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THIS WEEK YOU NEED TO KNOW

Thirty Years of Illusions Are Crumbling

Over the past two weeks, the last delusions that may have lingered, that somehow the economy was on the verge of a recovery, have disappeared as quickly as you can say "401(k)." Since the beginning of the year alone, the major U.S. market indices have lost more than 20% of their value. This fall has accelerated in the past two weeks. The news media are full of talk of panic in financial markets, and "capitulation" is the new buzzword in the financial press.

What is happening in the stock markets, and to the U.S. dollar, is but a shadow of what is has been occurring in the real economy for years, indeed for decades. As Lyndon LaRouche's famous Triple Curve so aptly shows, as production in manufacturing, agriculture, and infrastructure have been collapsed, monetary and financial aggregates have skyrocketed. And as *EIR* recently showed, total U.S. debt has now reached over \$31 trillion as of the end of last year, with the associated debt service of \$7.36 trillion equalling 72% of Gross Domestic Product.

We told you that it couldn't go on; and now, that is evident to just about everyone who thinks about the future.

It is no big accomplishment, under these conditions, that people agree with Lyndon LaRouche. Indeed, one has to be truly deranged, *not* to agree with LaRouche's assessment of the current monetary-financial collapse.

The important question is: Why did it take you so long? LaRouche isn't just right today; he has been right for over 30 years. If you want a date, from which point it should have been obvious to every thinking person that the current system was doomed, take Aug. 15, 1971: when the old Bretton Woods system reached its breaking point, and President Nixon took the dollar off the gold standard and launched the era of floating exchange rates. As LaRouche had earlier forecast that it would, the postwar Bretton Woods system entered its breakdown phase, with the outbreak of a series of international monetary crises starting in November 1967 with the devaluation of the British pound, followed by crises hitting other currencies and finally the U.S. dollar.

The U.S. and global economies have been on a disaster course ever since. Oh, you say, "What about the past 30 years of prosperity?" Just about the only thing that has prospered, has been the illusions in your mind. Compare the state of our transportation or energy infrastructure, to that of 30 years ago. Or take manufacturing, or, better yet, machine tool production.

The most readily-at-hand measure of this taking-down of the U.S. economy, is the government's own data on the trade deficit and current-account deficit—demonstrating the imbalance between imports and exports, which had been relatively in balance until the late 1970s and early 1980s. There you see, how the United States has in fact been living off the rest of the world, with the huge excess of imports over U.S. exports. (Last week's figures, for the month of May, showed the trade deficit at a record level of \$37.6 billion, headed for a \$400-billion deficit this year. Taking physical goods alone, the May deficit was even higher, at \$41.5 billion.)

Why would anyone have believed, since 1971, that the world would have gone in any other direction than that which LaRouche had said? Why did anyone, at any point, believe that, since 1971, the U.S. and world economies would be anything but a bust? That is the question you must answer.

People may say, "I don't agree, because what LaRouche is saying offends one or more of my adopted beliefs." So, in order to recognize that LaRouche has been right all along, they would have had to give up their deeply-held, axiomatic assumptions about how the world works.

The problem now, is that people *do* have to give up those assumptions, because it is precisely those assumptions that stand in the way of their acting on the solutions that LaRouche has proposed. People will say: "Yes, LaRouche is right, but what he proposes, a return to Franklin Roosevelt's methods, won't work." Think of all those people who say, "Oh, no, Roosevelt was a big government President—we can't go with that." This is precisely the kind of assumption which led to the acceptance and toleration of the insanity of privatization, deregulation, and the wide-scale looting of the last 30 years.

Above all, the hegemony of such delusions must be broken within the United States. Around the world, there is increasing recognition, among the intelligentsia, and leading government circles, that LaRouche has been right, and that that which LaRouche is proposing—a global bankruptcy reorganization into a New Bretton Woods system—is the only means out of the present onrushing crisis.

The key to opening up the political system in the United States—especially within the Democratic Party, but also among Republicans—is the campaign which LaRouche has launched to destroy the influence of the corrupt political networks typified by Senators Joseph Lieberman and John McCain. Destroy these two, and a great deal then becomes possible, including a change of course for the Bush Administration. Leave them in place, and we are looking into economic and strategic hell.

FLASH!

Russian Weekly Reports: — 'Lyndon LaRouche: "The Fate of — The Roman Empire Awaits the USA"'

The July 19-26, 2002 issue of the Russian weekly newspaper *Vek* ("*The Age*") contains an interview with Lyndon LaRouche in which the American economist and Presidential candidate addresses the systemic nature of the current world financial crisis, and indicates the way out. The interview is posted in the electronic edition of *Vek* (www.wek.ru), under the headline, "Lyndon LaRouche: 'The Fate of the Roman Empire Awaits the USA.'" It is the lead article in the economics section of *Vek* online, appearing on page 6 of the print edition.

LaRouche replied July 10 to written questions from *Vek* journalists Stanislav Stremidlovsky and Galina Borzikova, all of which dealt with aspects of the global economic collapse that are of burning concern in Russia. LaRouche's concise and pithy replies (full text is below) were published in full. Only the characterization of LaRouche in the subhead, as "the American politician and would-be ideologue of anti-globalism," sounds incongruous next to the statesmanlike content of his answers.

Vek is a widely read publication, founded in 1992. It is known for its attention to economic developments.

LaRouche's Interview With *Vek*

Q. The American economy is being shaken by scandals around financial abuses by major corporations, like Enron, WorldCom and Xerox. What is behind these scandals? Are they a coincidence, or do they reflect a general tendency?

LaRouche: The corruption is systemic; it is intrinsic to the present U.S. economic system as it has degenerated, at an accelerating rate, over the course of 1966-2002. The change was from an economy based on the principle of a physically productive national economy, toward an imperial consumer society echoing the moral degeneration of Rome from about the time of the close of the Second Punic War. My widely circulated "Triple Curve," illustrating the divergence among U.S.A. financial, monetary, and physical-economic aggregates over the interval 1966 to the present, corresponds to the moving-average of trends to date. The 1955-2002 statistical reports purporting to show U.S. net growth, were all fraudulent. The system has now entered a terminal phase, and is ripe for a total collapse of the system in its present form. Thus, the system has entered a "boundary layer," an interval of accelerating turbulence, like a shock-front. The waves of bankruptcies merely express the bankruptcy which has been prevalent among U.S. firms and real-estate interests during the recent seven years.

Q. British analysts forecast a fall in the exchange rate of the U.S. dollar, which they believe will mean troubles for the world economy. Do you share this opinion?

LaRouche: Yes. The world system is now in the throes of an onrushing general breakdown crisis. All European, Japan, U.S.A., and most other currencies are presently falling at accelerating rates. Which one falls the most during any period is an important, but not decisive matter. Obviously, the U.S. dollar is at the brink of a fall, a collapse which is long overdue. Such a fall of the dollar would be, obviously, an earth-shaking, global political development, whatever other developments with other currencies may occur.

Q. How can an ordinary person protect his savings at the present time? In which currency should one keep accumulated funds—the dollar, the euro, or is there another way?

LaRouche: Some persons, chiefly within the upper 1% of U.S. family-income brackets, have prospered because they wisely dumped their investments in financial markets to invest in tangible assets. The rest in the upper 10% of family-income brackets behaved almost exactly as the French fools, during the early 18th century, who invested in the John Law financial bubble. Those in lower 80% of U.S. family-income brackets, have suffered increasingly over the entirety of the 1977-2002 interval to date. The imminent collapse of the system will create a condition in which only the intervention of the state could create stability in any economic sector.

Q. Do modern nation-states have the power and the possibility to manage the economy?

LaRouche: In principle, yes. Approximately half of the total investment in a sound economy must occur in the form of state-controlled investments in basic economic infrastructure. These must occur either as direct public investments, against tax revenues, by national, regional, and local governments, or as government-regulated, but privately owned, public utilities of regions and municipalities. These are matters of the tax and expenditure matters of the state as such.

In addition, the present global breakdown-crisis in progress, will compel the abandonment of the control of finances and monetary affairs by privately owned central banks in the Lombard tradition. The national government alone must issue currency, and regulate the private banking system of the nation through a national bank as conceived by U.S. Treasury Secretary Alexander Hamilton.

The rest of the national economy, the so-called private sector, should be based chiefly on protected categories of small- to medium-sized entrepreneurs in agriculture, manufacturing and related functions. Such enterprises, on which the larger

enterprises depend for partners, require protection against "free market" excesses.

A nation also needs an adopted sense of economic mission, around which economic policy should be shaped.

Q. One current opinion is that the world financial system has entered a period of hyperinflation. If this is the case, when may it be expected to come to an end?

LaRouche: We are presently in the end-phase of existence of the present G-7 system; we are presently in an accelerating hyperinflation. The exact date of collapse is uncertain, but it will be an early one.

Q. Is it possible to carry out a monetary reform in the United States? If this happens, at whose expense will it be?

LaRouche: Yes. To be successful, the Franklin Roosevelt precedent must be followed. The interest served must be nothing but the general welfare, as Roosevelt recognized this.

Q. In whose hands is the world's gold today?

LaRouche: The gold market is presently controlled by banking interests, who are orchestrating the gold-trading market to keep the price artificially very low. In a breakdown, the price will zoom to perhaps much more than double the presently prevailing price. I propose to restore the 1945-1971 fixed-exchange-rate system using gold as a reserve. The price should be a fair current price for produced gold.

U.S. ECONOMIC/FINANCIAL NEWS

U.S. Stocks Crumble in Largest Two-Week Drop Since October '87 Crash

The Dow Jones plunged 390 points, or 4.6%, to 8019.26, its lowest level since October 1998, and the seventh-biggest one-day point drop ever. Standard & Poor's tumbled 3.8% to 847.75, the lowest level since June 1997; the Nasdaq lost 2.8%, sliding to 1319.15.

For the week, the Dow dropped 7.7%, the ninth straight weekly decline; S&P plummeted almost 8.0%, and Nasdaq fell nearly 4.0%.

During the past two weeks, the Dow plunged 15% and the S&P dropped 14%—the biggest losses for any two-week period since the October 1987 crash.

More "psychological Black Death," as one analyst put it, is in the offing. Companies in the S&P that expect their third-quarter earnings to be lower than forecast, outnumber by more than 2:1 those that will surpass estimates.

European and Asian stock markets also nosedived: London's FTSE fell 4.63%, France's CAC dropped 5.4%, Germany's DAX plunged 5.44%, and Japan's Nikkei slid 2.82%.

The Wall Street 'Police Blotter'

It has been three weeks since our last "Wall Street Police Blotter," but as this week's developments indicate, there was

quite a bit going on behind the scenes in the continuing outbreak of corporate crime and corruption.

Federal prosecutors are planning to indict **Adelphia Communications** founder **John Rigas** and his three sons, who were former executives, on criminal charges of bank, mail, and wire fraud, according to an unnamed source close to the investigations, reported *USA Today* on July 15. The criminal charges are expected to be filed in conjunction with a civil lawsuit by the Securities and Exchange Commission. The Rigases had used the cable company's assets as collateral for \$3.1 billion in loans—to a private, family-run partnership.

The U.S. Attorney's office in Denver and the Federal Bureau of Investigation have launched a criminal probe of **Qwest Communications**, the *Wall Street Journal* reported on July 5, citing unnamed sources and giving no details. The telecommunications firm already faces a SEC investigation into use of "swap" trades to inflate revenue.

The Department of Justice is seeking to halt **WorldCom's** internal probe, to allow the Department to conduct its own inquiry into the company's accounting fraud, amid worries about possible witness-tampering. DOJ investigators want to interview executives and other potential witnesses before anyone from WorldCom talks to them, according to unidentified sources cited by the *Wall Street Journal*, as the Feds try to determine whether executives in addition to the company's former CFO, **Scott Sullivan**, knew of the improper booking of \$3.85 billion in expenses, hiding \$1.2 billion in losses.

Duke Energy received subpoenas on July 15 from the U.S. Attorney's office in Houston and the Commodity Futures Trading Commission, as part of a grand jury investigation; the subpoenas requested documents and information on Duke's trading activities.

El Paso Corp. has received similar subpoenas.

Samuel Waksal, former CEO of the biotech firm **ImClone Systems**, was charged by Federal authorities with illegal trading on inside information, allegedly warning a family member to sell company stock on Dec. 28, just before the Food and Drug Administration (FDA) rejected ImClone's application to market Erbitux, an experimental cancer drug—an FDA rejection which sent the stock price plummeting.

Four former and current top executives of the pharmacy giant **Rite Aid** were indicted June 21 by the U.S. Attorney for the Middle District of Pennsylvania, following an investigation by the SEC into "one of the most egregious accounting frauds in recent history." The SEC was looking into allegations that Rite Aid boosted profits by improperly claiming credits from suppliers to remove supposedly damaged or outdated goods from its stores. Last year, the drugstore chain agreed to a \$200-million settlement of shareholder suits over its accounting practices.

After **Tyco's** former CEO **Dennis Kozlowski** was indicted June 4 by New York authorities for evading state sales taxes, he was again indicted June 26 on charges that he tampered with evidence in an effort to impede the tax-evasion investigation, by removing a bogus bill of lading from a file of documents at Tyco's offices. He faces up to four years in prison for avoiding \$1 million in taxes and falsifying business records.

The Justice Department has launched a probe of **Enron** for manipulating California's power market during 2000, by rigging wholesale electricity prices by exploiting loopholes in the power system. Enron could face criminal charges of wire and mail fraud, obstruction of justice, racketeering, and other violations.

Perot Systems—the Texas firm headed by former Reform Party Presidential candidate **H. Ross Perot**—faces a Justice Department investigation into charges it showed Enron and other energy traders how to "game" California's power system and manipulate prices.

Pricewaterhouse Coopers will pay \$5 million to settle charges of improper accounting and independence standards violations, in an agreement with the Securities and Exchange Commission, who charged that the world's largest accounting firm provided financial advisory services to clients for a fee that depended on the success of the transaction the client wanted.

Daimler Chrysler is under criminal investigation by the Justice Department into whether the company's Mercedes-Benz subsidiaries took part in a price-fixing scheme among New York-area car dealers, from February 1992 through August 1999. The case arises from a 1999 proposed class-action lawsuit against Mercedes-Benz USA and Mercedes-Benz Manhattan, which were served with grand jury subpoenas, with possible prison terms for participants.

Johnson & Johnson is under criminal investigation by the FDA and the Justice Department, for allegedly falsifying data to cover up manufacturing lapses at a Puerto Rico factory that makes Eprex, the firm's anemia drug that has been linked to a spate of blood disorders. The probe is linked to a whistleblower lawsuit filed by a former utility worker at the plant, who was fired in March 1999. J&J shares fell 14% July 19, the biggest drop since the 1987 stock market collapse.

—*The preceding is adapted from an article by Arthur Ticknor in The New Federalist, July 22, 2002.*

America Online Used 'Unconventional' Deals To Boost Revenue

America Online, staring at the face of the global dot.com meltdown, used "unconventional" deals to boost advertising revenue by a cool \$270 million, from July 2000 to March 2002—the period of its takeover of Time Warner—to meet Wall Street's estimates of growth in ad and commerce revenue, thereby keeping up its stock price, the *Washington Post* reported July 18.

The media giant's chicanery included: converting legal awards into ad deals; negotiating a shift in revenue from Time Warner to AOL; selling ads on behalf of eBay, and then, booking the sale of eBay's ads as AOL's own revenue. And, renegotiating long-term ad contracts it risked losing as dot.coms went belly up, into short-term gains that inflated its quarterly revenue.

"The bubble had clearly burst, but senior management was under enormous pressure to hide the [financial] numbers and close the Time Warner transaction, which would diversify the revenue base and lower the risk profile of the company," said James Patti, a former senior manager in AOL's business affairs division, the unit that was the driving force behind the deals.

AOL was "at risk" to lose more than \$108 million in ad revenue in fiscal 2001 (July 2000-June 2001), due mainly to the dot.com collapse, according to internal company documents from September 2000, obtained by the *Post*; the company also risked losing more than \$140 million in ad revenue in 2001. Weekly emergency meetings were held to discuss the status of the failing contracts.

AOL booked \$56 million from dot.com deals that were terminated or restructured, getting one-time payments from clients who could no longer meet their obligations, from July 2000 through March 2001.

The Golf Channel had agreed in June 2001 to pay \$200 million over five years to have its sports programming carried on Time Warner Cable, but AOL's online unit asked for a piece of the deal. Time Warner Cable told the Golf Channel to spend about \$15 million for advertising on the online unit. "We told them where and when" the ads ran, said a source cited by the *Post*.

In a deal with eBay, the online auction site, AOL served as an advertising broker, selling the site's ad space, but rather than simply charging commission, AOL counted all of the eBay revenue as if it were AOL's own—even though AOL carried no financial penalty if it did not sell eBay's ads. AOL booked \$80 million in revenue in 2000 and 2001, and \$15 million in the first quarter of 2002.

Similar shenanigans were carried out with the British entertainment company Wembley, involving \$23.8 million in online ads.

AOL Time Warner Management Shakeup; CEO Resigns

AOL Time Warner Chief Operating Officer Robert Pittman resigned July 18, three months after being named to head the AOL online unit, while Time Warner executives were given more power after a meeting of the company's board of directors. HBO chairman Jeff Bewkes and Time chairman Don Logan were promoted.

Shares of the company fell 5%. The stock is down 60% since the beginning of 2002, and has fallen 72% in the past year.

FCC Chair: Telecom Sector in 'Utter Crisis'

The telecommunications sector is in a state of "utter crisis," declared Federal Communications Commission chairman Michael Powell, adding that the FCC could allow one of the former "Baby Bells" (regional phone companies that were split off in the 1984 breakup of AT&T) to take over WorldCom—a merger once seen as unthinkable—because the sector's meltdown leaves regulators little choice but to consider such options.

"The real problem is that there was a collapse in this sector, a crisis in this sector," even before lenders became hostile to telecom companies, Powell said in an interview with the *Wall Street Journal*. "That's why this is so painful to the telecom market—talk about something that was down on its knees and didn't need to be kicked in the gut," he said.

Powell also called for the government to continue its billions of dollars in Federal contracts with WorldCom, to maintain phone and data service to the company's 20 million customers.

In the understatement of the decade, Powell admitted that the government bore some responsibility for the sector's troubles, by encouraging the frenzied creation of new companies, following the 1996 Telecommunications Act deregulating the industry.

WorldCom is finalizing a debtor-in-possession funding pact with Citigroup, J.P. Morgan Chase, and G.E. Capital, to give the company the money to operate under a bankruptcy reorganization. A New York Supreme Court judge will rule July 16 on whether 25 banks could prevent WorldCom from spending \$2.65 billion in loans. If so, WorldCom would face immediate bankruptcy.

Fannie Mae Bailout 'Too Big To Contemplate'

"The size of a taxpayer bailout is too large to contemplate," the *Wall Street Journal* editorialized on July 15, adding the explanation, "since we prefer to sleep at night." Headlined, "Fannie Capitulates, Sort Of," the lead editorial observed that, although the mortgage-loan giant has agreed to some financial disclosures, Fannie still doesn't comply with the Securities Act of 1933. The Act required companies to register debt-backed and mortgage-backed securities with the Securities and Exchange Commission. Fannie Mae and Freddie Mac "have grown at Mach speed with heavy leverage," said the *Journal*,

and hold most of the housing-market risk.

Fannie Mae said its exposure on derivatives contracts was about \$958 million as of June 30, and that it had a net unrealized loss of \$498.2 million from marking derivatives to market prices in the second quarter of 2002. Profit rose 4.4% to \$1.46 billion, while operating earnings (excluding derivatives) jumped by 20% to \$1.57 billion in the second quarter.

U.S. Dollar Falls Below Euro Parity; Hits Post-Sept. 11 Low vs. Yen

The U.S. dollar fell below parity with the euro July 15, for the first time in over two years—and hit a post-Sept. 11 low against the yen, as investors pulled their money out of U.S. assets. The euro, which last traded at the one-to-one level in February 2000, finished U.S. trading at \$1.0035—amid dollar gloom, rather than "euro-phoria"—bringing the dollar's decline to almost 15% in the past five months.

"What we are seeing from our custodial flows is outflow of portfolio investment, from both the euro zone and the United States, but ... it is just coming out of the United States faster," said Michael Woolfolk, a strategist at the Bank of New York.

"This is about capital flows into the U.S. drying up," said an analyst at Fleet Global Markets in Boston.

The dollar tumbled to a low of 115.65 yen, its weakest since February 2001, before ending down 0.45% at 116.32 yen.

Pensions, Health-Care Funds Slashed by Stock Swoon

The plunging stock market is taking a toll on the securities held by corporations for their pensions and health-care funds, according to securities analysts. General Motors, for example, has seen the value of its pension fund decline from \$80 billion two years ago, to \$67 billion today, and it is underfunded by at least \$9 billion, while GM's health-care trust fund has a potential \$47-billion shortfall. Ford is expected to run a pension fund deficit of \$6.5 billion this year. All airlines, except Southwest, also have underfunded pension funds.

Some money managers are worried that the decline in GM and Ford stock prices, triggered by concerns over their pension-fund problems, could spread to other firms, the *Washington Post* reported July 12. The *Post* quotes Wells Capital Management CIO James Paulsen as saying: "I see that as a potentially big issue for 2003 if we don't get a recovery."

WORLD ECONOMIC NEWS

Global Telecom Meltdown

The U.S. telecom meltdown, which we have been covering on a weekly basis, has now overtaken the global economy. A few of the latest developments:

Germany's **Deutsche Telekom's** CEO Rone Sommer quit, ending a drive by Chancellor Gerhard Schröder's government for his removal, to "reassure financial markets," as Europe's biggest phone company faces 67 billion euros in debt, and a share price of 10.93 euros—down from a March 2000 peak of 100.85 euros. New interim chief Helmut Sihler, who formerly headed Telekom's supervisory board, will lead the company for up to six months, until a replacement is found. Telekom lost 3.5 billion euros in 2001—its first annual loss since privatization began—and 1.81 billion euros in the first quarter of this year.

Motorola posted its largest net loss ever, \$2.3 billion in the second quarter, including a \$3.4-billion restructuring charge largely for job cuts and asset write-downs, with its semiconductor unit losing \$1.3 billion. Sales at the world's second-largest mobile phone maker fell 11% from a year ago.

Intel plans to cut 4,000 jobs, or nearly 5% of its workforce, in the second half of the year, as slumping sales of personal computers caused sales at the world's biggest chipmaker to fall below forecasts.

Apple Computer's third-quarter profit plunged 48% amid falling sales of Mac computers.

World Stock Markets Have Been Crumbling Since 2000

Overall, world stock markets peaked in 2000 and have been falling ever since. The following table shows how far certain indices have fallen since their post-mid-1997 peak, which in most cases are their all-time highs (as of July 12, 2002):

NATION/INDEX	PERCENTAGE DROP
US Nasdaq	73
Amsterdam AEX	70
Philippines PSE	59
Argentina Merval	57
France CAC 40	49
Japan Nikkei 225	49
Germany DAX	49
Taiwan	47
Italy MIBtel	45
India Sensex	44
Brazil Bovespa	42
Chile IPSA	42
Hong Kong Hang Seng	42
Thailand SET	41
US Wilshire 5000	41
Canada TSE 300	40
Malaysia KL Composite	40
US S&P 500	40
Britain FT 100	39
Spain	39
Singapore	38
Belgium Bel-20	37
Indonesia	34
Switzerland	33
US Russell 2000	32
Britain FT 250	29
US Dow Jones	26

Israel's Inflation Rate Soaring; Unions Threaten Action

Israeli inflation is now running at an official 9%, and is expected to reach 12-15% by the end of the year, according to *Ha'aretz* July 16. The government is claiming that it could decrease in July, because the shekel has gained a little against the dollar (which is falling against all leading currencies). But the point is, that all economic indicators continue to be down.

The Histadrut labor federation chairman, Amir Peretz, who is also a member of the Knesset (Parliament), announced that workers would be demanding a cost-of-living increase to compensate for the steep inflation rate. The Histadrut leadership will be holding a meeting to consider declaring a work dispute.

China's Unemployment Remains High

Unemployment in China is continuing "relatively high," Qiu Xiaohua, Deputy Director of the National Bureau of Statistics, said at a press conference July 15.

The number of laid-off workers from state-owned enterprises was 4.64 million at the end of June—510,000 fewer than at the end of 2001, Qiu said. The number of registered unemployed persons in urban areas, amounted to 7 million, or 4%, by the end of June, about the same as the end of 2001.

Qui said that the large number of laid-off workers and unemployed persons in urban areas is one of the problems to be addressed in the current economic situation.

IMF Blinks; Extends Deadline for Argentina Loan Repayment

The executive board of the International Monetary Fund (IMF) revealed July 15 that it has agreed to extend the July 17 deadline for Argentina's repayment of a \$985 million loan to the Fund, for one year. IMF Managing Director Horst Koehler issued a formal statement, saying that immediate repayment of the loan at the present time would be impossible "without undue hardship or risk." Argentina has not yet defaulted on its loans to the so-called multilateral banks [IMF, Inter-American Development Bank (IDB), World Bank], and it was feared that were it to do so now, it would set a dangerous precedent for the collapsing system.

The other debt-repayment crisis, the \$500 million owed to the IDB this week, was narrowly averted this past week, when the World Bank and IDB put together a package of \$446 million in new loans, essentially a rollover of the unpayable \$500 million. Argentina will make up the \$54-million difference from its rapidly dwindling reserves.

This apparent softening of the line toward Argentina, reveals more about what the "hardship and risk" to the IMF system would be if Argentina were forced to the wall right now. As it is, this IMF announcement merely postpones the inevitable, for Argentina owes a whopping \$5 billion more in debt repayment to the multilateral institutions this year, of which \$2.9 billion is due in September. The country's entire reserves are approximately \$9.5 billion. Argentina has promised its creditors not to allow the reserves to fall below \$9 billion.

Argentine Federal Judge Defies 'Bankers' Arithmetic'

In a ruling that could set a national precedent and cause tremors at the IMF, Federal Judge Jose Alberto Bellingeri issued an injunction this week, redefining a small Argentine municipality's dollar-denominated debt to the Inter-American

Development Bank, on the basis of the old, fixed, one-to-one parity between the Argentine peso and the U.S. dollar. Until his ruling, these debts have been paid at the so-called "free-market rate," meaning that, as the nation's currency devalues against the dollar, its debts grow, and the municipalities' precious resources are increasingly drained away. In fact, allowing Ibero-American currencies to float at the so-called "free-market rate" has been one of the key looting mechanisms behind what *EIR* has termed "bankers' arithmetic."

Now this municipality, at least, will pay its debt at the old rate—i.e., bankers' arithmetic was reversed by a sovereign decision.

What prompted Judge Bellingeri's ruling is that the Federal government was withholding, or "discounting," a portion of the revenues it traditionally provides to the municipalities, to make up the difference between the value of the peso at the one-to-one rate, and the rapidly devaluing peso on the free market. The magistrate warned the Federal government that it must "abstain from imposing discounts on provincial and/or national revenue-sharing" in amounts higher than a one-to-one peso/dollar exchange."

The ramifications of the ruling, already acknowledged as setting a national precedent and representing "a warning to the nation," remain to be seen.

UNITED STATES NEWS DIGEST

DLC Says Bush Needs Partnership with Congress for Iraq War

The *New Dem Daily*, the newsletter of the Democratic Leadership Council, issued a call on July 18 saying that the debate on whether, how, and when to go to war against Iraq should be brought out of the closet. DLC Vice Chairman, Rep. Ellen Tauscher (D-Calif), said on July 17 in the *New York Times* that "I am convinced that a regime change in Iraq is in the best interests of the United States and also our allies. But if they [the Administration] are putting a green light on this, they'd better bring this over and start talking to us. They can't just say, 'Trust us.' " In brief, the DLC says that there must be a "*partnership with Congress*" in planning a war against Iraq.

Biden: Bush Has Signed Off on Operation Against Iraq

In remarks made in a private discussion with visiting members of the European Parliament, Sen. Joe Biden (D-Del) said the Bush Administration has already signed off on a military operation against Iraq, although it has not decided precisely how it will conduct this. Biden reportedly told the visiting European parliamentarians, "Your silence is dangerous," indicating that, unless the Europeans came up with some approaches to dealing with the Iraqi "proliferation problem," the Bush Administration would be moving for the more drastic of available options.

An Elaboration of Bush's 'First Strike' Doctrine?

BBC News reported July 18 that the Pentagon's head of Defense Threat Reduction Agency, Stephen Younger, spoke of the advantages of using intercontinental ballistic missiles (ICBMs) armed with conventional warheads in future conflicts. BBC provides no information as to where or when Younger made his remarks. Younger was quoted as saying, "For example, if you were to see from a satellite that an adversary was preparing to launch a Scud missile and you had reason to believe there was a biological warhead on it, then you would want to have the ability to destroy that target very quickly before that Scud was launched."

Talk of Scuds and biological weapons led BBC to write, "He did not mention Iraq, but [our] Washington correspondent says the work is part of an attempt to find ways to combat weapons of mass destruction." Younger indicated there are some problems to be overcome; for example, BBC writes, "The danger that an ICBM launch might be mistaken by Russia as a nuclear attack."

Congressional Dems, GOP Seek Fuller Discussion on Iraq

The Democratic-controlled Senate Foreign Relations Committee plans to hold hearings on Iraq before the summer recess in early August, and the GOP-controlled House International Relations Committee intends to do the same, with hearings in late August or September, according to James Dao in the *New York Times*. The Administration, however, has expressed caution about any such hearings, because it hasn't settled on how to get what it wants vis-à-vis Iraq. Congressional sources, speaking to the *Times*, complained that while there is broad bipartisan support for ousting Saddam Hussein, Congress is worried about the blow-back from any large-scale U.S. troop deployment. These sources also complain that much of what they know about the Administration's thinking comes from press leaks (something the *Times* has certainly participated in recently).

Unnamed Democrats add that President Bush would have to seek Congressional approval for invasion under the War Powers Act, while Nebraska Republican Senator Chuck Hagel, a decorated Vietnam veteran, has called for a "national dialogue.... If the United States decides to take action against Iraq, Americans need to understand the risks and objectives.... That was a debate we didn't have with Vietnam."

Wolfowitz to Turkey: War with Iraq Inevitable

Deputy Defense Secretary and utopian maniac Paul Wolfowitz held a press conference in Ankara last week, after two days of meetings designed to armtwist Turkish military officials into support for a U.S. war on neighboring Iraq:

"As President Bush emphasized, the Iraqi regime, hostile to the United States and supporting terrorism, is a danger that we cannot afford to live with indefinitely," Wolfowitz said. "Turkey stands to benefit enormously if Iraq becomes a normal country." (Turkey says it has lost about \$40 billion in trade since sanctions were imposed on Iraq after the Gulf War.)

Wolfowitz reportedly also promised Turkey that the U.S. would not support the formation of an independent Kurdish state. The Turks fear that U.S. support for Kurdish minority populations in northern Iraq would incite the Kurds living in Turkey.

Meanwhile, Saddam Hussein responded to the U.S. threats in a televised speech celebrating the 34th anniversary of the revolution which brought his Ba'ath Party to power. Saddam said that "evil tyrants and oppressors" are trying to unseat him and his government, adding, "You will never defeat me this time. Never!"

"The wind will blow away foreign rattling as the noise of an evil covetous tyrant, the enemy of Allah," Saddam said.

McCain, Lieberman—The Manchurian Candidates

McCain Advisers Pushed 'Dow 36,000' and Financial Deregulation

Three years ago, before the crash began in 2000, the Nasdaq was climbing off the charts, and John McCain's top economic adviser for his 2000 Presidential campaign was Kevin Hassett, the co-author of *Dow 36,000*, according to the *San Francisco Chronicle*. Hassett was arguing, even as the Dow soared above 11,000, that stocks were not overvalued, and that

"Stock prices could double, triple, or even quadruple tomorrow and still not be too high."

"McCain, who once, like every other politician in Washington, sought the money of Silicon Valley industrialists to finance his ambitions, today dons the mantle of Teddy Roosevelt, the populist Republican Trust Buster," the article points out. "McCain is out-Democrating Democrats in his lust for a corporate crackdown, becoming the first to publicly attack the icons of Silicon Valley. He now demands new laws that did not occur to him when his economic adviser said stocks would quadruple."

Hassett, a resident scholar at the American Enterprise Institute, was indeed McCain's top economic adviser. Hassett also brought into McCain's campaign Charles Calomiris of AEI, who founded an AEI project promoting decreased regulation of the financial sector. Still another McCain economic adviser was David C. John of the Heritage Foundation, who promoted the repeal of the New Deal Glass-Steagall Act, so as to allow banks, insurance companies, and investment companies to enter into each other's markets—all of which measures have contributed to today's debacle in financial markets.

How Lieberman Preserved Phony Accounting of Stock Options

In the course of a related story in the July 15 *New York Times*, the paper's reporters repeat what *EIR* has previously reported: "In 1994, the Financial Accounting Standards Board, which sets accounting standards in America, retreated from its proposed rule to require options to be expenses. It reacted to heavy political pressure directed by Sen. Joseph I. Lieberman, Democrat of Connecticut, who had pushed through the Senate a resolution opposing the plan on a vote of 88-9. He then proposed legislation to all but put the board out of business, but dropped that proposal after the board backed down.

"The board surrendered on the private advice of Mr. [Arthur] Levitt, then the SEC chairman [who supported the proposed rule]. Yesterday, [Levitt] said that was the worst mistake he had made at the [Securities and Exchange] Commission."

McCain, Lieberman in Spotlight in Coverage of Stock-Market Crash

Arizona Senator John McCain and Connecticut Senator Joe Lieberman are, as the *New York Times* and *New York Post* reported July 14, increasingly in the—unwanted—spotlight in coverage of the political ramifications of the stock-market crash and corporate corruption scandals.

The *New York Times* noted, in news coverage and in a separate article devoted to Lieberman alone, that the Connecticut Senator is in a "tough spot," because he has stressed the need to be "pro-business," avoid "class warfare," and so forth. In this regard, Lieberman has opposed tighter accounting rules regarding stock options (i.e., making corporations count them as liabilities) (see above), and supported restrictions on lawsuits against management and accountants.

"Lieberman's Pro-Business Views May Haunt Him," is the title of the article, and it features some quotes from an interview with a very defensive Lieberman, who said he is "proud to consider myself a pro-business Democrat," and that he is outraged at "greedy individuals." Lieberman, who is, as the column points out, a big recipient of funds from business, and is seriously considering a run for President, has been forced to shift his view to one closer to McCain on some issues, such as top corporate execs' ability to sell stock options.

McCain, on the other hand, has been grandstanding non-stop on the issue of corporate corruption, making demands that SEC chairman Harvey Pitt resign, supporting the Sarbanes bill on accounting, which toughens penalties on corporate offenders, and the like (although he has plenty of skeletons in his own closet; see item above).

In this regard, the *New York Times*, in its lead Week in Review feature, entitled "Is Today's New Investor Tomorrow's New Populist?," concludes with a section on McCain, the "seeming wild card," who has tried to capitalize on the latest scandals. The *Times* author compares the attitude to that of William Jennings Bryan in the late 19th century. The article is accompanied by a small vignette about Teddy Roosevelt's "Bull Moose" campaign—and how much at odds George W. Bush (who claims TR as a model) is with that President.

And finally, in the *New York Post* gossip column, the lead item cites "political insiders" in Arizona and Washington, saying McCain will not run for a fourth term in the Senate in 2004, but for President, as an independent. McCain's staff has attributed the story to his enemies, and said he will announce his decision after the November 2002 elections.

Other News

UN Security Council Exempts U.S. from ICC

United Nations Security Council has exempted the U.S. and others from the International Criminal Court, voting 15-1 on July 12 to approve a U.S.-sponsored resolution which will exempt troops from the U.S., Russia, and China serving in UN-approved peacekeeping missions, from prosecution by the ICC. The resolution, enacted over fierce opposition from some Security Council members, exempts troops from prosecution for a 12-month period, from countries which have not ratified the 1998 Rome Treaty.

The U.S., Russia, and China are among the many countries which have not ratified the treaty. One hundred thirty-nine countries have signed the treaty, but only 76 have ratified it.

House of Representatives Grapples with Homeland Security Reorganization

House Majority Leader Dick Arney (R-Texas) is overriding House committees with his own homeland security bill, according to the *Washington Post* July 19. Arney and the House Republican leadership have presented their own Homeland Security bill, one which gives the White House almost everything it wanted, and rejects recommendations from various House committees. The Arney bill, for example, overrides committee votes that would have kept the Coast Guard and FEMA where they now are, instead of incorporating them into the new Department of Homeland Security. Arney also agreed to give the Administration unusual flexibility in budgeting, which was opposed by many in the House.

Interestingly, the version of the bill presented by the House GOP leadership not only rejected but prohibited two programs which the Administration was seeking: (1) the Terrorist Information and Prevention System (TIPS), which would have created a national system of informants among truckers, postal workers, private utility workers, and the like; and (2) a national drivers' license program which could develop into a national ID card.

Another Shoe Drops on the Warner-Warner Deal in Virginia

U.S. Senator John Warner (R-Va) will jointly campaign with Democratic Governor Mark Warner to pass November ballot initiatives for transportation improvements in northern Virginia and Tidewater, funded through increased sales taxes.

The *Washington Post* in its coverage, adhering to its policy of never mentioning the name of LaRouche, or any LaRouche Democrat, reports that [John] Warner faces "no serious opposition in the same November election"—although LaRouche Democrat Nancy Spannaus is running against him—then quotes him as saying, "I fully recognize that taxation is a highly volatile thing—especially when you are seeking re-election, but, you know, duty calls."

In May, the Democratic Governor telegraphed that the Democratic Party would run no candidate in the U.S. Senate race, by a virtual public endorsement of John Warner's representation of Virginia. Now, John Warner will campaign for Mark Warner's signature campaign promise—to break the gridlock in the Washington suburbs and Tidewater—against most of the GOP, who oppose it on anti-tax grounds.

The Warners' deal misses only one thing—reality. The U.S. needs major infrastructure investment, not piddly projects; financed by the credit of the Federal government, not an increase in sales taxes, which are already collapsing just like state revenues.

White House Denies 'Plungers' Intervened in Markets

White House Press Secretary Ari Fleischer said that the U.S. government had not convened the President's Working Group on Financial Markets (known as the "Plunge Protection Team") to discuss the slide in U.S. stock markets in the early part of last week. "They have not met with particular reference to stock market activity, because we don't try to manage the stock market's daily movements," Fleischer said. He qualified his statement by acknowledging that there had been staff-level contacts among the Working Group to discuss ways to improve corporate governance and to protect employee pensions, but he said that the heads of the agencies that make up the group have not met recently.

Reuters reports, citing market sources, that the New York Fed called key market players in recent days to try and gauge what the market needed to hear from Fed Chairman Greenspan in his Senate testimony July 16, in order to soothe investor concerns. The New York Fed reportedly declined comment, but it said that as part of its market-monitoring role, it speaks to participants daily about market conditions.

D.C. Mayoral Race Could Become Free-For-All

The Washington, D.C. Mayoral elections could become a "free-for-all" if incumbent Mayor Anthony Williams is knocked off the ballot for petition fraud, noted the *Washington Times*, citing five "no-name Democrats" who have also filed nominating petitions, plus third-party and independent candidates. One of the Democratic candidates, Tricia Kinch, a former Williams staffer and ex-FCC official, is quoted as saying that there is a strong "anybody-but-Williams" contingent in D.C., and she says residents are angry about the closing of D.C. General Hospital (the only full-service public hospital in the District), the condition of education, etc.

Meanwhile, the *Washington Post* gives front-page coverage to Williams vowing that he'll regroup, and still run for Mayor, probably as an independent, even if he's thrown off the ballot.

The "D.C. Watch" website shows seven Democrats having filed petitions, along with one independent candidate and one from the Statehood-Green Party. Among the Democrats is Arthur Jackson, a Ward 8 activist who last year confronted the D.C. Democratic Party on their inaction around keeping D.C. General Hospital open.

IBERO-AMERICAN NEWS DIGEST

Planned Mexico City Airport Sabotaged by 'Anti-Globalist' Violence

Protests against the Vicente Fox government's plan to build a new international airport, located 25 miles northeast of Mexico City, exploded into violence in the town of San Salvador Atenco on July 12, as protesters burned police cars, hurled Molotov cocktails, barricaded highways, and seized 19 policemen and local officials as hostages. The protesters

threatened to tie the hostages to gasoline trucks and set them on fire, unless protesters arrested by the police were freed.

As the bestiality of the protesters' tactics testifies, this is no simple matter of peasants seeking to stop the expropriation of their land, as initial media reports claimed. Some Mexican journalists report that everyone from the Zapatistas to members of Peru's resurgent Shining Path (Sendero Luminoso) terrorists were active in the m  lee.

The proposed new airport "has become the central battleground for the leftist and anti-globalization movements" that had been supporting the Zapatistas, an *Associated Press* wire announced July 13. "This is now the center of the fight against globalization and the multinationals. Chiapas was the center, but by sheer activity, the movement is here now," an activist told *AP*. After the latest battle, San Salvador Atenco has won the support of the anti-globalization movement worldwide, another anarchist said.

On July 15, President Vicente Fox yielded to the protesters' demands, and released those arrested. In a national television address, he suggested negotiations are possible, and the government might consider moving the site of the proposed airport elsewhere.

'Genocide' Charges Open Witchhunt vs. Mexican Presidency, Army

"Genocide" charges against former Mexican President Luis Echeverria opened a witchhunt, aimed at destabilizing the institution of the Presidency, and compromising the nation's security apparatus, even as a new terrorist movement is being put together near Mexico City itself (see previous item).

On July 2, the second anniversary of Project Democracy's President Vicente Fox taking office, Echeverria was ordered to testify before the so-called "Special Prosecutor on Past Political and Social Movements," better known as the "Dirty War" prosecutor. Echeverria was subpoenaed, in a suit filed last January by former 1960s student leaders that accused Echeverria, other government officials, and the Mexican Army, of responsibility for "genocide" during bloody conflicts between security forces and student protesters on Oct. 2, 1968 and June 10, 1971.

The campaign against the alleged "dirty war" in the 1960s and 1970s, has the full support of the international human-rights mafia, and is expected to be followed by similar suits which would target Echeverria's successor, Lyndon LaRouche's friend Jose Lopez Portillo.

A July 9 *New York Times* article made clear that the project also aims to take apart Mexico's Army, demanding that "foreign investors" will judge Fox's government on how the Army is reformed. (The Mexican military earlier distinguished itself by printing 5,000 copies of *EIR's* book, *The Plot To Annihilate the Armed Forces and Nations of Ibero-America*, for its officer corps in 1994.)

Echeverria's lawyers came to the conclusion after the July 2 hearing, that the Fox government "wants to jail Echeverria, any way it can," and "the fix is in" to achieve that, *El Milenio* reported July 11—which concurs with *EIR's* evaluation of the case. Likewise, the head of the PRD Party caucus in the Chamber of Deputies, Marti Batres, hailed the suit against Echeverria as sufficient to jail the former President, and to open the way to jailing other officials.

MSIA Charges Hearings Aim at Destabilization of Nation-State

The Ibero-American Solidarity Movement (MSIA) has charged that President Vicente Fox's globalist Foreign Minister Jorge Castaneda, plus plans to subordinate Mexico to President George W. Bush's Northern Command, are behind the hearings on the events of 1968 and 1971 (see previous item).

The MSIA statement issued July 13 by MSIA chairman Marivilia Carrasco, asserts that the events of 1968 and 1971 "do, in fact, merit a serious 'truth commission' inquiry." An inquiry "capable of confirming, for example, that on Oct. 2, [1968] soldiers not only did not receive orders to shoot at the demonstrators, but that they themselves were the victims of sniper fire, which led the soldiers to believe that the students were shooting at them, at the same time that the students believed that the soldiers were firing at them, thereby creating the conditions for the bloody provocation, in which the victims—including soldiers—numbered in the dozens, and not in the hundreds or thousands that the 'black legend' about 1968 proclaims."

The trial does not seek the truth, however, but "to put the nation-state itself in the dock of the accused, using methods of psychological and political warfare that have been conceived and designed by the globalist Anglo-American intelligence apparatus bent on putting an end to the very concept of the sovereign nation-state itself," as part of its drive for imperial rule and a global Clash of Civilizations. "The means of achieving such objectives may please certain anti-government elements of the 'left' and 'right,' but they obey a higher and malevolent global strategy in which these right/left forces are mere puppets."

Mexico's Secretary of Foreign Relations Jorge Castaneda exhibits "dog-like submission" to the Anglo-American imperial policy, arguing that Mexico must bow before "the 'indisputable hegemony' of the United States in the new world order." Carrasco cites his statement that Mexico's courts must accept the "obligatory jurisdiction" of the International Criminal Court—which the Fox government has signed, but the majority of the Senate of the Republic still opposes.

The MSIA statement names Project Democracy agents such as Mariclaire Acosta and Sergio Aguayo, whose networks operate under the patronage of George Soros, as part of this operation.

Paraguay Declares State of Emergency in Face of Nationwide Protests

The Paraguayan government declared a state of emergency July 15, in response to nationwide protests demanding President Luis Gonzalez Macchi resign. Demonstrators blocked highways at several locations around the country, and they began to spread. Two people were killed, and over 60 people were wounded in violent clashes with anti-riot police.

The government charges the protests were organized by former General Lino Cesar Oviedo, who was forced out of Paraguay by the Project Democracy apparatus in March 1999, arrested in Brazil shortly thereafter, and then released. Presidential elections are scheduled for April 2003, and Oviedo, who founded the National Union of Ethical Citizens (UNACE) Party, is running first in the polls.

The driving force behind the protests, however, is the complete devastation of the economy, which has been walloped by the crisis in Brazil, on which it depends for sale of its exports. Vice President Julio Cesar Franco, from the opposition Liberal Party, has supported the demonstrators and urged his followers to join them, as have leaders of farmers' organizations, the transport workers, and other unions. The President lifted the state of emergency on July 18, before the Congress, where he faces strong opposition, could debate its legality, but new protests are expected.

Budget Cuts Threaten Brazil's Military Force

The economic team of President Cardoso imposed a second round of budget cuts against Brazil's military forces this year, bringing the total to 41% in 2002. With unrest spreading, the commands of the Army and Navy made public the memos to the President outlining the drastic cuts in functioning which they are being forced to adopt.

The Army is being forced to send 44,000 men back home on July 31, dismissing 90% of those who began their year of obligatory military service in 2002, after only four months—the first time in Brazil's history such an action has been taken. The Army also postponed the scheduled induction of another 18,000 men, for at least 60 days. The Navy announced cuts in the number of men entering service by 80%. These are only the most drastic of various measures being taken.

Accumulated budget reductions over recent years, have now forced the Army to consider deactivation of several units, pending further cuts. The Navy warned that such vital functions as training for the protection of Brazil's off-shore oil platforms, will be compromised, and valuable technological capabilities for the construction of Navy ships, lost. (They estimate that for every year such construction is halted, two years are required to rebuild productive capabilities.) Among the disasters looming, is the "quasi-paralysis" of the Navy's nuclear program, whose critical technology-driver contribution to the national economy, the Navy pointed out, was just seen in the uranium-enrichment technology breakthrough announced just this spring.

Soros Agent in Argentina Flips Over LaRouche Influence

The Argentine daily *Pagina 12's* featured columnist, Horacio Verbitsky, went ballistic over Lyndon LaRouche's rapidly growing influence in Ibero-America, publishing a lurid slander of LaRouche July 14. As a service to its readers, *EIR* posted a cautionary note on its website, on just what kind of critter Verbitsky is. Read it at www.larouhepub.com: "Caution: Beware Frantic Soros Hack in Argentina."

Scientific Breakthrough Brings Some Optimism to Argentina

Last week the Argentine Air Force announced an important scientific breakthrough, the latest in a long history of achievements in the field of aeronautics and aeronautical engineering. Aeronautical engineer Carlos Labala, after 15 years of work, has invented a new turbine, the GFL 2000, an ultra-compact, ultra-light and resistant motor, weighing 55 kilos, with 200 horsepower, and 5,000 hours of useful life.

The Bariloche Atomic Center perfected the turbine, which is no larger than a pressure cooker, in its laboratories. It is five times lighter than the motor of an ordinary small plane, occupies less than a fourth of its space, uses fuel that is three times cheaper, and lasts much longer. It has gone through 2,000 hours of testing at the Bariloche Center, and hundreds of hours in flight, in two different kinds of aircraft, with no problems.

The simplicity of the turbine's construction, makes it less expensive to build, and although it is now being produced individually, it is already being exported to Mexico and the United States at one-fifth the cost of the only two small turbines now available on the world market (the Lycoming 250 and the Turbomeca Arrius). The price will drop further, when it goes on the production assembly line.

The beauty of the new turbine is that it has many non-aeronautical applications, one of which is electricity production (3 MW), which is especially important for use in isolated rural areas. It can also be used in agricultural regions to dry grain. Pablo Florido, who was involved in developing Argentina's uranium-enrichment technology, has been looking for a powerful and ultra-compact turbine, and learned of Labala's invention, which has only 33 parts. Today, a version of that turbine is used in the Sigma Uranium Enrichment Project.

Labala says: "What future can my invention have here in Argentina? If I can get it mass-produced, [I can] hire skilled labor, export it, and change the country's profile a little." Labala has received enticing offers from the U.S. to reside and produce the turbine there, but he says, "I prefer it to be produced here, and give work to skilled [workers]."

EUROPEAN NEWS DIGEST

***Washington Post's* Jim Hoagland Touts European 'Mellowing' on Mideast Policy**

Senior *Washington Post* columnist Jim Hoagland, writing in the July 14 issue of the *Post* in his characteristic sanctimonious tone, claims that the French and Germans have begun to "come around" to a compromise with President George W. Bush's Mideast policy. (Hoagland distinguished himself in a recent column by calling for an old-style U.S. imperial protectorate over Iraq.)

In his July 14 piece, he specifically cited discussions with French Foreign Minister Dominique de Villepin and German Foreign Minister Joschka Fischer. De Villepin, who is about to arrive for his first official visit to the U.S., paid lip service to the need to reform the Palestinian Authority, while Fischer did the same, calling it the "biggest shortcoming of the 1993 Oslo Accord," that the Accord put "everything in the hands of the Tunis group" (Arafat's PLO).

Fischer has announced a proposal for the establishment of an Emergency Palestinian Authority, which would hold elections next year, declare a provisional state at the end of 2003, and start final status talks in 2004. The UN Security Council would appoint a representative to oversee overhaul of the PA, as part of this plan.

One of the angles Fischer is promoting is that Arafat should appoint a strong Prime Minister, to avoid conflict with the Bush Administration.

Obviously, all of this ignores the shock waves that can be expected from intermediate developments, including a war against Iraq.

Probable Next Archbishop of Canterbury Calls Iraq War Plans 'Immoral and Illegal'

According to the *Daily Telegraph* of London, Dr. Rowan Williams, Archbishop of Wales and expected to be named the next Archbishop of Canterbury (spiritual head of the Church of England and the worldwide Anglican Communion), on July 12 issued a declaration blasting plans to make war on Iraq. The declaration, also signed by Anglican Bishop of Chelmsford the Rt. Rev. John Perry, and Roman Catholic Bishop of Brentwood the Rt. Rev. Thomas McMahon, states: "We deplore any military action that regards the deaths of innocent men, women and children as a price worth paying in fighting terrorists, since this is to fight terror with terror....

"The terrible toll exacted on Iraq's civilian population by a combination of UN sanctions and U.S./U.K. bombing (including the premature deaths of hundreds of thousands of children) has contributed to the devastation of Iraq's infrastructure."

The declaration also states: "It is our considered view that an attack on Iraq would be both immoral and illegal, and that eradicating the dangers posed by malevolent dictators and terrorists can be achieved only by tackling the root causes of the disputes."

The *Daily Telegraph* notes that Williams' views "will alarm Downing Street, which is already concerned about Cabinet splits over the issue."

Germany's Stoiber Visits Paris To Inject New Life into Franco-German Cooperation

The candidate for Chancellor of Germany's Christian Democratic Party, Edmund Stoiber, wants to give new life to Franco-German cooperation. In a two-day visit to Paris that ended July 16, Stoiber met with President Jacques Chirac, Prime Minister Jean-Pierre Raffarin, Foreign Minister Dominique de Villepin, and Bank of France Governor Jean-Claude Trichet, as well as with former President Valéry Giscard d'Estaing.

In a gesture to honor Stoiber's engagement for Franco-German cooperation over the last 20 years, Chirac appointed his German guest Commander of the Legion of Honor. After his meeting with Chirac, Stoiber said they had agreed to prepare a joint memorandum for the 40th anniversary of the (Adenauer-de Gaulle) Elysée Treaty of 1963, in January. The memorandum is not designed to call for a new treaty, but for a "new quality" in mutual relations, Stoiber said, adding that in European affairs, nothing can work without Franco-German understanding, as being the core of the European integration process.

Stoiber also listed three main points on the agenda of Franco-German relations, for the near future: 1) a common initiative for the planned convention on a European Community Constitution; 2) no disruptive decisions for the agricultural sector of the present European Union, in preparation for the planned expansion of the EU toward Eastern Europe; 3) the construction of the A400M large military transport aircraft, as a priority project of military-technological cooperation between France and Germany.

Rumors of Financial Scandal Led to Sacking of German Defense Minister

Rumors of another financial scandal led to the sacking of German Defense Minister Rudolf Scharping, but the issue of Iraq may have played a role too, according to German and other European wire stories.

Revelations in the current issue of the weekly *Stern* about Scharping's close business relations to public-relations manager Moritz Hunzinger, ended the controversial Defense Minister's career on July 18.

After emergency sessions involving the leaders of Germany's ruling Social Democratic Party, its parliamentary group, and Chancellor Gerhard Schroeder's staff, Schroeder announced shortly before 4 p.m. that he had sent a note on Scharping's dismissal to President Johannes Rau.

The revelations are the latest in a series of private and Ministry-related scandals involving Scharping, and it is no secret that his political demise is welcome among many military men, because of his failure to provide the necessary minimal funds and up-to-date equipment for the armed forces. Just last week, Scharping called off, for "reasons of fiscal bottlenecks," the project of the new Panther armored personnel carrier, designed to replace the 30-year-old Marder vehicle. (Of course, the members of the government chiefly to blame for the fiscal malaise are Chancellor Schroeder and Finance Minister Hans Eichel.)

The prominent role played in the scandal by the anglophile leak-sheet *Stern*—and the fact that Scharping, although hardly competent, was at least not one of the warmongers of NATO, and has opposed another Iraq war—are both suggestive. Scharping had become a target of the Wolfowitz gang in the U.S. Defense Department for his lack of enthusiasm about attacking Iraq, and the timing of the most recent revelations indicates that some other motives were driving the ouster of Scharping, besides just the desire to have a Defense Minister whose finances were clean.

Mentioned as a possible successor to Scharping is Hans Ulrich Klose, former chairman of the SPD parliamentary group and member of the German group at the Atlantic Bridge—and strongly in favor of German support, if asked, for an American operation against Iraq.

Real Situation of European Banks Soon To Be Exposed

The real situation among Europe's big private banks will soon be exposed, to judge by the *Wall Street Journal* of July 19, and wire stories. The case of BNP Paribas, the biggest private bank listed in France, is seen as indicative of what the earnings situation among all of the big banks in Europe looks like. BNP reported an "unexpected" drop in net profits by 13% in the second quarter of this year, revealing problems that also exist for the other banks; namely, depression, falling stock markets, and bad debts.

BNP released its figures just two weeks ahead of the other banks, which are due to report early next month. The German Commerzbank's announcement July 18 that it will turn to a 31-hour working week for its employees, for the time being, is a prelude to the real story, which has yet to be published and which will involve job losses.

Russia and Eastern Europe News Digest

Putin Summons Ambassadorial Corps

Russian President Vladimir Putin addressed all of Russia's foreign ambassadors July 12, in the first such gathering since Soviet President Mikhail Gorbachov and Foreign Minister Eduard Shevardnadze convened one in 1986.

Putin reviewed those foreign policy areas which he considers "strategic and key." He started with "the serious, long-term task of counteracting terrorism," as a central theme of Russia's relations with the other members of the UN Security Council ("the UN remains the key organization for this type of question"), the Commonwealth of Independent States (CIS), and the Shanghai Cooperation Organization (SCO).

The Russian President then briefly discussed relations with the United States: "Russia and the USA, beyond a doubt, bear special responsibility for strengthening global security. Therefore, it is important to know that our relations today are based on a new reading of the national interests of our two countries, as well as a similar view of the nature of world threats today. I shall stress again, that a trust-based partnership between Russia and the USA is in the interests not only of our peoples. It exerts a positive influence on the entire system of international relations, and therefore, unquestionably, remains one of our priorities."

Turning to Europe, Putin noted the "unprecedented activity of Russia" in Europe recently. Traditional security and trade relations have been augmented by "long-term energy cooperation, and projects in the area of high technology and innovation." He told the diplomats "not to forget, that Russia's main task here is direct participation in the formation of a single economic space."

In discussing the CIS, Putin stressed "security, and economic and humanitarian cooperation in Eurasia." The CIS, he said, "should not only actively influence, but should assume responsibility for solving a broad array of problems in this enormous regional space."

Concluding this part of his speech, Putin stressed "another matter of principle: whether or not Russia's foreign policy remains global in scope. I know that such questions are often raised. Of course it does. Not only because of our military or economic power, but because of geography. We are present both in Europe and in Asia, in the North and in the South. Naturally, we have our [global] interests; how could it be otherwise? But for this, Russian partners should be sought everywhere—in Europe, in Asia, in Africa, in Latin America. These should be partners, however, who both consider and recognize our national interests."

The section of Putin's presentation which then followed, focussed on the economic side of foreign policy. He made no mention of the current world economic crisis, but noted that "many today see Russia not only as an ally and business partner, but also as a growing economic rival." He called for protecting Russian producers against discrimination, as Russia enters the World Trade Organization.

Ivanov: China and India 'Just as Important'

President Putin's July 12 speech to Russian diplomats was analyzed in Asian publications, notably in India, as marking a decisive turn away from Eurasia, toward partnership with the Bush Administration (in part, by omission of extended discussion of Asia—just as in 2001, in his State of the Federation message, Putin uttered not one word about the United States).

Sensitive to these and other criticisms, Russian Foreign Minister Igor Ivanov said, at the outset of a July 14 interview with RTR television, two days after Putin's presentation: "Russia's foreign policy has a global character and, let us say, for us, our relations with China or with India are of no less significance, or they have the same significance as relations with Europe, say, with the European Union, or with the United States. That is why we will develop relations everywhere it meets our interests."

Concerns about Russia's foreign policy had been voiced to Ivanov in an earlier interview, a *tour d'horizon* on the front page of *Izvestia* July 10, when Ivanov was confronted with the interviewer's assertion that "some 90% of the so-called elite considers the current foreign policy to be ruinous for Russia. Supposedly, we have lost everything, and gained nothing in exchange." Ivanov responded, somewhat defensively, "I don't know who you consider among the critically inclined elite, but in my opinion, over the past few years, uniting various political forces around the President's line in foreign policy has been a success. Criticism will exist forever. Most important is that foreign policy shouldn't cause a split inside the country."

Rushailo, in China, Discusses Strategic Relations

In a top-level diplomatic visit to China July 15-20, Russian Security Council Secretary Vladimir Rushailo met Chinese Vice Premier Qian Qichen, who emphasized the two sides' "wide-ranging common interests in security," and called for "constant contact and consultations in this regard." Qian said China called for strengthening cooperation between the SCO and the CIS, to deal with terrorism. Rushailo is also meeting with President Jiang Zemin, Foreign Minister Tang Jiaxuan, and Defense Minister Chi Haotian.

Pravda.ru July 15 said the two sides would be discussing "issues of international security and strategic stability in the world." Respecting relations among Russia, China, and India, Rushailo's deputy Oleg Chernov added, "During the visit, another issue under consideration will be continuing work on supplementing the three countries' political collaboration by carrying out cooperation among public organizations."

Izvestia wrote on July 16, "The first half of the year in Russia's foreign policy was Euro-American. the second will be Asiatic, with special emphasis on China and India." Rushailo's deputy Oleg Chernov said that one of the key points of discussion in Beijing would be the consequences of the U.S. pullout from the ABM Treaty. *Izvestia* also stated that the two sides would discuss problems related to the U.S. military presence in Central Asia. It is noteworthy that the Security Council delegation was joined by former Defense Minister Marshal Igor Sergeyev.

On July 16, as the Rushailo trip was going on, the Presidents of China and Russia exchanged congratulations on the first anniversary of the two sides' "Good Neighbor Treaty of Friendship and Cooperation."

Another recent Russian visitor to Beijing was Atomic Energy Minister Rumyantsev, who, in a July 8 press conference, detailed the upgrading of Russian-Chinese cooperation in nuclear-energy development. Rumyantsev was also preparing the agenda for Prime Minister Mikhail Kasyanov's visit to Beijing at the end of August.

Primakov Calls for Palestinian State, 'Now!'

Former Russian Prime Minister Yevgeny Primakov called for the "imposition" of a Palestinian state *now*, "exactly as was imposed by Israel on the world community in 1948," *Gulf News* online reported July 15. Primakov, speaking in London at a symposium on the Middle East, also said that it is a "grave and dangerous mistake" to plan any strike against Iraq. He said that the only way to reach a final settlement of the Mideast conflict, would be for the so-called "Quartet Committee," the UN, U.S., EU, and Russia, "to declare the imposition of a full Palestinian state rather than waiting for three years as envisaged in President Bush's plan."

On the plan to attack Iraq, Primakov said: "It is much more dangerous for a political settlement in the Mideast; if the U.S. launches a strike on Iraq or any such countries of what they call the 'axis of evil,' then the situation would deteriorate quite sharply and the peace process would simply stop."

A leading authority on the Mideast, Primakov said he does not believe that Israeli Prime Minister Ariel Sharon will ever accept a full independent state for the Palestinians. "Let us face it, and we must be blunt: Sharon has spent his entire political life not only objecting to such a project, but also creating obstacles for it in order that it will never happen," Primakov was quoted as saying. "We must understand that Sharon's policy is against peace, because it is against the creation of a Palestinian state. All his life and career is proof of this. He demonstrated this when he was a Minister of Agriculture. He said then, that a Palestinian state already existed in Jordan. Now Sharon has a modified plan whereby he is prepared to give back about 42% of the territories in the West Bank to the Palestinians, who could create some kind of autonomy to be joined with Jordan as the future Palestinian state later," Primakov said.

Primakov said he prefers a "comprehensive settlement to the Mideast conflict, that would include Syria and Lebanon and not the Palestinians alone," as the only way to "guarantee permanent peace and security."

Oligarchs Panic Over LaRouche Influence Among Macedonia Leaders

In the Macedonian daily *Dnevnik* of July 16, Lyndon LaRouche was accused by a notorious oligarchic agent, of being a key intellectual influence behind Macedonian government leaders.

In the article, former Foreign and Interior Minister Ljubomir Frckovski penned a slanderous attack against the country's leaders: "Their favorite literature is LaRouche, Jew's conspiracies, and conspiracies by new military 'analysts' and similar losers," writes Frckovski. "This is a lumpen-literary tradition that never lacked clients, stupid and greedy at the same time."

Frckovski seems to run a small group of pseudo-intellectuals grouped around the pretentious *Forum* magazine, which is a constant source of ridicule in Skopje, the capital, where it has been observed that virtually every single operative for the many Anglo-American NGOs—set up to undermine Macedonia's national sovereignty over the last year—is borrowed from Frckovski's *Forum*. This includes the Soros organizations, IWPR, Transparency International, Transfuse and so on.

With this background, Frckovski is engaged in an electoral campaign—general elections take place Sept. 15—against Prime Minister Ljubco Georgievski and his allies, accusing them in particular of believing in "conspiracy theories" mediated by LaRouche.

This is apparently the first public slander in Macedonia against LaRouche, who has become well known, not only among the elites, but also among many citizens.

On June 8, *Forum* published an attack against *EIR*'s Umberto Pascali, a collaborator of LaRouche, written by the editor, Guner Ismail. Pascali and the TV journalist Slobodan Tomic were accused, without any evidence, of having helped the Prime Minister to write a major parliamentary speech that led, for the first time, to a joint "national-unity style" vote of government and opposition parties. Reported Forum: "Ljubco Georgievski [the Prime Minister] in his own style was speaking nonsense from his Parliament post, the points from his speech were probably prepared by Pascali-Tomic."

Siberian River Project Proposed To Relieve Water Crisis

Due to the ongoing water crisis in Uzbekistan, a proposal to divert water from Russia's Siberian rivers to Central Asia is being revived. The proposal for the project had been raised in 2001 by officials from Uzbekistan and Russia, and was also discussed at a conference in Tashkent.

Since the Soviet Union broke up in 1992, the nations of Central Asia have been arguing over deployment of water resources. Various energy-for-water agreements have been reached, but, because of civil war in some areas, especially in Kyrgyzstan, and thanks to privatization, and the breakdown of irrigation and other infrastructure, the agreements have not been productive. On top of this, there have been three years of severe drought. The countries remain dependent on cotton, which requires heavy irrigation, for export earnings. A new problem could arise if Afghanistan were to start taking its share of water from the Amu Darya (Oxus) system.

The proposal to divert a small (5%-10%) part of the flow of the huge Ob and Irtysh Rivers in Siberia, to the Amu Darya and Syr Darya Rivers in Central Asia, by constructing a 2,000-kilometer Siberia-Central Asia Canal, had been made by Joseph Stalin. A "blueprint" was developed in the 1980s, although there was a lot of internal Soviet opposition.

Due to water shortages, rice and cotton crops have been cut drastically. "This project is of great importance not only for Uzbekistan but also for other countries in the region of Central Asia," said Uzbekistan First Deputy Minister of Agriculture and Water Resources Abdurakhim Jalalov.

MIDEAST NEWS DIGEST

EIR Interview: Dr. Barghouthi on 'Collective Punishment' of Palestinians

Dr. Mustafa Barghouthi, the director of the Union for Palestinian Medical Relief, told the European office of *EIR* on July 17 that the Israeli-imposed curfews constitute collective punishment, and are aimed at destroying the society and economic of the entire Palestinian people.

Dr. Barghouthi told *EIR*: "The curfew is having a drastic effect on every aspect of life throughout the West Bank. All businesses are paralyzed. Doctors cannot go to their hospitals, lawyers cannot go to their offices, people who have jobs cannot go to work ... [all this] while 75% of the population is living under the poverty line, and 65% are officially unemployed. Universities are paralyzed, the health system has collapsed. We had one of the highest rates of vaccinations at a rate of 96%; it now is below 35%. This curfew is creating a humanitarian disaster. This constitutes collective punishment. One can only explain it as an attempt to destroy the society and economic life of an entire people.

"One must stop and think of the effect of families of 10 or more people confined to homes that in most cases constitute not more than 30 or 40 square meters. They are confined for 24 hours a day. It is only lifted for a few hours at a time every 96

hours, or every three or four days. It is enforced at gunpoint. On June 21, the IDF killed a woman and three children when, thinking the curfew had been lifted, they went to the marketplace to buy food, and an Israeli tank fired on them. Even prisons allow the prisoners to leave their cells at least once a day."

Arafat Running for President

PLO Chairman Yasser Arafat confirmed he would be a candidate in January's Palestinian leadership elections. At the same time, Arafat's deputy, Manhmud Abbas, said he would not oppose him in the polls, reported *Agence France Presse* on July 17.

"It is imperative [to run]," Arafat said. "The Americans must know that we are not Afghanistan for them to change as they wish."

Egyptian Foreign Minister on Israel's Rogue Nuclear Threat

Egyptian Foreign Minister Ahmed Maher Al-Sayed, visiting Washington on July 18, fielded on question from *EIR's* William Jones on the Israeli nuclear threat. Maher had previously been asked a question on Iraq, in which he responded that Egypt was opposed to any such attack. Jones followed on that question: "All signals seem to tell us, Mr. Minister, that President Bush has indeed signed off on military action against Iraq, although perhaps the timing and the form of such an attack have yet to be worked out. Indeed, on the part of some individuals in the Administration, the desire for achieving some resolution of the Arab-Israeli conflict is unfortunately seen simply as a means of either bringing some Arab nations on board such a policy, or at least neutralizing their opposition. However, in the fog of war, many things can happen, and there are fears that Sharon would use such a conflict to implement his own plan to expel the Palestinians and return to a 'Palestine is Jordan' policy. The Israeli press has also been filled with numerous stories touting their now-quite-open nuclear capabilities, an ominous sign if ever there was one. Could you, sir, elaborate more on what you see could be the consequences of a U.S. attack against Iraq in the region as a whole?"

"You paint a very apocalyptic picture," Maher said. "We have long proposed the establishment of a nuclear-free zone in the Middle East, but the Israelis have not agreed. One must think twice of where such a military action might lead. Indeed, it could have unforeseen consequences. I don't think anybody can afford but to help to reach an agreement in the Middle East. But I would like to conclude on a more optimistic note. I feel there is hope. The issue of a Palestinian state was previously anathema. Now it is accepted. Now you can't simply take the part of one of the parties and reject the other. There is sympathy for the Palestinian cause. Also people in the Jewish community here are willing to stick their neck out and call for justice for the Palestinians. I think things are starting to move."

'Tip of the Iceberg': IDfers Selling Weapons to Palestinian Terrorists

In a case that is far bigger in implications than the much-touted Karine A affair, Israeli police have arrested five Israel Defense Forces (IDF) members, including a reserve Major, for selling ammunition to terrorists. The ammunition, and possibly weapons, have been pilfered over a period of years from IDF warehouses and depots.

A Major in the IDF Reserves, one Yaacov (Koby) Uliel, was arrested on suspicion of being involved in sales of weapons and ammunition to Palestinian terrorists. Uliel, who was also described as a "security officer in the Foreign Ministry, due to be assigned to a foreign post," lives in the settlement of Ashod, and is suspected of being a ringleader in a group of at least six other men who supplied more than 60,000 rounds of 5.56-mm ammunition, and some 3,000 9-mm bullets, to terrorists. The Foreign Ministry now denies he worked for them.

A July 18 article in *israelinsider*, by reporter Ellis Shuman, reveals that this could be one of the biggest scandals—involving arms trafficking and countergang terrorism—in recent Israeli history. Shuman reports that "Military police sources told *Maariv* (one of the leading Israeli newspapers) that [the case] was 'only the tip of the iceberg,' and that they expected 'additional discoveries that would shock everyone.' " *Maariv* also reported that officials said "It was clear [to the suspects] that the sale of arms would be used for terror attacks, but this didn't stop them...."

On July 15, four IDF soldiers were arrested on the same charges as Uliel. All of them are residents of Adora and Telem, two of the more "ideological" settlements that were founded on the initiative of current Israeli Prime Minister Ariel Sharon in the 1980s. Such settlements have served as the base for major terrorist operations, such as the conspiracy to assassinate the late Prime Minister Yitzak Rabin in 1995; the 1994 mass killing of Muslim worshippers in Hebron, by Baruch Goldstein; and the Jewish "vigilante" terrorist operations that regularly assassinate Palestinian citizens.

The arrests raise some important questions, particularly whether this is one of the networks that has been supplying "Sharon's Hamas," i.e., the terrorist operations that provide a convenient excuse for Israeli retaliations against suicide bombings.

From reports in the Israeli press, here is what is known:

- *The ring was smuggling weapons, ammunition and Palestinians into Israel from the West Bank, and were able to get past checkpoints because they were dressed in IDF uniforms. Recall in some of the most successful terrorist attacks against Israelis—i.e., where the assailants escaped—the attackers were wearing IDF uniforms.

- *Four soldiers from the settlements of Telem and Adora are under arrest. These have been identified as two sets of brothers: Moshe and Nadav Cohen from Telem, and Roie and Sela Amar from Adora. Also identified have been Oded Mola'i and Rotem Parnas, from Kfar Sava. Strangely enough, reported *Ha'aretz*, Sela Amar had been released by a Jaffa military court on the grounds that he was not in the military service when the crimes were committed. He is now missing and it has not been explained why the military court did not turn him over to the police.

- *Ammunition sold by the ring is said to have been used in a bloody terrorist incident in Adora this past April, when four Jewish settlers were killed in a house.

U.S. Ambassador Criticizes Israeli Occupation Conditions

Criticism against the Bush Administration's Israel policy came from an unexpected source when, on July 9, U.S. Ambassador to Israel Daniel Kurtzer delivered a speech entitled "The Economic Dimension of Peace," presenting how bleak Palestinian conditions are. The speech was covered in the July 16 English edition of *Ha'aretz*.

Kurtzer said, "Initial findings from a USAID-funded study indicate that malnutrition among Palestinian children, defined as the stunting of growth or abnormally low body weight, is rising. A large percentage of children under 5 and women of childbearing age suffer from anemia. The United Nations Office for the Coordination of Humanitarian Affairs reports that approximately two million Palestinians, or 62% of the population, are considered 'vulnerable,' meaning that they have had inadequate access to food, shelter, or health services. This figure is 25% higher than only six months ago.

"The World Bank now estimates that unemployment in the West Bank and Gaza is about 50% and rising. As would be expected, poverty rates have exploded. The World Bank estimates that 50-60% of Palestinians now fall under the poverty line, defined as an income of \$2 a day. According to very conservative UN estimates, GDP in the West Bank and Gaza fell 33% last year. No figures are available for 2002, but there is no question that GDP has plunged still further. Clearly this is

a population in great risk."

Addressing the same issue, *Ha'aretz* newspaper's July 16 editorial said, "The government must act to lift the curfews quickly.... In effect, except for temporary lifting of curfews for residents to get food, hundreds of thousands of people are locked up in their homes for no purpose. It is not just the elderly, the ill, and the children who are suffering: every person—the entire population—is suffering."

New IDF Chief of Staff Vows To Teach Palestinians a Lesson

With the major Israeli newspaper *Ha'aretz*, and the U.S. Ambassador, warning against the occupation conditions, IDF Lt. General Moshe Ya'alon indicated that Israeli withdrawal is *not* an option. *Ha'aretz* reports on July 17 that Ya'alon, who is under fire because back-to-back terrorist incidents—in Tel Aviv on July 17, and near the settlement of Emmanuel on July 16—immediately followed his assumption of command, told the Knesset Foreign Affairs & Defense Committee that the IDF presence in the occupied territories is like a "blanket over a fire." Ya'alon said, "If we remove the blanket, the fire will immediately erupt."

Ya'alon's statements drew outbursts of criticism from Labor MK Haim Ramon, who chairs the committee, and also from Zahava Gal-On of the pro-peace Meretz Party, and from Hashem Mahameed of the United Arab List. Ramon, who had served as an Israeli peace negotiator, blasted Ya'alon for advocating that Israel "stay in the territories to win and there is no withdrawal."

Ya'alon said there can be no signs of "weakness coming from the Israelis," such as the May 2000 withdrawal from Lebanon. "Should the Palestinians feel they have chalked up a victory over an Israeli submission," there will be "problems," not only in the occupied territories, "but with many others, including Israeli Arabs."

Bush Sparks Tensions inside Iran

President George W. Bush sparked tensions in Iran, with his remarks supporting Iranian students' demonstrations on July 9. The students, who clashed with police, were commemorating the third anniversary of massive student protests that rocked the country. Bush's remarks gave support to the students, saying "their government should listen to their hopes." He continued that, although the population had voted in reformers in the last elections, "Their voices are not being listened to by the unelected people who are the real rulers of Iran." He added, "As Iran's people move towards a future defined by greater freedom, greater tolerance, they will have no better friends than the United States of America."

Such a statement coming just as the war plans against Iraq are accelerating, can only be interpreted as a provocation. For some time, there have been rumors circulating on the anti-Khatami websites (Khatami is the moderate President of Iran), that Iran would go along with the overthrow of Saddam Hussein. In reality, the entire Iranian establishment—conservatives and reformers—are united around the rejection of any U.S. military move in the region, emphatically including Iraq. They all know, also, that if Iraq is number one, Iran is number two on the target list.

President Khatami immediately denounced Bush's remarks as an interference in Iran's internal affairs, and said: "We advise those who are pursuing [a] war-mongering policy under the influence of certain lobbies, to get rid of the false interpretation of [the] situation in Iran and apologize to the Iranian nation and government for the misdeeds of the past."

Khatami made several other relevant points: "Unfortunately, the extremist policy has formed a part of the U.S. Administration's approach towards the global issues. They threaten the world with war and subversive actions, posing a threat to the entire world and the U.S. interests at first." He urged well-wishers in the world to advise the U.S. to pull back

from its war plans, in order "not to fall into the traps more disastrous than what it experienced in the Vietnam War," according to *IRNA's* paraphrase.

Wolfowitz Plan for the Annihilation of Iraq

Well-informed Middle East sources have told *EIW* that Iraq is to be broken up into four parts, according to Deputy Defense Secretary Paul Wolfowitz, who secretly discussed this plan in meetings this past week in Turkey and elsewhere.

According to this scheme of things, Iraq would be carved up into four entities: In the south, there would be a Shi'ite autonomous area, where the SCIRI (Shi'ite) opposition group operates.

The central area of Baghdad is Sunni, and that would be a Hashemite kingdom. It was noted that a nephew of the former Hashemite King of Iraq attended the July 14 meeting in London of Iraqi exiles (see *INDEPTH*). In the north, the now-Kurdish area would be broken up into two—a Turkic area, which is where the richest oil reserves are located, would be carved out of the Kurdish area; and the Kurdish autonomous region in the mountains. So, under Wolfowitz's plan, Iraq would cease to exist.

Top Military to Bush: Iraq War Will Be Worse Than Carter's Desert One

A senior retired U.S. military official told *EIRNS* on July 15 that there is total unity among the Joint Chiefs of Staff and the regional Commanders-in-Chief, in opposition to an Iraq invasion. He identified the new Commander of the Pacific Command as a particularly strident opponent of the war, noting that the Pacific Command is the key support for all U.S. military operations in the Middle East and Persian Gulf. Such opposition was the reason that "chief of counter-terrorism" Gen. Wayne Downing stormed off the job last month, after his Iraq invasion wing-ding scheme was dumped by the Joint Chiefs and Commander of the Central Command Gen. Tommy Franks. The source reported that the military brass were warning the White House that there is nothing worse, for political fallout, than a failed military adventure, pointing to Jimmy Carter's spring 1980 Desert I failed rescue mission of the hostages in Iran, as one example of political blowback.

The same source indicated that he was personally arguing with officials in and around the Administration, that there was no viable alternative leadership in Iraq, to the Saddam Hussein regime, among all the dissidents gathered up by the State Department, the CIA, the Pentagon, etc. The last time the U.S. got directly involved in an attempt at "regime change" without a viable leader on the scene was Vietnam. Despite all this effort by the top uniformed military, the source could not rule out that the President, under the McCain-Lieberman blackmail gun, and with people like Karl Rove in his Oval Office inner-circle, could still order the military to undertake a disastrous invasion.

Joe Lieberman and Yechiel Eckstein—the Zionist Link to Christian Fundamentalists

MEGA founder Michael Steinhardt's *Forward* newspaper reveals that Sen. Joe Lieberman is one of the big supporters for Chicago Rabbi Yechiel Eckstein, the link between the rightwing fascists of the Christian Coalition and the Jabotinskyite Zionists.

The *Forward* reports on July 12 that Lieberman called Likudnik Rabbi Eckstein in June 2002, to congratulate him for having formed the "Stand For Israel" Christian-Zionist outfit with former Christian Coalition executive director Ralph Reed. "He said that he had just seen the *New York Times* piece about Stand For Israel, wanted to tell me how proud he was," said Eckstein. In 2000, Eckstein made Lieberman the honorary chairman of his organization, the International Fellowship of Christians and Jews, which promotes the ideas of fascist Zionist Vladimir Jabotinsky.

However, not everyone in "Mega," the billionaires' club within the Israeli lobby of North America, loves Eckstein. For years, he claims that he was ostracized by mainstream rabbinical groups. The *Forward* reports, "when the UJC finally did honor Eckstein at its General Assembly in 2000, Anti-Defamation League director Abraham Foxman walked out of the room in protest. Later, Foxman explained that he did not object to Eckstein's working with evangelicals, but to the portrayal of Israeli poverty in the ... promotional videos and infomercials [of Eckstein's International Fellowship of Christians and Jews] that run on Christian channels. " 'It's schnorring [begging] from non-Jews to help Jews,' Foxman told the *Forward*. 'I don't care how many millions it brings in. I find it distasteful.' "

"Among other things," says the *Forward*, "Reed and Eckstein are bent on refuting what they say is the false claim that evangelical support for Israel is triggered by a desire to hasten the messianic era...."

The article points out the Eckstein worked for the ADL for several years, and now serves as Ariel Sharon's unofficial liaison to the evangelical community.

Asia News Digest

Malaysian Newspaper: No Justification for War on Iraq

"Playing With Bombs" is the headline of the July 18 editorial of the Kuala Lumpur *New Straits Times*, which serves as the closest thing there is, to an official newspaper of the Malaysian government. The content of the editorial is the harshest criticism of the Bush Administration since Malaysian Prime Minister Mahathir's very cordial state visit to Washington in mid-May.

"The flimsy justification for the latest air strikes on Iraq reflects yet again the cowboy mentality behind the U.S. policy towards Baghdad.

"Even if Washington is bent on toppling Saddam Hussein, the bombing of targets in southern Iraq's no-fly zone over the weekend only served to show the deep disregard the U.S. and its close ally Britain have for peace in the Middle East.

"Certainly it complicates the efforts of the international community to find a political and diplomatic solution to the Iraqi problem, and to ease tensions in the Middle East and the Gulf region. Neither does pounding the country have much to do with the U.S. 'war on terror' since Iraq has not (so far, despite repeated attempts) been linked to the Sept. 11 attacks. The concern expressed by Russia over the latest bombings adds to the uneasiness over world peace and stability in general.

"The U.S. is somehow looking at Iraq as its favourite whipping boy.... [D]espite being identified as one of the three members of an 'axis of evil,' it is still far from an established fact that Iraq constitutes an imminent threat.... Without a clearly defined *casus belli*, any 'preemptive' strike woud a ld have to call on the logic of a John Wayne movie rather than the precepts of international law.

"Perhaps it is more than the ouster of Saddam that Washington is after. As former U.S. Attorney General Ramsey Clark said in the book *The Fire This Time*, the intent could be simply to debilitate Iraq's independent status: to undermine its civilian infrastructure to the point where it would no longer represent an alternative to dependency on the Western countries. Bringing a country to its knees for the failings of its leadership is wrong and bears the makings of a crime against humanity."

U.S. Protects Sharon, 'Murderer of Innocent People'

Malaysia's Prime Minister Dr. Mahathir has criticized U.S. Secretary of State Colin Powell for declaring Palestinian leader Yasser Arafat "persona non grata," and has called Israeli Prime Minister Ariel Sharon a "known murderer." As reported in the July 15 *New Straits Times* of Singapore, in response to news reports of Powell's latest comments about Arafat, Dr. Mahathir told reporters at the opening of a sporting event: "The declaration of other people's leader as *persona non grata*, when leaders like Ariel Sharon, the murderer of innocent people, are embraced as a 'Man of Peace,' I don't understand the basis for such preferential action.... if Arafat is unacceptable [to the U.S.], then Ariel Sharon should also not be accepted."

Neo-Con Warmongers Carry the Day in Pentagon Report on China

The Pentagon Annual Report to Congress on "The Military Power of the People's Republic of China (PRC)" portrays China as preparing a surprise attack on Taiwan, and possibly the United States. The report, which is the subject of extensive press coverage emphasizing the Chinese missile threat to Taiwan and beyond, was held back from release for some time, which the neo-conservative writers at the *Weekly Standard* and the *Washington Times* attribute to opposition to the report from within the military.

The report describes Chinese military policy as secretive; far larger than publicly reported; oriented toward surprise and preemptive assault; and focussed on Taiwan, but with "increasing focus on the U.S. as an adversary." It reports Russian/Chinese cooperation and arms transfers, and states that neither U.S. pressure on Russia nor increased cooperation between the U.S. and Russia is likely to weaken the Russia/Chinese military relationship. It is replete with speculations and presumptions.

Bill Gertz of the *Washington Times*, who is close to the utopians in the U.S. Department of Defense, chose the following quotes in his July 13 coverage of the report: "China is in the midst of a ballistic-missile modernization program that is improving its force, both qualitatively and quantitatively, in all classes of missiles.... This modernization program will improve both China's nuclear deterrence by increasing the number of warheads that can target the U.S., as well as improving its operational capabilities for contingencies in East Asia."

Some other quotes from the report:

"Chinese secrecy is extensive.... China's defense spending may be some four times larger than its public announcement in March 2002 of a defense budget of about \$20 billion....

"Chinese doctrine is moving toward the goal of surprise, deception, and shock effect in the opening phase of a campaign. China is exploring coercive strategies designed to bring Taipei to terms quickly....

"Beijing's military training exercises increasingly focus on the U.S. as an adversary....

"China has about 350 short-range ballistic missiles already in its deployed inventory, increasing at about 50 missiles per year.... The PLA is developing variants of the CSS-6 that enable attacks against Okinawa when forward-deployed or against Taiwan when deployed further inland....

"China's electronic warfare efforts are focused on technology and design development, accomplished mainly through cooperation with Western companies and by reverse engineering....

"China is pursuing a robust research and development program for laser weapons. In 1999 the Chinese displayed a probable laser-based, anti-tank guided missile countermeasure in its Type 90-II tanks.

"Chinese scientists have written about, and China probably has in place, a program to develop explosively driven radio-frequency weapons technology that potentially could be used in missile warheads or aircraft bombs.

"Beijing may have acquired high-energy laser equipment that could be used in the development of ground-based anti-satellite weapons.

"In July 2001, Moscow and Beijing signed a five-year space cooperation agreement pursuant to which: China and Russia will establish special departments on joint development of a regional missile defense system; China and Russia will set up cooperation organs to develop a new generation of high-tech weapons and equipment with funding up to \$500 million....

"These principled themes ["peace and development, non-use of force, non-intervention, defensive nature, no-first-use of nuclear weapons," etc.] should not, however, obscure the ambitious nature of China's national development program and the nature of China's approach to the use of force, which is contingent, rather than inherently passive or defensive, as Chinese commentators often vigorously assert. In particular, Beijing probably calculates that ambiguity in international discourse helps to buy time in developing its national power....

"China's more forward-looking strategists note the Persian Gulf War's role in bringing the emerging revolution in military affairs (RMA) into sharp focus for the PLA. In particular, PLA observers witnessed how quickly the force, equipped with high-tech weapons systems, defeated the Iraqi force that resembled the PLA in many ways.... At the same time, however..., Beijing perceives certain weaknesses in the U.S. over-reliance on the advances offered by the RMA. Consequently, revised PLA doctrine, rather than seeking to capture and pursue RMA advances, emphasizes measures to target and exploit its weaknesses.... The Serbs' survival in a modern battlefield against a superior force reportedly impressed PLA observers."

***People's Daily* Denounces Motives of Pentagon Report**

On July 16, the official Chinese *People's Daily* said that the Pentagon report on "The Military Power of the People's Republic of China," was impeding bilateral relations and had ulterior motives. The Pentagon greatly exaggerated the increase in China's military capabilities, said that *Daily*, noting that China's defense budget for 2002 is less than U.S.\$20 billion. That \$20 billion represents a full 18% increase. In contrast, the U.S. defense budget for 2002 was \$350 billion—for a population not even 25% of China's—and was hiked by \$48 billion for 2003.

"For a large country like China, which has 1.2 billion population and long land borders, such a budget only meets the basic need of maintaining security," said the article. The Pentagon claimed Chinese defense spending was as high as U.S.\$65 billion, which *People's Daily* called "groundless."

There is a tendency to use "Cold War thinking" to influence the Bush Administration's China policy through the report, and to use wrong estimates of China's military growth, as an excuse for the U.S. to sell more weapons to Taiwan, the *People's Daily* noted.

More important, the article emphasized the economic realities of the situation. "Still being a developing country, China's per capita GDP is listed at the 127th place in the world," *People's Daily* noted. "Therefore, China's key task is to create peace, an international environment favorable to economic development, and improve the people's living standards."

It also stresses that good U.S.-Sino bilateral relations are important to China, the U.S., and the world situation.

Defense Expert Says China Missiles Are Old News

News that China has received and tested Russian AA-12 missiles "is just a footnote, not front-page news," stated Robert Karniol, Asia-Pacific editor of *Jane's Defence Weekly*, earlier this week. Karniol was reacting to the hyperventilations of U.S. media about this and other alleged "China threats," in tandem with the release of the Pentagon report on the PRC military capabilities.

Russia had agreed to sell these missiles to China back in 1999, as part of a package of Su-30 fighter jets, and does not represent any accelerated "arms race" with Taiwan. Despite that, the anti-China lobby in the U.S. is demanding that Washington deliver AM-120 AMRAAM missiles already sold to Taiwan, but still kept in the United States, for fear of sparking an arms race.

"Every China-watching analyst around knew three years ago in 1999 that the Russians had agreed to sell China a wide range of advanced missiles as part of the Su-30 deal, and that included the AA-12," Robert Karniol was quoted as saying. "That they've received the AA-12 and tested them is interesting but it's essentially a two-sentence footnote, not front-page news." The news was already reported by *Jane's Defence Weekly* in 2000.

The reports in the *Washington Times* and Pentagon responses, that it might release the AIM-120 to Taiwan—"This is where the Washington politics comes in," Karniol said. "That's the whole point of the leak, to put pressure on the Administration to release the AIM-120."

"It's not a matter of China getting some advanced kit and Taiwan being desperate to match it," said Karniol. "It's the other way round. Taiwan already had this capability. China is seeking to match it."

Profile: A.P.J. Abdul Kalam New President Of India

Avul Pakir Jainulabideen Abdul Kalam, better known as "Father of India's Missile Program," has been elected by India's Legislatures as the next President of India. He replaces President K.R. Narayanan, whose term ended this June.

Kalam, son of a fisherman in Tamil Nadu, is 71 years old and an aeronautical engineer from the Madras Institute of Technology. He played a crucial role in the evolution of India's space research, helping develop a series of India's satellite launch vehicles.

As the satellite launch technology evolved into a missile development program, Abdul Kalam formulated a step-by-step Integrated Guided Missile Development Program (IGMDP) and developed an array of missiles including short-range, medium-range, and ballistic. He also played a very important role in India's 1998 nuclear tests.

In 1999, he retired and became Principal Science Adviser to Prime Minister Vajpayee, with the rank of a Cabinet Minister. In 2001, he became the Professor Emeritus to guide research and developmental activities in Anna University in Chennai (née Madras). Abdul Kalam's stated goal in Anna University was to bring 100,000 young Indians into the scientific community by 2020. He is involved in establishing a brain research center for mentally challenged children, and the use of electronic and information technology to benefit hearing-impaired children.

His book, *Vision 2020*, speaks of building an economically and technologically powerful India by the year 2020.

Terrorists Kill 27 Impoverished People in Jammu

The terrorist killing of 27 people over the weekend of June 14 in the poorer section of the city of Jammu has raised fresh

anger against Pakistan, on the issue of cross-border terrorism. Indian Interior Minister and Deputy Prime Minister L.K. Advani was in Jammu to share the people's grief. He was loudly heckled by the slum-dwellers for his failure to protect their lives.

In an op ed in *The Hindu*, C. Raja Mohan, a journalist close to both the British Foreign Office and the U.S. State Department, said the credibility of the Anglo-Americans is at stake over the killings. When British Foreign Secretary Jack Straw and U.S. Secretary of State Colin Powell arrive in India next week, New Delhi will tell them that if Washington and London cannot ensure an end to the cross-border terrorism, New Delhi will have to rethink its military and political strategy toward Islamabad. New Delhi will definitely question the ability of Washington and London to hold Pakistan President Musharraf's feet to the fire.

New Delhi had already reported that Pakistan had increased cross-border infiltration in June, after halting it for most of May. New Delhi will be particularly tough on both Straw and Powell, since both London and Washington have allowed Pakistani President Gen. Musharraf to consolidate all the powers around him. Earlier, the standard excuse of the Anglo-Americans was that Musharraf was not in control of the situation. New Delhi insists that there is nothing in the world that prevents President Musharraf from disbanding the training camps for terrorists in the Pakistani-held part of Jammu and Kashmir.

Cholera Epidemic Follows in Wake of War in Afghanistan

According to reports coming in from Kabul, from BBC and other international sources, a cholera epidemic has broken out in the Afghan capital, and some 6,000 patients have been admitted to Kabul hospitals in the past three weeks with diarrhea-related diseases.

As of July 15, three had died, and Loretto Girardet, the World Health Organization representative in Kabul, said, "Cholera can spread like wildfire if control measures are not urgently implemented." The only measure taken so far is to pump extra chlorine into Kabul's water supply system. However, less than 25% of Kabul's population has access to the war-ravaged sanitation system. Others collect water from wherever they can.

This outbreak is directly related to the U.S. decision to start a war, without any intention of dealing with the economic, humanitarian, or social consequences.

In fact, foreign "donors" shy away from Afghanistan. The brave words of the developed nations do not match their deeds, and it is not the first time that donors have not delivered on their promised contributions. Afghan Reconstruction Minister Amin Fahang told Agence France Presse that the Afghans "were promised \$1.8 billion this year, but half the year is nearly gone and we have only received around \$80 to \$90 million." The interim Hamid Karzai Administration was promised \$4.5 billion over five years at an international donors' conference in Tokyo last January, \$1.8 billion of which was due this year.

This Week in History

July 22-28, 1969

This week we go back a mere 33 years, to the anniversary and immediate aftermath of one of the most exciting achievements of the United States on behalf of all mankind, the first human landing on the Moon. Given the cultural devolution which has occurred since then, it seems we might be talking of a much more distant era, even light years away. But, as the phase shift *away* from the national mission for scientific and technology progress proves itself to be a murderous failure, our recollection of the Apollo 11 mission might serve to turn us back on that successful track.

The Moon landing occurred on July 20, 1969. A team of three astronauts—Buzz Aldrin, Neil Armstrong, and Michael Collins—carried out the flight, as millions of people, in America and around the world, watched or listened to the earth-shaking event. It was Armstrong who was the first human to set foot on the Moon, and who memorialized his action with a statement that should echo proudly in our nation's history: "That's one small step for man ... one giant leap for mankind."

The context for the American Moon landing is usually presented as the United States' response to the Soviet space program, a "space-arms race," if you will. In fact, it was much broader than that. For decades before President Kennedy's May 25, 1961 announcement that America would commit itself to putting a man on the Moon by the end of the 1960s, a group of scientists, many of them from the Leibnizian tradition in Germany, had nourished the dream, and worked on the science, that would permit human space flight. Their outlook intersected that of a grouping of policy makers around the incoming President Kennedy, who understood the necessity for what Lyndon LaRouche would later call a *science driver* for an otherwise languishing U.S. economy.

The U.S. economy was, in many ways, "up against it" when President Kennedy came into office. It was a matter of national concern that the U.S. cities were in a shocking state of decay, that vital sections of national infrastructure, including water and energy, were in desperate need of revitalization, and senior citizens enmired in poverty. President Kennedy's first initiatives on the economy involved the enactment of the Investment Tax Credit (to preferentially tax those who spent more on new plant and equipment), and the setting of goals to resolve pressing problems in the areas of natural resources, education, and health care.

But it was the President's decision to adopt the national mission to "put a man on the Moon, and return him safely to the Earth," which ultimately provided the biggest boost to the U.S. economy, and potentially for the world as well. The President sought to inspire the nation to undertake this great project: "No single space project in this period will be more impressive to mankind, or more important for the long-range exploration of space; and none will be so difficult or expensive to accomplish. We propose to accelerate the development of the appropriate lunar space craft. We propose to develop alternate liquid and solid fuel boosters, much larger than any now being developed, until it is certain which is superior. We propose additional funds for other engine development and for unmanned explorations—explorations which are particularly important for one purpose which this nation will never overlook: the survival of the man who first makes this daring flight. But in a very real sense, it will not be one man going to the Moon—if we make this judgment affirmatively, it will be an entire nation. For all of us must work to put him there."

What was involved was a conscious mobilization of the best scientific potential of the nation. As the President put it, accomplishing the goal would demand "a major national commitment of scientific and technical manpower, material, and facilities, and the possibility of their diversion from other important activities where they are already thinly spread. It means a degree of dedication, organization, and discipline which have not always characterized our research and development efforts."

The mobilization for the Moon landing did not just involve the National Aeronautics and Space Administration (NASA), its contract companies, the national laboratories and universities, and other specialists, however. This effort generated a wave of national excitement about studying science, and *mastering the universe*, which was unprecedented. When the landing was actually accomplished, the explosion of enthusiasm was enormous, and could have provided the basis for a broad technological revolution, required for defeating disease, poverty, and ignorance all around the world.

Instead, while the space program did inject into the U.S. economy the only substantive scientific-technological innovations since the World War II mobilization, the promise of this spurt was not realized. Within one year of the Moon landing, the mass movement around Earth Day—an anti-scientific, pagan celebration of Mother Earth—had become the national rage in the United States, and the monetary/economic decisions associated with enforcing a post-industrial, consumerist society

had begun to take hold. The wave of optimism which the space walk generated, was almost immediately swallowed up. With Nixon at the helm, we were enmired in protests over the Vietnam War, attacks on labor, and budget cutbacks.

It's been 33 years since we had a President who called us to a mission worthy of our nation, one that would stretch our abilities to serve all mankind. As Americans look for a solution to what seems an impossible, and inevitable disaster today, the most appropriate model is that of President Franklin Delano Roosevelt. President John F. Kennedy's bold decision of 1961 should receive honorable mention as well.

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