opium-Free, Says UN

The United Nations Office on Drugs and Crime (UNODC) states in its annual world drug report, that the once-leading opium kingdoms in Laos and Burma (Myanmar) dramatically reduced their narcotics production in 2004, and the region could see itself opium-free in coming years, Agence France Press reported on June 29.

Southeast Asia's opium production has plummeted 78% since 1996, followed last year by Myanmar's 23% reduction in the land used for poppy cultivation, and a 43% plunge in neighboring Laos, the report said.

Production in what was formerly known as the "Golden Triangle" drug nexus was forecast to decline further in 2005.

"If the declines witnessed over the last few years are sustained, it would not be too far outside the realm of possibility that Southeast Asia could become virtually free of illicit cultivation over the next few years," the UNODC report said.

However, UNODC regional project coordinator John Doyle said the regional decline was virtually negated by what the report described as "record levels" of opium production in Afghanistan.

The report warned, however, that Southeast Asia was reeling from increased production and use of methamphetamines, and that illicit narcotics use was helping to spread HIV/AIDS.

HIV is prevalent among up to 92.3% of intravenous drug users in South Asia and Southeast Asia, and up to 84% of users in East Asia and the Pacific, according to UNODC.

The Senate's Next Step

On May 23, the controlling majority of the United States Senate struck a blow for the Constitution, by defeating Vice President Dick Cheney's threat to carry out a coup d'état through the so-called "nuclear option" to block the filibuster of judicial nominees. Republicans and Democrats, led by the more senior members of the Senate, decided that the Senate's Constitutionally defined powers of "advice and consent" had to be preserved, and they acted, in the words of Sen. Robert Byrd (D-W.V.), to "keep the Republic."

So far, this action has held. But there is no question but that Cheney, Karl Rove, and the synarchist bankers who give them their orders, are already chomping at the bit, just looking for a new opportunity when they can impose their imperial Presidential will, and turn the entire U.S. Congress, as well as the judiciary, into a rubberstamp. Until the Cheney-Bush crew is removed, there is a constant danger of another coup attempt.

Lyndon LaRouche has argued vigorously for the Senate to follow up its crucial May 23 victory, by taking the urgently needed steps in the area of economic policy. The Senate is going to have to take the lead, LaRouche has said, in putting forward the policies of strategic bankruptcy, and state credit-funded reindustrialization, that are required in order to save the U.S. and world economy from impending disaster. The leading Democrat and world-renowned economist has devoted considerable energy to discussions with Senators on the crucial conceptions they need to carry out this task.

So far, the Senators have not taken up the positive proposals which LaRouche has put on the table. But, they have continued to assert their Constitutional prerogatives.

The first instance was that of the Bush-Cheney behavior on the matter of John Bolton, the nominee for UN Ambassador. Democrats first, and then some Republican Senators, drew the line on Bolton according to Constitutional principle, by demanding that the White House provide them with the documents they need in order to evaluate his record. The issue, said Senators like Democratic Leader Harry Reid (Nev.), is the right of the Senate to exercise its independent judgment of

advice and consent, as defined in the Constitution.

The second such instance occurred on June 28, when, according to *The Hill* newspaper of June 30, the three Republican Senators with the strongest military credentials held a meeting, and directed their staffs to draw up legislation on guidelines for detention, trials, and interrogation of military detainees in the so-called "war on terrorism." According to John Warner (R-Va.), chairman of the Senate Armed Service Committee, who was joined by John McCain (R-Ariz.) and Lindsey Graham (R-N.C.), the objective would be to establish "a set of provisions to try and make sure we don't see a repetition of what occurred these last several years," in Abu Ghraib and Guantanamo.

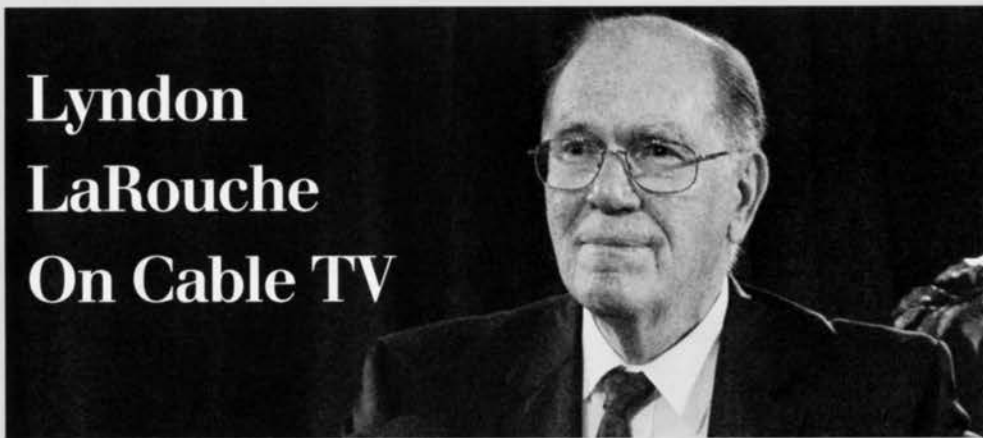
According to the White House and Pentagon, of course, Congress should have nothing to do with these issues, which Cheney has declared to be non-issues. But the Senators, who all have a military background and understand how damaging the U.S. mistreatment of prisoners has been to the U.S. reputation, are, in fact, acting in accord with the powers that have been specifically delegated to Congress under the U.S. Constitution: Article 1, Section 8, the power to "declare war, grant letters of marque and reprisal, and make rules concerning captures on land and water," and "to make rules for the government and regulation of the land and naval forces."

Once again, the issue between Congress and the Administration, should it arise, will be one of the form of government provided by the Constitution. And it will be up to the Senate to reassert the principles to which our republic must adhere.

As of this writing, it appears there will be a third test of the Constitutional powers of the Senate as well, that of confirming a Supreme Court nominee to replace the retiring Justice Sandra Day O'Connor.

Will the Senate again muster the courage to defeat the would-be dictators in the White House, until we have taken our country back for the Constitutional principle of the general welfare? That's a question that you, dear reader, must not only pay attention to, but act to determine the answer to, in the immediate days ahead.

See Lyndon
LaRouche
On Cable TV



Watch *The LaRouche Connection*, the one-hour weekly television program produced by EIR News Service. This is *the* place to see and hear Lyndon LaRouche, the world's foremost economic forecaster, who has inspired a worldwide political movement to reverse the depression collapse and bring about a new renaissance.

Distributed to over 150 cable systems, the program can be seen in over 14 million homes from coast to coast.

For a complete list of stations and schedule of showing times, visit www.larouchepub.com/tv

Not in your area? Be a local sponsor.

If you find that *The LaRouche Connection* is not already showing on your local cable system, please contact your local cable provider, and ask for the manager of the Public Access channel to find out their requirements for cable-casting. Then contact our distribution manager, Charles Notley, to get tapes to the station. Call 703-777-9451, ext. 322, or e-mail at charlesnotley@larouchepub.com



I would like to subscribe to
Executive Intelligence Review

U.S.A. and Canada:

- \$396** for one year
- \$225** for six months
- \$125** for three months

SPECIAL OFFER

- \$446** for one year
EIR Print plus EIR Online*

Outside U.S.A. and Canada:

- \$490** for one year
- \$265** for six months
- \$145** for three months

SPECIAL OFFER

- \$540** for one year
EIR Print plus EIR Online*

I would like to
subscribe to
EIR Online*

- \$360** for one year
- \$60** for two months

Standard Class shipping. Please call for First Class rates.

EIR Online can be reached at:

www.larouchepub.com/eiw Call **1-888-347-3258** (toll-free)

Name _____
 Company _____
 Address _____
 City _____ State _____ Zip _____
 Country _____
 Phone (_____) _____
 E-mail address* _____

* E-mail address required for EIR Online subscriptions

I enclose \$ _____ check or money order

Make checks payable to

EIR News Service Inc.

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

Please charge my MasterCard Visa

Card Number _____

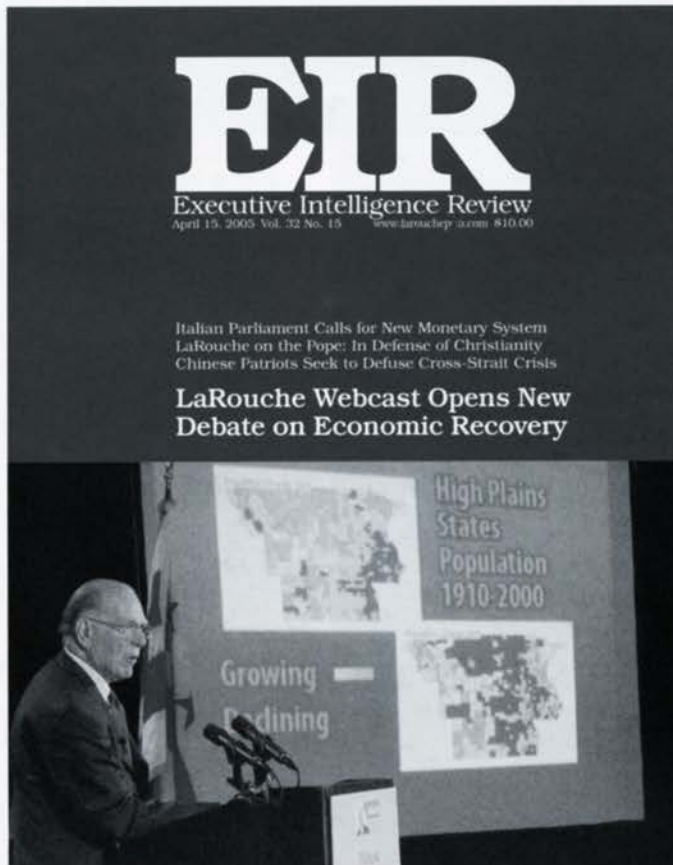
Signature _____

Expiration Date _____

EIR Online

Executive Intelligence Review online almanac

EIR Online gives subscribers online one of the most valued publications for policymakers—the weekly journal that has established Lyndon LaRouche as the most authoritative economic forecaster in the world today.



Issued every Monday,
EIR Online includes:

- Lyndon LaRouche's economic and strategic analyses
- Charting of the world economic crisis
- Critical developments internationally—the ones ignored by the "mainstream" media

SAMPLE ONLINE: www.larouchepub.com

click on EIR, then on EIR Online

I would like to subscribe
to **EIR Online** for
1 year **\$360**

Special student rate also
available; call for
information:

1-888-347-3258

Please charge my

MasterCard Visa

Card
Number _____

Expiration
Date _____

Signature _____

Name _____

Company _____

E-mail address _____

Address _____

City _____ State _____ Zip _____

Make checks payable to

EIR News Service Inc.

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