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THIS WEEK YOU NEED TO KNOW

The Electable LaRouche — by Lyndon H. LaRouche, Jr.

This statement was released on July 26 by the LaRouche in 2004 Presidential campaign committee, which is distributing it nationally in leaflet and pamphlet form.

Some people who ought to know better, exclaim, "But, LaRouche is not electable!" Do not become upset when you hear such foolish things being said. When people say that, they are not actually thinking; it is just another case of a mouth shooting itself off in a knee-jerk, Pavlovian reflex. If that exclamation were true, why did most of the U.S. system spend so much on desperate efforts to prevent my winning, over so many decades? When all that and related matters are considered, especially considering the amount of money spent, over so many years, on trying to stop me, and considering the way the world's monetary-financial system is crashing today, I am, intrinsically, the most electable U.S. Presidential candidate since Dwight Eisenhower.

William Jefferson Clinton was electable, because of qualities which some people, including admirers, described as those of a "political animal." He was so successful a campaigner that he could have elected even an Al Gore to be President, if Al Gore had not been Al Gore. I am a different kind of candidate, the kind sane voters prefer above all others when they wish to rescue their nation from the biggest and deepest financial crash in more than a century.

My job right now, is to save the Presidency of the U.S.A., while George W. Bush is President. Considering what Bush and his Administration are doing to themselves, saving the Constitutional institution known as the Presidency, is no easy chore. The first step toward saving the Presidency is to pull the plug on two U.S. Senators whose combined leading influence today is the greatest single threat to the nation and its Presidency at this time: Senators John McCain and Joseph Lieberman.

In short: To save the U.S.A. from what threatens to become the worst crisis in its history as a Constitutional Republic, we must defend the institution of the Presidency. To that end, McCain and Lieberman, and certain foul connections and interests which they represent, must be removed from the influential roles they have played since the 2000 Presidential primary- and general-election campaigns.

The Presidency

The Constitutional office of President of the U.S.A. is a unique institution. It is of a type imitated in the best periods of the Republic of Mexico, and reflected in some part in France under President Charles de Gaulle. Nevertheless, when seen in the context of our Constitution, it is a kind of Presidency which every prudent nation should wish to have as a model for its own use.

For most of our republic's history, either the personal quality of the elected President, or his performance in office, were

defective. Nonetheless, the Republic and the institution of the Presidency survived such Presidents. In times of great crisis, it was the role of great Presidents, such as Abraham Lincoln and Franklin Roosevelt, which saved the nation, and did this within the Constitutional framework of the Presidency as such. Even if the incumbent President has serious shortcomings, the only way in which to deal with the kind of systemic crisis which represents a threat to the continued existence of Constitutional government, is to use the Presidency as the leading instrument for organizing the passage to safety.

The uniquely superior qualities of our Presidency are expressed by the role of the principal founder of our Republic, Benjamin Franklin, and Franklin's guiding hand in crafting the 1776 *U.S. Declaration of Independence* and the 1787-1789 drafting of the 1789 *U.S. Federal Constitution*.

Unlike those nations of Europe arising from the little new dark age of religious and related warfare, 1511-1648, the best of all European thought, taken variously from the United Kingdom and the Continent, was expressed in the mobilization to establish the first true modern republic in English-speaking North America. Ours was the only constitution established to the present date, which was conceived as governed pervasively by a single set of truly universal principles. Those are the principles summarized in the Preamble of our Constitution, a Preamble to which provisions of the Constitution and our laws are properly subject to the present day, and for as long as this republic shall live.

The principles expressed by that Preamble, are essentially three.

The first, is the universal principle of *perfect sovereignty*, a concept which reflects such precedents as Nicholas of Cusa's *Concordantia Catholica*, superseding Dante Alighieri's *De Monarchia*. From Cusa on, the notion of the perfect sovereignty of a nation, was intermeshed with the notion of a community of principle (*concordantia*) among sovereign nation-states. This was echoed by then-Secretary of State John Quincy Adams' notion of a "community of principle" among the future sovereign republics of the Americas.

The second, is the universal principle of *the general welfare*, as this notion of *agapé*, associated with I Corinthians 13. This use of the term *general welfare* was associated with the English use of *commonwealth* by Sir Thomas More and others in Sixteenth-Century England, and echoed in the notion of a Commonwealth of Massachusetts, as the intention of that term was defined for Massachusetts, by Winthrop and the Mathers. The same notion is sometimes indicated by the term "common good," as expressed by Cotton Mather and Benjamin Franklin on the necessary commitment to do good.

The third is the universal principle of *posterity*. This identifies a notion sometimes associated with the Scholastics' *simultaneity of eternity*. This has crucial, underlying implications beyond the comprehension of all but perhaps a very few among the world's legal profession today. For our purposes here, a simpler approximation will be sufficient. When we make law, or other national policy, it must be our intention to be as accountable to future generations, for what we do, or fail to do, as to our contemporaries. We are not permitted, by principle of law, to be governed by mere contemporary opinion. We must foresee the consequences of what we do for future generations, as President Lincoln expressed this in his Gettysburg Address. We are accountable, first of all, for the future of our republic; but, we must also be concerned for the effects of our practice upon other nations.

Every other part of our Federal Constitution, is subject to interpretation according to the superior authority of the Preamble read as a statement of intention. No contrary interpretation is allowable. No law can be allowed to persist, if it violates a reading of the whole Constitution as shaped by that intention.

Thus, our Constitution is a constitution based on principle, rather than merely a parliamentary system's reliance on a combination of "basic law" and other legislation. Ours is a system of law based on discoverable universal principle, not a merely positive law.

Under our Constitution, contrary to the governments premised upon parliamentary systems, the responsibility for the sovereign state lies entirely within the institution of the Presidency. This Presidency is not the property of the incumbent; it is an institution in which the incumbent President must perform a certain specific quality of function, while he remains in office.

The Presidency is, however, accountable to a Constitutional separation of powers. It is accountable to the law-making body, the Congress, and to the Federal Court, and, in a different way, to the Federal states. While the conflicts between President and Congress are notorious, the most dangerous features of the separation of powers have come, historically, from dysfunctions within a Federal Court which came, repeatedly, much too much under the influence of the financier interest associated with the American Tory current. The repeated failure of Presidents and the Congress, to take the principle of the Federal Constitution into account in the selection of Federal judges, especially those of the Supreme Court as such, has often filled the Federal bench with long-term serving justices who tend more to undermine the Constitution, than serve it.

For a Time of Crisis

Since 1789, the Presidency of the U.S.A. has remained intact as an institution, until now. It has survived scoundrels such as van Buren, Polk, Pierce, and Buchanan, a Ku Klux Klan fanatic, Woodrow Wilson, the follies of Richard Nixon, and so on. Although we have suffered several certified political assassinations of our Presidents, and some justly suspected cases of sudden deaths in office, only once, the Confederacy's slave-holders' full-scale military insurrection, has the continuity of the Presidency been directly threatened.

Until now, the greatest crises within the Presidency itself were those confronting Abraham Lincoln and Franklin Roosevelt. In both cases, the Presidency had been misled, almost without interruption, during a succession of terms under controlled American Tory interests. Such was the situation which challenged President Lincoln and also Franklin Roosevelt. Both conducted a turnabout from Presidential policies which had violated the principles of our Constitution. Both faced the challenge of a terrible war on whose outcome the future existence of our Republic depended. Both, despite the awful burden of war, inspired our patriotic citizens and brought our nation to a higher level of prosperity than any nation of the world had achieved up to that time.

During the 213 years of the Presidency, no other nation-state of the world has a comparable achievement. The British monarchy, of course, is not a sovereign nation-state, but, from long before 1789, until the present day, an Empire, according to the feudalist model of a Venetian imperial maritime form of financier-oligarchical power. The source of our Presidency's virtue on this account, lies in the implication of the universal principle radiating from the Preamble of our Federal Constitution, and thus permeating the intent of the Constitution as a whole.

Within the bounds of checks and balances, it is the Presidency which must decide. It must do this in its capacity as the sole representative of the sovereignty of the Republic. This gives that Presidency great powers, and great stability, far beyond those of any parliamentary government. However, the President himself does not possess those powers; he shares the powers inhering in the continuity of the Presidency itself. He depends, chiefly, on the functions of the various Departments of the Executive Branch. Although an incumbent President puts his personal imprint, more or less strongly, on his Administration as a whole, his powers to act effectively depend, most immediately, on the role of the Departments and the appendages of the Office of the President as such.

At first glance, that description might be misread as merely truisms. However, when we bring the significance of the McCain-Lieberman cabal into consideration, the points I have just listed here have been overlooked by most of those in official Washington thus far.

Where Bush Stands—Or, Falls

President George W. Bush clearly has no understanding of the most crucial features of the growing menace threatening the U.S.A. today. He gained office more through the follies of the Gore-Lieberman ticket, than by popularity, and showed no signs of preparation for any among the crises which would hit him prior to September 11, 2001, or later. Nonetheless, he is President. Therefore, do not babble about possible outcomes of new elections. The present world situation is deadly, economically and otherwise. What must the Presidency do, right now, and how do we get that done under a Bush Presidency?

Who should be the next U.S. President? Obviously, one who has been proven in the crucible of crisis which threatens the Bush Presidency today.

Two general measures must be taken. First, we must shut down the political blackmail currently being exerted on the Presidency by the McCain-Lieberman cabal's influence on the Senate, the Congress as a whole, and the leadership of the major political parties. Second, we must build the kind of bipartisan political infrastructure around the Presidency, which gives the Presidency the policy-options needed, both to extricate itself from its own recent follies, and to develop a new form of collaboration for economic reconstruction with nations growing increasingly restive over the nauseous impact of the influence on current U.S. strategic practice, of desperados such as McCain, Lieberman, Wolfowitz, Richard Perle, et al.

By sinking the future political ambitions of Lieberman and McCain now, we create an otherwise non-existent possibility for a rational form of bipartisan deliberation on options available to the Presidency. We must make that change now; the United States is presently careening toward strategic economic and other global disasters. Change is urgent; the time is now.

McCain is not the worst. His financial connections, the antics of the Hudson Institute, and his personal instability, are serious problems in themselves. However, the danger from McCain comes chiefly through his ties to the Joe Lieberman whom William F. Buckley, Jr. and the far-right *National Review* gang brought into the Senate. It is the combination of known and dark connections between Lieberman and McCain, which has enabled the crew around Lieberman to hold U.S. policy-shaping hostage since the time of Senator Jeffords' retirement from the Republican Party.

My associates and I are currently working, at my prompting, to expose the ugly public record and other relevant facts about the Lieberman-McCain-Buckley-Steinhardt connection. When the broader public discovers what that record shows, as I know that record now, Joe Lieberman will not be qualified for mayor of East Dogpatch, Connecticut. Open the floodgates for new leadership of the Democratic Party, and we will be situated to reshape a bipartisan environment around the Presidency. No one can guarantee success; but, since it is the only live option available in the short term, we must take it.

Sorry, Joe, but it is time to go. Fade away, Joe.

U.S. ECONOMIC/FINANCIAL NEWS

Two Years into the Worst Financial Crash in History

This EIW exclusive was contributed by EIR Economics writer John Hoefle.

With the worst financial and economic collapse in history now acknowledged, even in the mass media, it is useful to recall that Lyndon LaRouche told you it was happening, long before it made the pages of the *New York Times*, and that what is happening is the tragic culmination of a process—economic, political, and cultural—which has been playing out for three decades.

As we go to press, the Dow Jones Industrial Average has dropped 1,677 points (18%) in 11 trading days, falling below the level it hit in the aftermath of Sept. 11, to levels not seen since the panic of 1998. As dramatic as that plunge may be, however, falling markets are but a reflection of a deeper and much more ominous process, the sharp decline of the physical economy of the United States, and the world. The real economy has fallen out from under the markets, which have been artificially propped up by accounting tricks, enormous and unpayable debt loads, and mass delusion on the part of the markets and the public.

Reality is now breaking through the delusion. Some people respond by closing their minds and asserting that the market will come back, "because it always does." A more extreme version of this neurosis is the type who views the market slide as an opportunity to buy, forgetting that the "buy low, sell high" philosophy of J.P. Morgan and his parasitic peers made them rich, not because they could read the markets, but because they could manipulate them. Then there are those who respond to the crisis by reexamining the axioms which caused them to fall under the spell of the delusions, to figure out why Lyndon LaRouche could see so clearly what they did not. It is the latter group upon which the future of mankind depends. - The Shape of Things To Come -

We are now two years into the worst market crash in world history, with the major stock markets already down some 50% from their peaks in 2000. The markets are now back to their 1997-98 levels, but carrying half a decade's more debt, leverage, and speculation. In market terms, we have crossed the peak and are now headed down the back side of a very steep mountain. How far and how fast we fall, is largely a matter of actions taken, or not taken, on fundamental economic policy. As long as the Bush Administration and the Federal Reserve maintain their Hooveresque "the economy is fundamentally sound" stance, we can expect sharp plunges, punctuated by futile attempts to bail out fictitious and unsalvageable market values.

A graphic example of how fast the markets can fall is the sharp plunge in the Dow from a high of 381 in September 1929, to the low 40s in June 1932, a fall of some 90% over two years. The Dow didn't break 100 points again until mid-1933, and did not rise above 300 points until early 1954.

The rise and fall of the Dow since the 1980s bears a striking similarity to the period of the Great Depression, as can be seen in [Figure 1](#). This was produced by matching up the peaks in 1929 and 2000, using weekly closings. The run-up in both periods, reflects the process shown in LaRouche's Typical Collapse Function (Triple Curve), in which financial aggregates rise hyperbolically to the point they become unsustainable, and collapse ([Figure 2](#)).

A similar process can be seen in the rise and fall of WorldCom ([Figure 3](#)), whose stock soared in the late 1990s, and then plunged back to Earth in the largest bankruptcy filing ever.

This sharp rise-and-fall curve can be seen in numerous other stock-market indices, corporate stock charts, and other economic statistics, though it is often disguised by statistical manipulations and fakery. The pattern can already be seen in the stock prices of the energy pirates and the telecom and computer companies, and is nearly fully formed at semi-industrial companies such as General Electric and some of the big financial institutions. Absent the implementation of LaRouche's emergency policies, it is the shape of things to come for the United States and the world.

The comparison between now and the Great Depression can only be taken so far, however, because the danger is much greater now. Not only is the bubble relatively much larger than it was then (the Dow increasing by a factor of 5 in the two decades leading up to the 1929 peak, versus a factor of 15 in the current period), but a much smaller percentage of the population is engaged in farming and manufacturing, and a much higher percentage lives in cities, where they are much more dependent upon urban services and distribution chains. The population is also culturally less prepared to handle the hardships that would flow from a full-scale economic crash. The potential political and cultural breakdowns following a

crash could rapidly lead to a new Dark Age, particularly in the cities. - Vaporization -

The rise and fall of the global stock markets since 1997-98 can be compared to the volcanic eruption of Mount St. Helens, where the top of the mountain simply vaporized; in the case of the market, trillions of dollars of market capital have disappeared. This process is reflected in the Dow Industrials ([Figure 4](#)), the S&P 500 ([Figure 5](#)), and the Wilshire 5000 ([Figure 6](#)), all of which show a similar peaking curve. The process is more pronounced in the S&P 500 and the Wilshire 5000, which are significantly broader indices than the 30-stock Dow.

In recent years, the Dow has become more of a psychological manipulation tool than an economic index, as old-economy companies were cast out and replaced by "New Economy" entertainment, information, and services firms. Today's Dow includes such "industrial" titans as derivatives giants J.P. Morgan Chase and Citigroup; American Express; computer firms Microsoft, Intel, IBM, and HP; Walt Disney Co., Wal-Mart, Home Depot, and McDonald's. Even the firms which do have industrial components have large financial operations; General Electric, for example, makes about half its profit from its financial operations, including a sizable derivatives business.

Because it contains just 30 stocks, the Dow is also relatively easy to manipulate, and the Plunge Protection Team has intervened with increasing frequency when sharp declines threaten to escalate into major panics. Though its actions are semi-secret, the Plunge Team's interventions are easily spotted by the classic "V" pattern in which the market plunges during the morning, then suddenly rebounds sharply during the afternoon.

Such interventions can be effective in dealing with anomalous events within an otherwise sound system, and can even provide a temporary boost during a systemic decline, but no amount of financial stimulus can prevent a systemic collapse when the economic underpinnings of the physical economy have crumbled. There are larger forces at work than can be dealt with by Federal Reserve chairman Alan Greenspan's bubble-blowing apparatus, especially since the money thrown into the bubble is looted from the underlying economy, making the bubble less supportable with every intervention. - Wall of Money -

The nature of Greenspan's dilemma can be seen in the sharp run-up in the markets in the 1997-2000 period, which itself is the result of an attempt to save the system in 1997. In early 1997, British fund manager Tony Dye issued warnings of an imminent disaster in the global derivatives markets, warnings which coincided with reported but downplayed reports of derivatives problems at National Westminster Bank. Dye's warnings echoed those of LaRouche, who had warned since 1993, that derivatives speculation would indeed blow up the system.

In the over-the-counter derivatives markets, it is relatively easy to keep giant derivatives disasters hidden, because no one knows unless the counterparties tell them. Other market participants and the regulators might find out in short order, but the public is rarely told, especially when the problem is serious. Still, actions taken in the wake of a crisis can provide tell-tale signs.

In the case of the derivatives crisis of 1997, the tell-tale sign was the mid-1997 emergence of the so-called "Asian crisis," which was actually a currency-warfare attack on the "Asian Tiger" economies (Malaysia, Philippines, Indonesia, South Korea, etc.) by Anglo-American financial interests. In typical form, the bankers were attempting to postpone their own bankruptcy by stealing from the Asians. This assault continued into 1998, targetting one Tiger after another, generating billions of dollars in loot and sending funds fleeing to the relative safety of the U.S. financial markets. The result can be seen in the rise of U.S. stock markets during the period.

The game came to an abrupt halt in September 1998, when looting-target Russia caught the markets off-guard with a default on its GKO bonds and a devaluation of the ruble. The prospect of a sovereign default—the "debt bomb" policy advocated by LaRouche—sent the financial markets into panic, with investors fleeing speculative paper in favor of more

secure U.S. and German government bonds. This, in turn, caused many derivatives speculators to hemorrhage money, with the markets moving in the opposite direction from their bets. Long Term Capital Management, the giant Nobel Laureate hedge fund, went bankrupt and was bailed out by the banks at the urging of the Fed. Many other derivatives players, some considerably bigger than LTCM, were also grievously wounded.

In response, Greenspan and his central banking peers launched what speculator George Soros later called the "wall of money," flooding the markets with liquidity and promises, and a cover-up of the extent of the damage. Only later, would the players admit what LaRouche said publicly at the time: that the global financial system came within a hair of melting down in 1998.

It was this "wall of money" approach, combined with a liquidity injection under the guise of preventing potential Y2K problems and a regulatory blind eye to "creative bookkeeping," which led to the sharp rise in U.S. financial markets from late 1998 into early 2000.

The attempt to bail out the system in 1997 led to the blowup in 1998, at which point another bailout was launched which blew up in 2000. Since then, global markets have plunged, major corporations have collapsed, pensions and retirement funds have evaporated, and the financial system is disintegrating. But don't worry, because a bailout is in the works. After all, the markets always rebound, don't they? - Systemic Crisis -

The U.S. stock market bubble was actually a global phenomenon, financed in part by huge flows of investment capital into the country. Money poured into the United States during the go-go '80s, though that flow ebbed a bit when the U.S. banking system went under after the real-estate market collapsed (the Fed secretly took control of Citicorp and arranged shotgun marriages for the big banks). To save the day, the financiers unleashed the derivatives market, unpayable debt was rolled over, and financial deregulation escalated. Changes in the tax codes allowed money that previously would have been paid in taxes instead to be gambled in the markets, and corporations used money that should have been invested in their business activities to support their stock price. The bubble soared, but the physical economy suffered, as health care, education, transportation, goods production, and research and development were all choked back in order to feed the bubble.

As the bubble grew, the cash poured in, but that process abruptly reversed after the market peaked in 2000 ([Figure 7](#)). The decline in U.S. stocks led to a decline in the inflow of foreign capital, which in turn further depressed stocks. This process was ameliorated by the strong dollar, because the rising dollar increased the profits of foreign investors as the markets rose, and reduced their losses as the markets fell. However, in 2002, the weakness of the U.S. economy has caused the dollar to fall, including a sharp fall against the euro ([Figure 8](#)).

The process defined by a falling stock market, a falling dollar, and reduced foreign capital inflows spells doom for the U.S. financial bubble, and when the United States falls, the world falls with it. Add to that, the outbreaks of this systemic disease in Japan, Argentina, Brazil, Turkey, and other nations, including growing problems within Europe, and you have a prescription for disaster. - Sinking Banks -

In all the corporate disasters breaking out in the United States, two names keep cropping up with uncanny regularity: J.P. Morgan Chase & Co. and Citigroup. Both were major lenders to Enron, and according to a report by the U.S. Senate Permanent Subcommittee for Investigations, both banks were active participants in Enron's fraud, using offshore affiliates to help Enron disguise loans as energy trades. Both banks lent heavily to the energy-pirate and telecom sectors, and are undoubtedly facing losses in the billions of dollars as those sectors vaporize.

J.P. Morgan Chase is the result of the acquisition of J.P. Morgan & Co. by the bigger Chase Manhattan. The deal, which closed on the last day of 2000, has been an absolute disaster as measured in ordinary—and therefore misleading—market

terms. The market capitalization of the combined Morgan Chase is now less than that of Chase alone on the day before the merger, with Morgan (or at least its equivalent value) having simply vaporized (**Figure 9**). This is not surprising, as it was likely a bankruptcy at Morgan, and perhaps Chase as well, which led to the takeover of the aristocratic Morgan by the commoners at Chase.

The merger bought only a few months more. Indications are that Morgan Chase blew up in mid-2001 and was secretly taken over by the Fed, similar to the way Citigroup's predecessor, Citicorp, was in 1989. During the fourth quarter of 2001, Morgan Chase combined its two lead banks, Chase Manhattan and Morgan Guaranty Trust. As part of that process, \$125 billion in assets and \$7 trillion in derivatives, simply disappeared from the combined banks' books, suggesting major financial problems. Still, with \$24 trillion, Morgan Chase has more derivatives than any other bank in the world, and more than enough to make a spectacular explosion.

Citigroup may be under Fed control as well, as rumors of major derivatives losses circulate. Citigroup is the result of the 1998 takeover of Citicorp by Travelers Insurance, creating what is now the largest bank in the United States, with just over \$1 trillion in assets and \$9 trillion in derivatives. On July 18, Saudi Prince Alwaleed bin Talal, Citigroup's largest individual shareholder, said that he had invested another \$500 million in the bank, raising his holding to \$10 billion. Alwaleed, a nephew of Saudi King Fahd, obtained his initial stake in the bank shortly after the Fed took it over in 1989 and began arranging a bailout. The latest cash infusion raises suspicion that Alwaleed is performing a similar service for Citigroup.

Not to be left out is Bank of America, whose \$620 billion in assets puts it third behind Citigroup's \$1 trillion and Morgan Chase's \$713 billion. Bank of America's \$10 trillion in derivatives puts it solidly on the hot seat in any financial crisis, and it has also loaned heavily to bankrupt companies. Rumors are flying that Bank of America has applied to the Fed for a secret bailout.

If the Fed winds up running the three biggest banks in the country, who's going to bail out the Fed?

Mutual funds, pension funds, and insurance companies are also big holders of stocks and have been hard hit by the decline. There's a lot more damage out there than has been admitted so far, and the hemorrhaging is continuing. - Pompous Pundits -

Those tempted to listen to the siren calls of "recovery" and "sound fundamentals" emanating from the canyons of Wall Street and the nation's capital would do well to recall the comforting assurances given by the pundits and politicians in the period immediately before and just after the crash of 1929:

"Stocks prices have reached what looks like a permanently high plateau.... I expect to see the stock market a good deal higher within a few months," Yale economics professor and President Herbert Hoover adviser Irving Fisher said on Oct. 17, 1929.

"The industrial situation of the United States is absolutely sound," Charles E. Mitchell, chairman of National City Bank of New York (a predecessor of Citigroup), said in early October 1929. "I know of nothing fundamentally wrong with the stock market or with the underlying business and credit structure," Mitchell added on Oct. 22, 1929.

Even after the 13% drop on Black Monday, Oct. 29, 1929, the pundits were urging the public to stay in the market. "This is the time to buy stocks," said market analyst R.W. McNeel on Oct. 30. "This is the time to recall the words of the late J.P. Morgan ... that any man who is bearish on America will go broke.... Many of the low prices as a result of this hysterical selling are not likely to be reached again in many years."

"Financial storm definitely passed," banker Bernard Baruch cabled Winston Churchill in mid-November.

"I see nothing in the present situation that is either menacing or warrants pessimism," Treasury Secretary Andrew Mellon announced on the last day of 1929.

"I am convinced we have now passed through the worst ... and shall rapidly recover," President Hoover stated on May 1, 1930.

Telecom Meltdown Accelerates

Reflecting the ongoing collapse of the global financial/monetary system, the telecommunications and energy sectors accelerated in their meltdown, showing the sham of the "new economy" and the lawful demise of the energy pirates along with deregulation.

WorldCom filed the largest-ever U.S. bankruptcy on July 21, reflecting the blowout of the global financial system, with implications for the U.S. government and "digitized" military, banks, state pension funds, the housing bubble in the Washington, D.C. area, and Northern Virginia's "Silicon Valley East." The nation's second largest U.S. long-distance telephone and data-services company, listing \$41 billion in total debt, and \$107 billion in assets (but which may only be worth \$15 billion), dwarfing Enron's \$63 billion, filed for Chapter 11 bankruptcy protection in New York, an act which will relieve WorldCom of paying \$2 billion in interest payments this year on its debt.

The telecom giant, to keep operating its network, which runs half of the world's Internet traffic, won court approval for a \$2-billion "debtor-in-possession" financing line, with an immediate infusion of \$750 million, negotiated with Citigroup, J.P. Morgan Chase, and General Electric's financing arm, GE Capital. (Note that J.P. Morgan and Citigroup are among WorldCom's chief creditors.) The trio would be the first to be repaid.

The company plans to hire a "restructuring expert," to emerge from Chapter 11 in about nine to 12 months, with less than a quarter of its \$30 billion bond debt load, under a reorganization plan calling for the sale of non-essential assets such as its mobile-phone business, and probably layoffs that have not yet been announced.

WorldCom's creditors are led by J.P. Morgan Chase, trustee for \$17.2 billion in bond debt; Mellon Bank, trustee for \$6.6 billion; and Citibank, trustee for \$3.3 billion.

State pension funds, led by California's Public Employees Retirement System, which filed suit against WorldCom on July 17, have more than \$1.6 billion exposure in WorldCom bonds.

Other leaders of the telecom collapse this week:

*AT&T posted a \$12.7-billion second-quarter loss, the biggest in at least 22 years, amid falling sales, as the largest U.S. long-distance phone company wrote down the value of its cable-TV assets by \$13.1 billion (i.e., they aren't worth as much as originally claimed), the which it plans to sell to Comcast Corp. Sales to residential customers plunged 21.8%, while sales to businesses dropped 3.8%.

*Lucent announced a \$7.91-billion third-quarter loss, and will cut 7,000 jobs by the end of December, as sales plunged 50% compared to a year ago. The biggest U.S. telephone-equipment maker also declined to forecast its loss or revenue for the fiscal fourth quarter, citing "intensifying constraints" on capital spending (for equipment and networks). The ninth quarterly loss, included a \$5.83-billion non-cash charge due to an accounting rule on its deferred-tax assets, which reduce

taxable income in future years.

*Corning posted a \$370-million second-quarter loss, as sales plunged 52%, and is now cutting 4,400 jobs, 400 more than announced in April, as the world's biggest maker of optical fiber closes "several" manufacturing and research facilities, expecting third-quarter sales to fall as much as 15%.

*Avaya reported a \$37-million third-quarter loss, as sales tumbled 29%, and will cut 3,000 jobs this quarter, as the biggest U.S. maker of office phone equipment slashes capital spending.

*Bellsouth posted a 67% drop in second-quarter profit, amid declining investments and sales, and the biggest local phone company in nine Southeastern states expects 2002 sales to fall, rather than increase.

Energy Pirates Join Telecom Meltdown

Natural gas traders are abandoning beleaguered energy companies Williams Cos. and Dynegy, who supply natural gas to utilities and factories across the nation, amid fears either may soon follow Enron in filing for bankruptcy, after they warned investors of weak earnings.

Houston-based Dynegy, struggling with an estimated 30-40% drop in its estimate of 2002 cash flow, said it is now seeking a financially sound partner, in order to survive. The energy pirate cancelled a \$325-million bond offering, because it would not be able to pay the interest premium, after Standard & Poor's downgraded its long-term debt to "junk" status, warning of "tenuous" liquidity and a weakened ability to raise cash.

Tulsa, Oklahoma-based Williams has seen its shares plunge about 80% during the week to near \$1, and its credit cut to junk by S&P and Fitch, on the company's forecast of a second-quarter loss, as it plans to sell assets such as pipelines to raise about \$3 billion.

Wall Street Police Blotter

Citigroup and **J.P. Morgan Chase** are being investigated by the Securities and Exchange Commission for helping Enron hide debt. The two largest U.S. banks played a "necessary role" in **Enron's** fraud, of disguising loans as financing for commodity trades, according to a person familiar with the probe. The energy pirate received more than \$4.8 billion from Citigroup and \$3.7 billion from J.P. Morgan over six years, through offshore entities, booking the payments as cash flow rather than debt.

SEC investigators are pursuing videotapes of discussions between Citigroup's bankers and traders, on how to make the offshore entities appear independent of Enron.

Federal prosecutors plan to issue indictments against two former **WorldCom** executives by July 31, for their role in hiding \$3.85 billion in losses to make the telecom giant appear profitable. "Indications are that charges," including securities, mail, and wire fraud, "will be filed sometime next week" against former CFO **Scott Sullivan** and former controller **David Myers**, according to an unnamed source close to the investigation.

The Department of Justice may also indict WorldCom as a corporate entity, which could drive it out of business.

An indictment of former CEO **Bernard Ebbers** also is likely.

AOL Time Warner stock tumbled 15% to near four-year lows, as the SEC probes its accounting of advertising deals.

Adelphia Communications founder **John Rigas** and two sons were indicted for bank fraud, securities fraud, and conspiracy. The criminal complaint, unsealed in Manhattan Federal court, charges former CEO John Rigas and his sons, Michael and Timothy, of using the nation's sixth-largest cable TV operator as if it were their own "personal piggy bank," looting the company of more than \$1 billion. Each of the Rigases was released on \$10 million bond.

Two other former executives, **James R. Brown** and **Michael C. Mulcahey**, were also arrested and named in the complaint.

If convicted, the Adelphia defendants would face at least 15 years in prison.

The Securities and Exchange Commission filed a civil lawsuit in U.S. District Court, seeking restitution and fines, and to bar the defendants from ever heading a company.

AOL Time Warner is facing a "fact-finding" probe by the Securities and Exchange Commission into "unconventional" advertising deals at AOL that inflated revenue by \$270 million during 2000-2002, to help meet analyst earnings estimates for three quarters in 2000-2001, as reported in the *Washington Post*.

Even Mass Media Catching On - - To Systemic Nature of Crisis

In covering the collapse of the telecom sector, *Los Angeles Times* staff writers Heltzig and Peltz raised questions July 24 about the systemic nature of the economic/financial crisis, and the role of deregulation, which is uncharacteristic of the overall fantasy-ridden nature of the paper's coverage of the ongoing financial meltdown. In the opening paragraph, they write that "attention is turning to whether the root of the disaster lies in the sweeping deregulation set in motion in the mid-1990s that was expected to usher in a golden age of competition.

"Prices would fall, service would improve, and everyone would make more money. Anticipation ran high that the industry was on the verge of explosive growth, fueled by the still-nascent Internet, wireless phones, satellite television, and other telecommunications services that would keep the public in a state of constant communication. Much of that vision was flawed, leading to more than \$2 trillion in investment, much of it squandered in ways that may cause lasting economic damage."

After reviewing some of that damage, they add, "The telecom bust adds support to critics' contentions that deregulation has failed to live up to its promise in this industry, as it did in airlines, banking, energy, and cable television.

"In each of those, the original expectations that huge numbers of new companies would increase competition, improve service, and reduce prices have given way to the reality of oligopolies controlling large chunks of the marketplace."

Journal Moots 'FDR Reflex' in U.S. Population

The *Wall Street Journal-Europe* hinted at a "Roosevelt reflex" among the U.S. population, as it faced a new Hoover-style economic crisis. This phenomenon was noted, and reported on, on the front page of the *WSJE* July 24, in a column by Gerald F. Seib and John Harwood, titled "As Their Faith Wanes, Americans Grow Eager for Reform of Markets." Subtitles are: "Poll Reports 70% Distrust Brokers, Corporations; Angry, Not Desperate," and "Glancing Back at the New Deal." The U.S. edition ran the same front-page article, under different headlines. The article begins:

"High-profile companies go bust. Business leaders fall into disrepute. The stock market crumbles. Finally, the political system convulses, rewriting the rules the corporate world must follow.

"All that happened to the U.S. during the early 1930s, when a shattered economy, a devastated stock market and revulsion toward the business class produced sweeping changes in the way business and finance were conducted.

"Now America faces the possibility of a similar wave of reform.... [T]he country is beginning to reappraise the celebration of free-market forces that marked the 1990s. And early political tremors of public opinion hint at greater fallout to come."

The article quotes a WSJ/NBC poll showing that 70% the population doesn't trust the word of stock brokers and corporations. It also quotes AFL-CIO president John Sweeney, saying it is the best chance in years "to fundamentally change the way corporate America works." The authors continue:

"The 2002 market crash could turn into a historic turning point in American politics and regulation if two significant changes occur.

"First, the current crisis of confidence in business and markets would have to turn into a broader economic decline. When Franklin Roosevelt embarked on the New Deal, one in four Americans was out of work—an unemployment rate four times that of today [if only thanks to the ingenuity of the government's statisticians]. The spread of stock ownership means Main Street is feeling Wall Street's pain, but so far, that pain has produced public anger—not desperation.

"Second, the economic shock would have to realign the nation's even balance of political power to give politicians the clear mandate for change that Franklin Roosevelt and his Democratic Party felt. That hasn't happened yet, the WSJ poll shows...."

The new political alignment under FDR produced, "in rapid order, the Securities and Exchange Commission, the Glass-Steagall Act separating the banking and investment businesses, the Utility Holding Company Act restricting the centralization of utility control, and reform of the Federal Reserve. It was the most sweeping change ever in the way America does business, and it created the regulatory framework that still governs business today ignoring that it has been torn apart by the conservative revolution."

GE To Cut Turbine Output, Slash Jobs

General Electric Power Systems announced July 23 it will cut turbine output and axe 2,500 jobs, conforming to its expectations of an 80% drop in gas-turbine shipments over the next two years. The radical reductions are planned for the next nine months, and will end 1,000 jobs in Greenville, S.C.; 1,000 in Schenectady, N.Y.; and 500 elsewhere.

GE Power Systems (based in Atlanta, with 36,500 workers worldwide), the biggest maker of gas turbines, was in on the ground floor of advanced "jet" turbine designs for natural gas-fueled electricity plants—a mode of power generation involving good engineering for a bad downshift of using natural gas, instead of nuclear and high-tech coal, for baseline generation. This was part of the Enron-omics-era of deregulation. Now comes the phaseout of gas-turbine production itself. Earlier in July, Caterpillar Inc., a large maker of construction equipment, and industrial gas turbines, reported a 25% decline in net income (over year earlier) for its second quarter, because of the sharp drop in electric power generation equipment orders. GE said July 23 that it will up output of turbine blades for windmill energy.

Housing Bubble: Home Sales Buckle in June

Sales of existing homes sank 11.7% in June over May, in the largest one-month drop since April 1995. Sales of existing homes make up 85% of the U.S. home market. For the first five months of 2002, sales of existing homes had been going at a record pace, but this trend came to an abrupt halt in June.

In conjunction with Fannie Mae, Federal Reserve Board chairman Alan Greenspan has been pumping money into the housing market, in order to keep the U.S. economy from going into free-fall. Now, Freddie Mac reports, the average rate on a 30-year fixed mortgage has fallen to 6.34%, the lowest it has been in decades. This is to induce households to either purchase homes or refinance the mortgages on their existing homes. Speaking before the Senate Banking Committee July 16, Greenspan boasted that his money-pumping has created "very low levels of mortgage interest rates," which has been instrumental in "buoying spending." Greenspan said, "the very low level of mortgages interest rates ... encouraged households to purchase homes, refinance debt ..., and extract equity from homes to finance expenditures. Fixed-mortgage interest rates remain at historically low levels and thus should continue to fuel reasonably strong housing demand and, through equity extraction, to support consumer spending as well." But were these low interest rates to lose their effectiveness, the housing bubble, and the overall U.S. financial bubble would unravel.

WORLD ECONOMIC NEWS

Top London Analyst Sees 'New Geometry in World Financial System'

The situation on the international markets is so bad, that in addition to the U.S. "plunge protection" operation, other governments and central banks outside the U.S., will now engage in "covert" direct interventions in the stock markets, a senior European financial source told *EIR* July 25, the day before the "great rally" got underway on Wall Street last Wednesday.

An example of the type of interventions to be made, he said, is what was done openly on the Hong Kong markets during the Asia crisis in 1997-98.

"The core issue is that there is a systematic meltdown of one big corporation after another," he said. "The system can handle even one or two more Enrons, or Worldcoms, or what is going to hit with AOL Time-Warner, *but just one* big U.S. bank going, will break the dam."

It is only possible to understand what happened on July 24, by looking at the events since the end of last week, he said.

This situation is being intensely discussed "at the top" in political-financial emergency consultations since the end of last week.

A rundown:

*Friday, July 19: J.P. Morgan Chase issues an internal document, which said that circumstances are arising in which a full-scale activation of the Plunge Protection Team, including international activity, might be necessary.

*Sunday, July 21: Japanese Finance Minister Shiokawa makes a statement on television, that the U.S. ought to do something about its stock markets.

*Monday and Tuesday, July 22-23: Rumors about the accounting fraud and liquidity problems at Morgan Chase and Citibank escalate. These reach a crescendo on Wednesday, leading to panic.

As of noon on July 24, the J.P. Morgan top management organizes an international telephone conference, in an attempt to reassure the "big players" that Morgan is not about to go under. This has no effect.

Then, as has been leaked, Alan Greenspan, Treasury Secretary Paul O'Neill, and SEC chief Harvey Pitt hold an emergency meeting. They agreed that O'Neill will stay in the U.S. and not go to Latin America, as a signal that the U.S. government will not allow one of the big banks to go under—because this would lead to the *immediate* breakdown of the whole system.

The other G-7 nations are then told that they have to help, and they do.

London Times: 'Market Mayhem Stuns Investors'

Under the above banner headline, the usually staid *Times* of London outlined many of the elements of the international operations to try to prop up the financial system. "Wall Street surges back as Blair and Bush move to end panic," the *Times* continued in a subhead. "Shares in New York recovered to make their second biggest gain ever last night after world leaders joined forces to try to rebuild investors' shattered confidence," the article began.

"A near-500 point rise on Wall Street raised hopes of a strong rebound in London when trading resumes today, hoisting the FTSE100 from yesterday's six-year low.

"Downing Street led a drive by politicians and central bankers on both sides of the Atlantic to stem further market panic in a day marked by extreme volatility on financial markets. The White House, a top Bank of England official, and European leaders joined the moves to try to bolster confidence and reassure investors that the global economy would weather the stock market storms.

"In the U.S., rumours of emergency action by the Federal Reserve helped Wall Street to stage its startling recovery after another plunge at the start of business. The Dow ended up 488 points, a recovery of more than 8% from the day's lowest point."

The *Times* article listed the "chorus of soothing noises" from both sides of the Atlantic, including Bank of England chief economist Charlie Bean; the official spokesman of PM Tony Blair; and President Bush's spokesman Ari Fleischer.

EU Commission president Romano Prodi proclaimed from Brussels: "If you ask me, do I see in front of us a 1929, I say no. No, because the fundamentals are good." (But then he added that financial strengthening is required.)

Frits Bolkestein, EU Internal Markets Commissioner, said that he saw no symptoms of U.S.-style accounting problems in Europe.

Finally, Bank of France head Jean-Claude Trichet said that the slump on markets is looking "overdone."

Bloodbath on European Markets Continued Despite Wall Street 'Rally'

While the U.S. Plunge Protection Team went into high gear to send Wall Street markets soaring July 24, the bloodbath on the European markets continued across the board, with the major markets collapsing between 2.61% and 5.34%, and smaller markets diving by up to 7.42%, as of 5.30 p.m. CET. The French CAC40 index fell by 2.98%, Germany's DAX index was down 4.38%, Italy's MIBTel 2.61%, and London's FTSE 5.34%. Denmark's KFX fell 6.16%, Finland's HEX 5%, the Dutch AEX 5.06%, Norway's OSEAX 5.59%, Sweden's SXAXPI 5.71%, and Russia's MTMS fell 7.42%.

The reasons offered by analysts were profit warnings or reported losses, among several of the largest industrial corporations, in addition to the continuing woes in the financial and insurance sectors. The figures below were reported at about noon, when the decline had not yet reached its climax: Industrial stocks:

*ABB, Europe's largest electrical-engineering company, slid 18%, after reporting a loss for the second quarter;

*Akzo Nobel, the world's largest maker of coatings, dropped 12%;

*Serono Sa, Europe's biggest biotechnology company, declined 15%;

*Siemens, Germany's largest engineering company, fell by 4.2%;

*Bayer, Germany's largest drug-maker, fell by 5.6%.

Financial:

*Axa, Europe's second-largest insurer, fell by 16%;

*Prudential, the UK's second-largest insurer lost 15%;

*Credit Suisse lost 8.1%;

*Commerzbank lost 11.8%.

In order to illustrate the mood among investors, the German newspaper *Handelsblatt* carried a picture taken from the Alfred Hitchcock movie "Psycho," of Janet Leigh screaming as she is about to be murdered in the shower.

Insurance Companies Sink as Stock Markets Crash

Within the past 28 months, about \$7.7 trillion in paper value has been eliminated in U.S. stock markets, about \$5 trillion in European exchanges, and a few more trillions of dollars in Asian markets. The big insurance companies—in particular, the life insurers, which, in Europe, play a role comparable to pension funds and mutual funds in the U.S.—have invested huge amounts of their customers' money in stocks. In Britain, insurance companies own one-fifth of all stocks. One-third of all German stocks are held by insurance companies. Now they are facing big losses, are no longer able to maintain the yields which they promised to customers, or are even going bankrupt.

Regulations require insurance companies to sell stocks once they have fallen below a certain level, thereby further increasing market turmoil. Furthermore, customers are now cancelling their contracts, forcing the insurers to sell assets to pay them out. As the *Daily Telegraph* reported July 21: "Emergency measures to prevent panic selling by private investors of life policies, pensions, and other equity-related products have been imposed by leading financial services groups." In an "unprecedented move," several insurers increased their penalties on early redemptions last week to 20% or more.

Aegon NV, the second-largest Dutch insurer, and Fortis, Belgium's biggest banking and insurance company, last week admitted a sharp decline in business due to the ongoing market crash. Many more will follow. In early July, the German financial supervisory agency BaFin had to take over a smaller German life insurance company, threatening retirement

payments for 300,000 customers. According to a report in the German economic daily *Handelsblatt*, the German life-insurance sector is right now preparing for "worst-case scenarios," that is, creating a mutual "pool" for financial rescue operations once one of the large insurers goes under.

On July 22 alone, stock prices of Aegon and Zurich Financial plunged by 17%. Fortis, Axa SA (France), and Rentenanstalt (Switzerland) each lost 10%. Allianz and Munich Re of Germany fell 7% on July 22, and another 7% in early trading the following day. Stock prices of Allianz have already lost two-thirds of their value since the year 2000 peak. MLP, the financial services company which recently made it into the DAX index of Germany's 30 largest corporations, crashes to a new historic low every single day, and on July 22 was 85% below its year 2000 peak.

Japan's Turn, as Creditor, To Make Demands on Washington

A July 23 editorial entitled "WorldCom Failure" in Japan's leading daily *Asahi News* states that the WorldCom and other bankruptcies piling on the Enron disaster show that the entire U.S. financial system is out of control and a threat to the world. So now, "it's Japan's turn to urge the U.S. to clean up its act.... The U.S. government has repeatedly urged the Japanese government to 'promptly' sort out the non-performing-loans problem," they write. "It is now Japan's turn, as the United States' biggest creditor, to call on the Americans to 'promptly' solve their problem."

Seen together with Bank of Japan Governor Masaru Hayami's veiled threats July 12-17 to dump the dollar, and the fact that Japan is sitting on \$1.5 trillion in net foreign assets, including at least \$1 trillion in U.S. Treasury debt, you might suspect there is a phase-change taking place.

"The danger of the [U.S.] stock markets' current instability spilling over into the corporate and banking sectors, in turn, sparking a financial crisis, cannot be ruled out," *Asahi* states, without naming the Morgan Chase-Citibank crisis which *EIR* has publicized widely in Japan. Since other nations will now be asked to bail out the U.S., they go on, we should have some say.

"The picture of the stock markets in the United States is bleak. The large fall in the share prices ... can be attributed to the back-to-back revelations of improper accounting at American companies and the resulting loss of investor confidence. WorldCom, which cooked its books on a massive scale, is typical of such fraudulent accounting practices.... Not only the stock markets, but the American economy as a whole, should be regarded as having entered a period of adjustment," a euphemism for depression.

As a result the whole world financial system is on the edge, they warn, and "Share prices are likely to remain jumpy all over the world for some time to come."

UNITED STATES AND CANADA NEWS DIGEST

Bush Administration Wants Wider Domestic Role for U.S. Military

The July 21 *New York Times* reports that the Bush Administration has asked the Justice and Defense Departments to review existing law pertaining to domestic use of the military.

In fact, buried in "The National Strategy for Homeland Security" released on July 16 by the White House, was a call for review of the Posse Comitatus law, which prohibits military involvement in domestic law enforcement. The relevant passage reads:

"Review authority for military assistance in domestic security. Federal law prohibits military personnel from enforcing the law within the United States except as expressly authorized by the Constitution or an Act of Congress. The threat of catastrophic terrorism requires a thorough review of the laws permitting the military to act within the United States in order to determine whether domestic preparedness and response efforts would benefit from greater involvement of military personnel and, if so, how."

These developments confirm the warning issued by Lyndon LaRouche on May 17, in his "Northern Command & Rubicon" statement, in which he warned that the NorthCom proposal was a preparation for dragging the Pentagon across the Potomac to create a military dictatorship and rendering the President at best a figurehead.

Both Homeland Security Director Tom Ridge and Defense Secretary Donald Rumsfeld were rather more cautious than the White House overall appears to be, with respect to revision of the Posse Comitatus law. On Fox-TV, on Sunday, July 21, Ridge said that he thinks it is very unlikely that we would give arrest power to the military, but that, if there's talk about using the military, then there should be a discussion about Posse Comitatus. A few hours later, on CNN, Ridge was more definite, saying that the idea of giving arrest power to the military "has not been discussed," and even if it is discussed, this doesn't mean it would be done; he added that it "that goes against our instincts as a country to empower the military with the power to arrest."

In contrast, Sen. Joseph Biden, also appearing on Fox, said "it is time to revisit" the question of the military exercising police powers.

At the Pentagon briefing on July 22, Secretary of Defense Rumsfeld told reporters, "If the President or the National Security Council or the Homeland Security Council feel it's appropriate to review something, why, it would get reviewed, and then we'd all participate ... but I don't think anyone should hold their breath waiting for changes in Posse Comitatus."

Chairman of the Joint Chiefs of Staff Richard Myers said he agreed with Gen. Ralph Eberhart, the nominee to head Northern Command, that "we ought to look at all the regulations and laws to govern the way we protect American citizens, but at the end of the day ... it's not clear to me that there's any need to change Posse Comitatus. It's not been pointed out what the advantages to doing that would be."

Say Rumsfeld May Take Top Homeland Security Post

"Rumsfeld may quit the Pentagon to take on top homeland post," is the headline of an unsigned article on the "Open Secrets of the Hill" page of *The Hill* newspaper of July 24. The piece reports that White House insiders think Bush may ask Defense Secretary Donald Rumsfeld to take command of Homeland Security. Rumsfeld would combine "deep managerial skills, with an insider's knowledge of the bureaucracy. He would also be quickly confirmed." Under this scenario, they say Rumsfeld's Pentagon post would go to Paul Wolfowitz. "Bush leans toward asking Ridge to stay on as a top Presidential adviser," while Rumsfeld whips together a cluster of disparate agencies. Ridge would focus on keeping the FBI and the CIA, which will not be under Rumsfeld's wing, in the tent, and would be the counterpart on the domestic security front to Condoleezza Rice.

An *EIR* source brought this possibility up independently, as something he had heard from one of his own sources.

House Votes To Create Commission To Study Sept. 11

The House of Representatives voted July 25 to create an independent commission to study the Sept. 11 hijackings. The commission was approved 219-188 as part of a bill authorizing intelligence spending increases. All but four Democrats

supported the concept, joined by 25 Republicans. Chief sponsor is Rep. Tim Roemer (D-Ind), a member of the House Select Intelligence Committee, which is already investigating the attack. Roemer had sought a sweeping review of events surrounding the attacks, but because the commission appeared in the form of an amendment to the intelligence bill, its scope will be limited to intelligence issues.

A 10-member panel would be appointed by Congressional leaders, and would include two relatives of the victims. Grandstanding Senator Joe Lieberman is the sponsor of a Senate counterpart. "This obviously gives his bill momentum," a spokesman said.

As Lyndon LaRouche has pointed out, the very premises of such a commission are flawed; LaRouche scored the attempt to pin on the Administration blame for Sept. 11 events which were not, in fact, terrorist attacks by Osama bin Laden, but rather part of a coup attempt against the Bush Administration by Utopian elements within it and within and around the U.S. government and military.

***New York Post* Hails Sharon's Murders of Gaza Innocents**

Sir Rupert Murdoch's *New York Post* on July 24 celebrated Ariel Sharon's Nazi tactic of dropping one-ton bombs on crowded housing projects in the middle of the night—the attack on Gaza that claimed the lives of many innocents, including at least nine children.

"The War on Terror scored a huge victory early yesterday" with the killing of Hamas leader Salah Shehada whom Sharon was targetting, the *Post's* lead editorial proclaimed. "Yes, some 14 civilians also died in the attack, which is a shame," but the world should be praising Israel, not attacking it. The *Post* chided President George W. Bush for criticizing the hit as "heavy-handed": "America should be so heavy-handed with *its* terror targets.... So, hats off to Israel for its good aim. Meanwhile, there *is* a lesson here: As Washington and Jerusalem prosecute the war against those who attack innocents, everyone else better get out of the way."

An accompanying op-ed by neo-conservative proto-Nazi John Podhoretz went to elaborate lengths to argue that the Israelis who ordered this atrocity cannot be tried for war crimes, and insisted that the only person with any responsibility for the killing of civilians, was Salah Shehada. He's responsible, because he chose to live in an apartment house in Gaza City with his family and hundreds of others around him, as human shields. "May he rot in Hell," wrote Podhoretz.

Pentagon and State Department Teams Head Out To 'Sell' BMD Program

According to the *Washington Times* July 24, two teams of Pentagon and State Department officials are going to start a tour of 12 countries to "sell" President Bush's Ballistic Missile Defense program, and the end of the ABM Treaty. Visits to Canada, Japan, and South Korea are also planned for later in the summer. The *Washington Times* does not specify who is going, but it's the first such diplomatic initiative since the U.S. formally announced the end of its participation in the Anti-Ballistic Missile Treaty, and purportedly the other nations are going to be briefed more specifically on U.S. BMD plans. One team will go to London, Oslo, Copenhagen, Berlin, Prague, and Brussels; the second to Paris, Madrid, Rome, Warsaw, Budapest, and Ankara. A spokesman for the Arms Control Association (which opposes BMD) says the Administration is "feverishly" trying to sell BMD, but claims that this "energetic effort" will make it difficult to dissuade countries such as India which are also interested in missile defense. Israel's potential sale of the Arrow Weapon System to India requires U.S. approval.

***New York Times* Items Feature a Certain Drift...**

Three allied items in the July 25 issue of the *New York Times* feature a certain political drift. Namely, a lengthy front-page tribute to Colin Powell, entitled, "Embattled, Scrutinized, Powell Soldiers On"—arguing that Powell will not give up his fight or his outlook, that he is the only member of this Administration with a world reputation; that he outshines his President and the other Cabinet members; that he is worshipped by everyone at State, etc. The article gives the clear impression that Powell may well turn out to be the last one left standing, in the current factional brawl.

A p. 3 article quotes State Department spokesman Richard Boucher as saying the U.S. is watching and monitoring Israeli actions involving use of U.S. weapons, for possible violations of the Arms Export Control Act, when they are used not in self-defense, but to kill civilians.

Finally, a lengthy op-ed by Brookings senior fellows Michael E. O'Hanlon and Philip H. Gordon, is entitled, "Is Fighting Iraq Worth the Risks?" Such a war would be the most momentous use of U.S. force since Vietnam, and would dominate the remainder of Bush's term. Experience suggests Iraq can be contained without war, they argue. Advocates of such a war minimize the risk, comparing it to Afghanistan, but in fact, it will probably be urban warfare, with substantial cost in Iraqi and American lives. "American military casualties could number into the thousands." We might have to occupy Iraq for a decade or more. "There is a case to be made that these costs are worth sustaining. But if so, we need Mr. Bush to make it. He has not yet done so."

Congressional Opposition to Iraq War

Eighty members of the House, so far, have signed a letter demanding Congressional debate and vote, before any attack on Iraq. The letter is bipartisan.

Meantime, on Sunday, July 21, amidst a continuing big push by the neo-cons for the Iraq war, Senators Joseph Biden (D-Del), and Carl Levin (D-Mich) opposed the war, and said Bush has neither the strategic intelligence necessary, nor the authority under the Congressional "war on terrorism" resolution, to carry out the war.

Levin, appearing on the CNN "Late Edition" show of Wolf Blitzer, said that "before's there's any kind of an attack, there's got to be a reason for it, which is either that he [Saddam Hussein] participated in 9/11 or that he is on the verge of using a weapon of mass destruction." Levin said that in terms of WMDs, "As a matter of fact, the intelligence community ... thinks he would not initiate it [a WMD attack]" and actually, a U.S. attack might trigger Saddam to make an attack that he would not have done otherwise. Levin also denounced "the President's rhetoric" as simplistic, saying, "There are a lot of real problems here, and the first ones to recognize that, the problems that an invasion would cause, are the uniformed military leaders, who are very cautious, much more cautious than the President's rhetoric about this issue."

House Backs Bush on Issue of Civil Service Protections

The House of Representatives July 26 voted to give President Bush the authority to waive civil service protections for employees of the Department of Homeland Security. The vote of 229 to 201 came on an amendment sponsored by Rep. Chris Shays (R-Conn) that allows Federal employees to keep their union representation, unless the President "determines that application would have a substantial adverse impact on the Department's ability to protect homeland security."

The House vote came on the heels of repeated threats by President Bush to veto the Homeland Security bill if it didn't include this feature. "I'm not going to accept legislation that limits or weakens the President's well-established authorities to exempt parts of the government from Federal labor management relations statutes, when it serves our national interest," Shays declared.

On the Senate side, the Governmental Affairs Committee, chaired by Joe Lieberman (D-Conn) approved its bill by a vote of 12 to 5. The Committee brushed aside Bush's veto threat, and sent the bill to the Senate floor with full civil service protections for employees of the new department.

Lieberman said "There are differences" with the White House, "but I would say that are at the margins. This bill gives the President about 90% of what he asked for."

Pope Tells Youth How To Achieve True Happiness

During his address July 25 in Toronto, at the welcoming ceremony for World Youth Day, Pope John Paul II, seeming restored in health, and in good spirits, addressed 400,000 young people from around the world.

"I have felt the deep longing that beats within your hearts: you want to be happy!" said the Pope. "Many and enticing are the voices that call out to you from all sides: Many of these voices speak to you of a joy that can be had with money, with success, with power. Mostly they propose a joy that comes with the superficial and fleeting pleasure of the senses."

"People are made for happiness," continued the Pope. "Rightly, then you thirst for happiness.... True joy is a victory, something which cannot be obtained without a long and difficult struggle. Christ holds the secret of this victory."

"The Sermon on the Mount marks out the map of this journey," said the Pope.

"God became man—the Fathers of the Church tell us—so that men and women could become God. This is the decisive turning-point, brought about in human history by the Incarnation."

Referring to Sept. 11, 2001, the Pope said: "With your gaze set firmly on Him, you will discover the path of forgiveness and reconciliation in a world often laid waste by violence and terror. Last year, we saw with dramatic clarity the tragic face of human malice.... But today, Jesus's voice resounds in the midst of our gathering. His is a voice of life, of hope, of forgiveness, a voice of justice and peace."

LaRouche: 'Hoover II' Has Happened!

Presidential candidate and economist Lyndon H. LaRouche, Jr. on July 21 issued a conference theme and invitation to a Labor Day conference, under the title "'Hoover II' Has Happened! The Global Financial Crash of 2002."

Wrote LaRouche, "You are cordially invited to attend what will prove to be one of the truly historic events of the 21st Century, the two-day, Labor Day weekend conference, to be convened in Northern Virginia during August 31-September 1.

"Many will consider it ironical that although this meeting is not being convened in Wall Street, or at the White House, it is being held within the financially doomed 'Silicon Valley East,' the Washington, D.C. to Dulles Airport beltway.

"There are four leading issues to be addressed in the keynote address to be delivered at the opening of this conference.

"First, that the biggest U.S. financial crash in a century came as no surprise to those literate adults in Europe, the Americas, and in nations whose head of state is the Queen of England, among whom my long-range forecasts have circulated, and have been hotly debated increasingly over more than thirty years, and, in more recent decades, among politically literate circles of Asia and Africa as well.

"Second, what was the cause of the mass-media-led mass hysteria which caused people to continue to invest their savings in a system even after they had been warned it would crash as it is doing now?

"Third, since the only model for getting out of a new 'Hoover Depression' is a new 'Franklin Roosevelt Recovery,' why are leading people, and others who also ought to know better, still refusing to move into a revival of the Franklin Roosevelt-led methods by which the Americas and postwar Western Europe were rebuilt, out of the previous world depression and war, over the course of the 1933-1964, pre-Indochina War period?

"Fourth, since this crisis must be addressed immediately, under the present Presidency, what can and must be done to reorganize the U.S. political-party system to overturn those political habits of recent decades which have misled the U.S.A., step by step, election after election, down the road to the present catastrophe?

"This new 'Hoover Crash' brings us, this momentous Labor Day weekend, to a fork in the road of world history. What do you do, when, all around us, political and other sorts of 'business as usual,' is bankrupt?

"There is a nominal fee of \$50 for conference registration, and pre-registration is required. Please contact your LaRouche movement representative to pre-register."

IBERO-AMERICAN NEWS DIGEST

Brazil's 'Risk Rating' Soars in Global Crisis

Brazil's "country risk" (a rating issued by the teetering U.S. bank J.P. Morgan Chase) has hit 17.71%, as capital flees Brazil. That's as high as the rating ever went during Brazil's 1999 financial blowout, which forced the free float of the real, Brazil's national currency. Now the real is sinking daily, and on July 26, went over 3 reals to the dollar.

By Bloomberg financial wire's calculation, Brazil's public debt increases by U.S. \$1.4 billion with every percentage point of devaluation of the real, because around 40% of the debt is indexed to the dollar. Thus, the director of economic research of the Central Bank, Altamir Lopes, reported July 25 that, in the month of June, total government debt rose 4.6%, largely because of the 11% devaluation of the currency that month. He put total debt at nearly a trillion real at the end of June, or U.S. \$337 billion—equivalent to 78.1% of GNP, and an increase of 22% of the debt over June 2001, a jump of over one-fifth in one year!

Panic over the global collapse, combined with the statement by IMF Deputy Director Anne Krueger that no new IMF loan is under negotiation for Brazil (i.e., that the \$10 billion creditors hoped the IMF would kick in to bail them out won't be there), has accelerated capital flight. People and companies with dollar debts coming due, are buying dollars now, convinced that today's dollar, as expensive as it is vis-à-vis the real, is cheap compared to what is coming. The Central Bank estimates that \$10.6 billion in private debt comes due by Dec. 31, with nearly a billion of it due next Monday (July 29). Others are simply getting out of real investments outright.

Sounding like J.P. Morgan Chase executives, Central Bank officials felt compelled to offer public assurances that Brazil is "solvent." "There's no chance the debt gets unmanageable," Altamir Lopes babbled July 28; as soon as the currency strengthens, the debt will fall.

Freeze on Bank Deposits May Be Uruguay's Next Step

A bank deposit freeze may be the next step in Uruguay, given the non-stop hemorrhaging of the banking system, to the tune of \$40 million a day. The country *lost 27% of its foreign reserves in the first 16 days of July*, and nearly 70% for the year. Uruguay now has less than U.S. \$1 billion in reserves left. The talk now is that unless more aid comes from international lenders—the \$500 million recently sent by the IMF lasted two weeks—Uruguay will have no option but to restructure its debt, or go with the deposit freeze.

A J.P. Morgan Chase executive told *Clarín* July 25 that "at the rate at which deposits are being withdrawn, the government will have to make a decision.... It will have to restructure the debt, or deposits [freeze], or go with a huge fiscal adjustment." The country risk rate is now at 25%, and investors are talking openly of default. Holders of Uruguayan bonds are dumping them as quickly as they can, such that the widely traded bond that matures in 2003 has lost a third of its value in the last few days.

On July 22, former President Luis Lacalle, head of the National Party which is the minority partner in the coalition government of President Jorge Batlle, demanded the resignation of Finance Minister Alberto Bension, and set off a panic in this already highly unstable nation. Bension resigned the next day, followed by the head of the Central Bank. The new Economics Minister is veteran Senator Alejandro Atchugarry, one of the President's close political collaborators.

Chile 'Is Not Argentina,' Says Foreign Minister

"What happened to Argentina won't happen to us," vowed Chilean Finance Minister Nicolas Eyzaguirre, in an interview published in the daily *El Mercurio* of Santiago on July 21. The former IMF official is increasingly the object of the private sector's ire, as he tries to explain why the economy of this country touted internationally as *the* success story, is not doing well. He says it's just part of an "international cycle."

Last week, the Central Bank cut interest rates for the fifth time this year (the tenth since August 2000), from 4% to 3.25%. Eyzaguirre has repeatedly promised that rate cuts would benefit demand, but just the opposite has occurred. Demand fell 0.7% in the second quarter of 2001, 0.2% in the third, and 4.9% in the fourth. In the first quarter of this year, it fell another 2.5%. In June, supermarket sales dropped by 3.9%. Moreover, economic growth through May of this year was 1.9%, while the government had forecast 3%. Unemployment stands at 9.1%, and is expected to go to two digits in the winter months (in the Southern Hemisphere), the fourth consecutive year this has occurred. Following last week's interest-rate cut, Eyzaguirre projected a 2002 growth rate of between 2.5% and 2.9%, down from his earlier 4.5% projection.

An additional factor of instability is the peso, which has depreciated 4.5% this year, which will most likely continue, given the constant rate cuts, and broader instability in the region as a whole. Eyzaguirre's solution to all this is to "make an effort to show that we have a quality that makes us different" from other South American countries. "We must repeat this constantly."

Reich Denies Economic Crisis; Sticks to Free Trade

Even as the economies of Ibero-American nations disintegrate, Assistant U.S. Secretary of State Otto Reich insisted in a July 18 report-back on his trip to Argentina, Brazil, and Uruguay, given at the Center for Strategic and International Studies (CSIS), that the problems in the region are only a "crisis of confidence." It is a "misinterpretation of events" to suggest "that the democratic and free-market model has failed in certain Latin American states," he said, attributing the problems to the "imperfect and incomplete implementation of democracy and markets." (In an unintended truthful statement, Reich said that "the [free-trade] model has no more failed in Latin America than in North America, Europe or Asia.")

For this ideologue, the threat in Ibero-America is that the region has not yet severed itself "from its past," from its "legacy of poverty, statism, and authoritarianism." The "leadership class" must "eliminate the perverse incentives that the remaining

elements of the old regime still offer." It is "incumbent" upon the United States' "stalwart ally" Argentina "to put forward a sustainable economic program," for example. He contrasted Argentina with Uruguay, claiming the latter is only facing a "temporary" financial crisis, which they have the political structures to overcome.

Reich declared: "We are reaching, if we haven't already reached, the bottom of the trough on the economic downturn, and are prepared for a recovery of the economies of the Southern Cone," although perhaps "there could still be a little bit of some more turbulence."

Reich recently added two more free-traders to his team: Dan Fisk, an "ultra-conservative" from the Heritage Foundation who helped Sen. Jesse Helms draft the Helms-Burton Cuban embargo laws, and Bill Perry, who also worked with Helms, and headed Latin American Affairs at the National Security Council under Bush I.

Multinational Force Planned Against Colombian Sovereignty

A Chilean military intelligence outfit operating near Washington, D.C. is being used to float plans for a multinational military intervention into Colombia, despite the Colombian military's opposition to foreign intervention.

The scenario appeared in a July 21 *Jornal do Brasil* article, whose source for the story is retired Chilean Army officer Jose Miguel Pizarro, a professor at Chile's National Academy of Political and Strategic Studies (Chile's equivalent of a Superior War College), and president of "Red Tactica," a "defense consulting" firm based in the Washington area. Red Tactica's website describes itself as an intelligence service for international defense industry companies operating in Latin America, staffed by former South American Army and Navy officers, former U.S. Marines, and a "multicultural team of researchers."

The *Jornal do Brasil* reports that since January 2002, some 30 Chilean colonels and lieutenant colonels at the Chilean War Academy have been preparing strategies for the participation of three Chilean infantry battalions (2,600 men) in an inter-American military "peacekeeping" force which would operate in Colombia. The force would be headed up by the United States, and operate under United Nations sponsorship, with a target date for intervention into Colombia of January 2004, after the Colombian military should theoretically have knocked down the FARC's military capabilities significantly. Plans for the force include participation by about 2,600 Peruvians; Argentina would provide a reinforced battalion; and Uruguay an infantry battalion. Brazil, however, remains silent on the plans.

Jornal do Brasil also asserts that Colombian President-elect Alvaro Uribe Velez discussed the multinational force idea with President George W. Bush and with UN Secretary General Kofi Annan, when he came to the U.S. in June. It also reports that during a June trip to Paris, Chilean Defense Minister Michelle Bachelet met with the Colombian Ambassador to France, Martha Lucia Ramirez, Uribe Velez's nominee for Defense Minister.

Such a multinational intervention force is undoubtedly someone's intention, but it should not be assumed that this is at present Uribe Velez's or the Bush Administration's policy. In addition to military opposition inside Colombia, spokesmen for the governments of Chile, Ecuador, and Peru all issued denials.

Brazil Workers' Party Promises Stability to Wall Street

Brazil's Workers' Party (PT) has told Wall Street not to worry—we won't rock the boat. The Workers' Party of Presidential candidate "Lula" da Silva has deployed its people to court Wall Street and bankers in various European capitals to "calm" bankers' nerves about Lula's economic program, and clear up "any misunderstandings" about what a PT Presidency would do. PT economist Guido Mantega began a European tour in London, to explain Lula's program, while back in Brazil, Aloizio Mercadante, coordinator of Lula's economics team, was meeting with Central Bank President Arminio Fraga.

PT President Jose Dirceu made the rounds of various New York investment banks last week, including J.P. Morgan, Citigroup, Morgan Stanley, Lehman Brothers, as well as rating agencies and Alcoa.

After the July 17 meeting, Paulo Vieira da Cunha, Vice President of Lehman Brothers, defended the PT, and claimed that a PT-backed plebiscite on whether Brazil should pay its foreign debt, which took place more than a year ago, was really the work of the Brazilian Catholic Bishops' Conference. Da Cunha said that now, the PT "has a different opinion on the matter," since Lula has of course publicly stated that under his Presidency, the debt will be paid.

However, Dirceu stated that it was "asking the impossible" to demand that Arminio Fraga be kept on as Central Bank president, or that the PT back the idea of an independent Central Bank. "We have already made a public commitment to fiscal responsibility and controlling inflation," he said. But he promised that the private sector would be well represented in the government, as evidenced by the choice of Sen. Jose Alencar as Lula's running mate. "That was to signal an alliance with the productive business sector," he said.

On July 23, the candidate himself presented a program of government intended to please the IMF, described by observers as "very moderate." There is no mention in the text of breaking with the existing economic model, and most negative references to the IMF, multilateral lending agencies, or the U.S. have been eliminated. The only person blamed for Brazil's current financial debacle is incumbent President Fernando Henrique Cardoso.

The program text states, "Our government will not break contracts or revoke established rules. International commitments will be respected.... Fiscal responsibility and stability in public accounts will characterize the policies of our government." The program also promises that any changes in the "rules," will "be done democratically within an institutional framework." And, the PT will "do everything possible not to allow an increase in the internal debt in relation to GDP."

AFL-CIO International Division Okays Lula and PT

Quoted in *O Globo* of July 14, Stan Gacek of the AFL-CIO's intelligence-agency-connected International Division, has given a clean bill of health to the Jacobin Workers' Party of Brazil (PT). Gacek, who was scheduled to meet with PT president Jose Dirceu during the latter's U.S. trip, is one of Inacio "Lula's" key handlers, whose close friendship with the PT Presidential candidate dates back to 1981. Gacek said a PT government would mean more socially responsible policies, and a defense of workers' rights, but would also guarantee "consistent" macroeconomic policies, able to attract foreign investment to Brazil. Gacek recommends that, should Lula win the October elections, his first priority should be a trip to the United States. This would be the best way to dispel any U.S. doubts about Lula and the PT.

Older Argentine Women Forced into Prostitution To Survive

The IMF has forced older and retired Argentine women into prostitution as their only means of survival. According to Argentine film maker Rolando Grana, who just did a documentary on this subject, some older women working as prostitutes did this in the past, "but what we found was a high percentage that had never done anything like this before." Grana said, "They are women who have lost everything. Who have no pension and the only thing that they can think of doing is overcoming embarrassment and prostituting themselves.... We came across a woman who worked as a prostitute so that she could afford medicine for her disabled son. Many of them seemed almost happy or joyful, but once we started talking in depth, then the pain came through." The film offered the case of one woman, Alicia, now in her 60s, who had had her own seamstress business in the past, but couldn't sustain it as the economic crisis worsened. She reports that she only charges 20 pesos per client, "otherwise they would be off like a shot."

WESTERN EUROPEAN NEWS DIGEST

Germany's Third-Largest City Close to Default

According to German press sources July 25, Munich, Germany's third-largest city, is close to declaring default. The municipal administration of Munich has decreed a total budget freeze, affecting all budgeting positions and payments from August on. This will hit hospitals, day-care centers, theaters, and the like.

Munich is forced to reimburse Hypovereinsbank (HVB) 120 million euros, because the bank declared losses in the recent months of such a range that HVB's taxes, which the bank pre-paid, are lower than what it paid the city already. Of the reimbursement, 90 million must be repaid instantly. As Munich, which is already operating on an extreme austerity budget, does not have a surplus of 120 million, it has to make new, deep budget cuts.

The crisis will rapidly worsen, as the disaster in the IT sector, which has wiped out many tax-paying companies in Munich (with its high concentration of "New Economy" firms), is leading to more drastic shortfalls in tax revenues. From last June to this June, unemployment in Munich climbed by 31%, and unemployment among workers under age 25 by 66%, which makes the city—the capital of the state of Bavaria—the one with the worst labor market of large German cities.

In Germany overall, the German Finance Ministry has revealed a drastic drop in tax revenues. In the first two quarters of this year, the inflow of taxes to the state ran 5.2% below the level of the first two quarters of last year. From January to May, the difference was "only" 3.6%, but in June, a drop by 10.8% was reported. All in all, the state received almost 10 billion euros less than "expected"—a stark contrast to repeated remarks by German Chancellor Gerhard Schroeder that the "economic data are sound, actually."

Dr. Rowan Williams Named 104th Archbishop of Canterbury

Dr. Rowan Williams has been named the 104th Archbishop of Canterbury, the leader of 70 million members of the Anglican Communion worldwide.

Dr. Williams, previously Archbishop of Wales (and the first Welshman to head the Church of England), has criticized Western policy since Sept. 11, including calling the ongoing war against Afghanistan "morally tainted." He has insisted that the bombing of that country is morally equivalent to the terrorism it sought to defeat.

He has also opposed any invasion of Iraq, on the grounds that this would not be a just war, and he has signed an ecumenical letter expressing this view.

Dr. Williams is sympathetic to the proposal that the Church of England should end its established status, and enter on an equal footing with other Christian churches. Williams has also condemned the "corruption and premature sexualization of young children" in a consumerist society, and also criticized "Disney" productions and computer games for fostering the consumer society, and wrecking the younger generation.

The Archbishop today said of his appointment: "If there's one thing I long for above all else, it's that the years to come may see Christianity in this country able again to capture the imagination of our culture, to draw the strongest energies of our thinking and feeling."

British Labour Party Will Split in Case of Iraq War

Massive splits will break out in the British Labour Party structure if and when a war on Iraq begins, wrote former Fabian

Society insider Stephen Pollard, in the *Daily Telegraph* July 23. Prime Minister Tony Blair's main internal worry, is not intra-Labour fights over trade-union strikes, or certain economic issues, writes Pollard. Those, Blair can ride out. But Iraq is a different matter. Blair himself, "when America goes into action against Iraq, ... will be as steadfast in support as ever." But then, "we will really see what a Labour Party split looks like.... When American—and if Mr. Blair is really serious about his support, British—bombers fly over Iraq, he will enter uncharted territory."

Pollard writes that leading Labour parliamentarians "will be queuing up to denounce America—and thus, Blair. There will, I am sure, be ministerial resignations.... Mr. Blair is right to worry about the impact of [trade-union] strikes. But for real nightmares, just wait for action against Iraq."

German Business Daily *Handelsblatt*: Iraq War Will Bring Down World Economy

Accompanied by a full page of articles on what is known about preparations for a U.S. military operation, the *Handelsblatt* lead editorial July 26 noted that "an Iraq fever has broken out in Washington," which has little to do with new facts on Saddam Hussein. It rather has to do with the U.S. economy: "The deeper the Dow Jones drops, and the more popularity U.S. President George W. Bush loses, the more urgent a new Gulf war seems to become."

Apart from the fact that a new Gulf war could drive the stocks on Wall Street and other markets down, that turbulence on the oil markets is certain, that new rounds of inflation are to be expected, there is a global threat: "What these uncertainties mean for the already dangerous world conjuncture, one can vividly imagine."

Bush, however, cannot be expected to act on the basis of reasonable assessments of the cost and effect, so that "in the end, American domestic policy will not only decide the fate of Iraq, but also of the world economy," *Handelsblatt* concluded.

Chirac Supports Putin on Kaliningrad

"The European Community's joint viewpoint on the Kaliningrad issue has cracked," wrote the Russian newspaper *Vedomosti* July 22. "During two-day talks with Vladimir Putin in Sochi, Russia, French President Jacques Chirac supported the Russian side, agreeing that a visa for a Russian for travelling to Kaliningrad does not make sense. Chirac claimed that 'the Kaliningrad issue is a technical issue, and there are no technical issues which could not be solved.' In turn, Vladimir Putin emphasized that Russia appreciates support from France and relies upon it. He referred to the role of France in overcoming the division of Europe, by ruining the Berlin Wall: 'I don't think it to be useful today to erect new walls in Europe, this time around Kaliningrad Region,' he said.

"By October, the European Commission is expected to deliver its report on the Kaliningrad issue to the EU Council. Richard Wright, head of the Eurocommission's office in Russia, told Radio Echo of Moscow, after Chirac's viewpoint was made public, that he views the prospectives of a joint European-Russian solution of this issue as optimistic. Observers interpret the results of the Putin-Chirac meeting as a 'breakthrough,' " emphasizes the paper.

Chirac Meets with UAE Officials

Straight from Russia, Jacques Chirac flew to the French residence of Sheikh Zayed bin Sultan al Nahayan of the United Arab Emirates, on July 20. Minutes before his arrival, the Sheikh finished his talk with Egypt's Hosni Mubarak, who also met with Saudi King Fahd at the King's Swiss residence. According to *Kommersant*, Chirac informed the Sheikh about the results of his talks with Vladimir Putin in Sochi. During the Sochi talks, as it is clear from this context, Putin agreed to support the initiative of a "well-prepared" peace conference on the Mideast problems.

In brief coverage of the preceding talks between the leaders of Egypt and Saudi Arabia, *Kommersant* emphasized that Egyptian President Mubarak, speaking to journalists, expressed his support for PLO Chairman Yasser Arafat, referring to the fact that he "was elected by the people, and therefore, can't be just shooed away." In several days, Mubarak will meet with Chirac in Paris, reported *Kommersant's* Geneva correspondent Igor Sedykh.

Poland: New Finance Minister and Central Bank Clash Over Fiscal Policies

Poland's newly installed Finance Minister Grzegorz Kolodko has proposed an "anti-crisis package," which was approved by the Cabinet on July 23, reports *RFE/RL Newsline*. The package foresees that the budget deficit will be increased from 40 billion zloty in 2002 to 43 billion zloty (\$10.6 billion) in 2003, which are to be used to spur the economy. One of the main foci will be to ease the financial situation of heavily indebted state industries in sectors like mining, metallurgy, and arms production. These and other industries will receive an offer that their tax, customs, and other arrears to the state will be written off, if they pay 15% of the sum immediately, and pledge to restructure.

The plan caused, predictably, a sharp reaction by arch-monetarist National Bank Governor Leszek Balcerowicz, who called for a lowering of the budget deficit, in order to "ensure permanent economic growth," at a session of the Polish Sejm's (Parliament's) Public Finances Committee.

But, Kolodko's plan is being supported not only by the government, but also from the trade unions. The head of the (leftist) All-Poland Alliance of Trade Unions said he was particularly glad about Kolodko's plans to help state enterprises, while Marian Krzaklewski, leader of the Solidarity union, said he was "generally pleased" with Kolodko's program, which he called "the most positive response from a leftwing government in a long time."

Marine Commandant Named New NATO Chief

On July 19, NATO announced the appointment of Marine Commandant General James Jones as the new Supreme Allied Commander, Europe. Jones is to replace Air Force General Joseph Ralston, who took over as SACEUR in May 2000. When rumors of Jones' impending nomination surfaced earlier this year, it was noted that the NATO post has traditionally been the province of the Army, and Ralston, being Air Force, was not that far afield. However, the Marines are an expeditionary force, designed to operate in places where there is no standing U.S. presence. Therefore, Jones' appointment as NATO commander should be seen in the context of the Bush Administration drive to transform NATO into a force capable of operating "out-of-area." *AP* notes that NATO is in the midst of preparing a new "military concept," where it is considering whether to operate out-of-area, and whether it could take preemptive action against potential aggressors.

Russia and Central Asia News Digest

Russian/British Sources Expose U.S. Contingency Plan For ICBMs Against Iraq

On July 18, the Russian Web site *Gazeta.ru* drew attention to the possibility that the United States will use intercontinental ballistic missiles, armed with non-nuclear warheads, to attack Iraq. The analysis was based on comments by Pentagon official Stephen Younger. The *Gazeta.ru* item was picked up and circulated by BBC Monitoring, which referred to the scheme as "the Pentagon's plan to use intercontinental ballistic missiles [ICBM] against Iraq," i.e., as something already generally recognized to be an option.

Gazeta.ru referred to a July 18 statement by Younger, head of the Defense Department's Threat Reduction Agency, "to the effect that his unit is working on the issue of using ICBMs with non-nuclear warheads, in a possible armed conflict."

Younger evidently did not mention Iraq, but *Gazeta.ru's* coverage treated it this way: "The Pentagon has declassified yet another detail of the military operation that is being prepared against Iraq. If the United States is unable to reach agreement with [Iraqi President Saddam] Hussein's neighbors on the use of their territory for advance deployment of its troops, the main strike against Iraq will be delivered by ICBMs." The Russian agency commented that this option becomes especially relevant, after Turkey's refusal to provide bases for attacks on Iraq.

The use of submarine-launched ICBMs, continued *Gazeta.ru*, would make it possible to destroy even hardened Iraqi military targets. But that is not all. Such a deployment of ICBMs would be a cheap and efficient way to slash nuclear weapons delivery systems, as mandated under the Treaty on the Reduction of Strategic Nuclear Potentials, signed by Presidents Bush and Putin!

Gazeta.ru concluded that, "The use of ICBMs in the operation could trigger an entirely unpredictable reaction not only from Russia, but also from China. And it is not only the fact that ICBM launches against Iraq might be misinterpreted by the Russian missile-attack early-warning system. The fact is that, as a result of using strategic weapons, the Pentagon will gain unique experience of the combat use of its own ICBM guidance systems—experience which none of the other members of the nuclear club has." Finally, the commentary speculated on the chances of Washington's persuading the Kremlin to approve, or even take part, "in such an unusual process for the reduction of nuclear potentials."

Russian Analysts See Dollar and U.S. Market Crash as Strategic Event

The presence of \$40 billion or more in cash dollars inside Russia and the fact that Russian currency reserves are held chiefly in dollars, make the plunge of the U.S. dollar a burning issue in Russia. The week of July 22, currency exchange points in Moscow began to be swamped by people who were either trying to exchange their dollars for euros (some exchange points reportedly ran out), or at least demanding reliable information on what to do. Finance Minister Aleksei Kudrin and other officials urged calm. Russian stock markets dropped sharply for the first time in recent months, the giant Gazprom falling by 11% on July 24.

Most striking is that the strategic dimensions and systemic nature of the crisis are now being openly discussed in Russian media. The July 19 interview of Lyndon LaRouche in *Vek* (*EIW* No. 20) set a standard of reference. The same day, Prof. Stanislav Menshikov, in his weekly column for the English-language *Moscow Tribune*, took up the question of the U.S. "bubble" economy. Menshikov wrote that Alan Greenspan's explanations about an epidemic of greed were an understatement, since "the long boom of the 1990s has brought about an asset price inflation that has gone wildly astray for the first time since the 1920s." The major banks, said Menshikov, "have also been involved in crediting the bubble and helping it grow beyond reasonable proportions."

A third article such article appeared in the July 22 issue of the weekly *Ekspert*, by the well-known analysts Oleg Grigoryev and Mikhail Khazin. They were the authors of a summer 2000 article titled "Will the United States Manage To Bring On the Apocalypse?" (see *EIR*, Aug. 18, 2000), which argued that the so-called New Economy was a hoax, the collapse of which would make the United States into the epicenter of a coming crisis. Now Khazin and Grigoryev have returned to the pages of *Ekspert* with a sequel, on which *EIW* will report in detail next week.

Dollar's Fall Raises Russia's Debt Payments

Andrei Illarionov, an economic adviser to Russian President Vladimir Putin, said on July 7, that every rise of the euro against the dollar by one cent, increases Russia's foreign debt by \$100 million. Russia has debts that are denominated in dollars, but owed to European countries. They must be serviced in euros. The Russian economy is heavily dollarized.

On July 17, *Strana.ru* reported Finance Minister Kudrin's appeal to Russians not to take "drastic action," meaning not to

cash in dollars on a panic basis.

In a commentary dated July 18 and titled "The Economy Is Sick," *Nezavisimaya Gazeta* wrote that dollar's fall can wreak havoc with Russia's budget planning. Next year's budget already prioritizes payments of \$17 billion on the foreign debt, in the peak year of 2003. But, observed *Nezavisimaya*, "Another problem for the budget has been the unexpected strengthening of the euro against the dollar, which will increase the amount Russia must pay out to service its foreign debt. Finance Minister Alexei Kudrin has already announced that if the euro/dollar exchange rate remains as it is, Russia will have to pay an extra \$300-400 million. Then again, some Finance Ministry officials say the difference could reach \$2 billion by the end of the year."

Russian Intelligence Comments on *EIR*'s Analysis of September 11

The military- and intelligence-connected Russian weekly newspaper *Zavtra* in its July 16 issue published excerpts from the German-language *EIR* report on the background of the attempted internal U.S. coup of Sept. 11, together with comments from "Namakon"—the pen-name of a group of top-level former Soviet intelligence officers. While concurring with *EIR*'s conclusion, that the events of Sept. 11 could not have taken place without high-level involvement of some faction within the U.S. military, Namakon stresses that the decision by President Bush in the evening of Sept. 11, to go with the bin Laden cover story at the urging of Tony Blair and others, "meant a de facto capitulation of the U.S. Presidency to the real organizers of the attack, and the adoption of their policy of confrontation with the Islamic world, according to Huntington's formula for a 'Clash of Civilizations.'"

Namakon also commented on the *EIR* analysis, that the attempted orchestration of conditions for an escalating nuclear alert between the U.S. and Russia was a crucial part of the Sept. 11 coup plot, and drew a direct line to the August 2000 sinking of the Russian nuclear submarine Kursk, which has been the subject of a major coverup. Namakon writes, "the [*EIR*] hypothesis leads us to ask, whether the Kursk catastrophe might not also have been an included facet of the operations of the U.S. putsch group, since an attack of such a dimension would necessarily lead to a big reaction from the Russian military and population, creating an atmosphere favorable to provoking a nuclear escalation." In fact, such an escalation of the Kursk incident, which top-level Russian military officials have repeatedly linked in some way to the presence of NATO submarines in the area, was prevented at the time by a direct "hot line" consultation between Putin and then-U.S. President Clinton, followed within 48 hours by a highly unusual visit by CIA chief Tenet to Moscow. The parallel to the Bush-Putin contact on Sept. 11 was pointed out by *EIR* on a number of occasions.

Putin Demands New Economic Security Concept

What the widely read Russian daily *Argumenty i Fakty* (*AiF*) termed "intriguing, even mysterious events" have taken place in the Russian establishment, around economic policy. On July 8, President Putin held a meeting of the Security Council, to which Minister of Economic Development and Trade German Gref delivered a report Putin had demanded on "threats to Russia's economic security." Putin ordered the Security Council to update its "national economic security concept," which was originally composed by economist Sergei Glazyev, during his 1996 time at the Security Council under Gen. Aleksandr Lebed. On July 11, Gref reported to the government on the same topic, behind closed doors.

AiF interviewed Glazyev, who is campaigning for the governorship of Krasnoyarsk left vacant by Lebed's death. He said that nothing proposed so far addresses the biggest threats to Russia—"the destruction of its scientific, technical, and intellectual resources, especially in research and education, where the average age of the key personnel is approaching retirement age." Moreover, "Due to our barbaric methods of extracting natural resources, we will soon run out of reserves of oil, natural gas, and other resources which are explored and ready for development. There is also the threat of foreigners taking over key sectors of the economy. As a result, we could lose some unique technology and our capacity to compete in the global marketplace. And there is the threat of domestically produced goods being overwhelmed by imports."

Putin Sends a General to The Economics Ministry

On July 11, it was reported that President Putin has assigned Gen. Col. Vladislav Putilin to the Ministry of Economic Development and Trade, under German Gref. Putilin, 56, is a military organization specialist with a background in engineering and the strategic rocket corps, who has headed the Organization-Mobilization Directorate (GOMU) of the Armed Forces General Staff since 1997. GOMU was an important institution during Marshal Ogarkov's war planning in the 1970s-1980s.

The Russian media went into a whirl of speculation about the appointment, the initiative for which was variously attributed to Defense Minister Sergei Ivanov and to Gref himself, though Deputy Minister of Economic Development and Trade Medvedkov said it had come as a complete surprise.

The *Moscow Times* noted that GOMU is formally in charge of "top-secret plans to keep the country permanently prepared for war," including rapid conversion from civilian to military industrial production. *Strana.ru* quoted Defense Ministry spokesman Nikolai Deryabin on this: "This program has received little attention over the past 10 years. But the President has decided that in planning the economy's development, serious consideration should be given to the country's security, the improvement of factories capable of quickly switching to the production of military equipment."

Putin Moves To Cut Regions' Control Over Raw Materials

According to the Russian economics weekly *Ekspert*, legal expert Dmitri Kozak, deputy chief of the Presidential Administration, is preparing legislation to shift control over most of Russia's natural resources—including oil, natural gas, gold, diamonds and ferrous and non-ferrous ores—to the Federal government, declaring them Federal property. The new law would come in the form of amendments to the Tax Code and to an existing law on raw materials. Regions would be left with control over gravel, sand and ground water. Taxes and other fees paid in connection with raw materials extraction would be paid to the Federal budget.

Putin has shown growing impatience with regional leaders, regarding economic problems. On July 7, he visited Ulyanovsk, scene of protests against electric power cut-offs. He blasted the provincial leaders for carrying out their own form of "shock therapy," which allowed a rate of increase on utilities rates, between seven and 11 times higher than in the rest of the country.

Primakov: Demographic Situation in Russia 'Catastrophic'

Interviewed in *Rossiyskaya Gazeta* of July 9, Russia's former Prime Minister Yevgeni Primakov said that the country is losing nearly 1 million people each year. In the Far East and Siberia, the situation is almost a "demographic vacuum," he said—and a vacuum does not stay for long. Primakov recommended controlled and measured immigration, in order to prevent a "migration tsunami" (tidal wave) from sweeping over Russia. Primakov said that he envisaged the immigration of citizens not only from members of the Commonwealth of Independent States, but also from China and Korea.

Primakov Warns U.S. Strike on Iraq Would Promote Clash of Civilizations

In his July 9 interview with *Rossiyskaya Gazeta*, Russia's former Foreign Minister and Prime Minister, Yevgeni Primakov, who is now chairman of the Russian Chamber of Commerce and Industry, said that the division of the world into Christians and Muslims poses a great threat. He said that Russia had its own reasons for supporting the U.S.-led operation in Afghanistan, particularly the situation in breakaway Chechnya, but now the question is what comes next. Primakov said that U.S. policy was complicating matters, by turning the fight against terrorism into something useful for the United

States, rather than the whole world.

Primakov cited two criteria by which to judge U.S. intentions: whether or not U.S. forces and bases are pulled out of Central Asia after the war in Afghanistan ends, and the potential U.S. attack on Iraq. Such an attack would backfire against the United States, Primakov warned, because it would create splits among Muslims, as well as reinforce the idea of dividing the world by a "civilizational-religious principle."

Russians Ask: Does Worldcom Bankruptcy Doom Iraq?

Russian commentators have picked up on the ever more explicit linkage between the threatened U.S. attack on Iraq, and the U.S.-centered financial crisis. In a commentary in *Izvestia* of July 23, Anatoli Maksimov wrote, "The bankruptcy of WorldCom and the threat of a collapse of the U.S. stock market are making the U.S. military operation in Iraq inevitable. It seems that the George W. Bush Administration possesses no other methods to save the national economy and the U.S. currency." Maksimov reported that he had interviewed numerous Washington thinktankers, who concur that the political decision for an attack has already been taken.

The newspaper *Vedomosti* titled its editorial, "WorldCom and Iraq," but gave a more convoluted analysis, involving the world price of oil.

In his July 19 *Moscow Tribune* column, Prof. Stanislav Menshikov wrote that the Bush Administration has done "precious little" to address the problem of America's "overinflated financial superstructure," and that "the feeling in some Washington offices is that a foreign adventure in Iraq might help put the problem away."

MIDEAST NEWS DIGEST

World Condemns Israeli Attacks as War Crimes

An Israel F-16 jet dropped a one-ton bomb on an apartment block in the Gaza Strip, killing 16 people, including four infants and seven small children, and wounding 145 others on July 23. This massacre was ordered by Prime Minister Ariel Sharon, who called the operation "a great success." It is the prelude to launching a larger war in the Middle East.... See *EIW's* INDEPTH section this week for a full report on the Gaza massacre, and Ariel Sharon's war crimes.

Iran's President Khatami Calls for International Coalition Of Peace

Speaking in Kuala Lumpur, Malaysia on July 23, where he was making a four-day visit, Iranian President Seyed Mohammad Khatami has called for an international coalition to promote peace, one that is truly intended to eradicate violence, terrorism, and warmongering. This idea, proposed in the wake of the Sept. 11 tragedy, is a thematic extension of Iran's "Dialogue Among Civilizations," which is not aimed at forming a coalition against any particular country or power. In his keynote address to a conference called "Dialogue Among Civilizations and Its Challenges," Khatami said:

"The pioneers of this coalition will be scholars, intellectuals, civil institutions, international organizations, media and educational networks that will play active parts in the eradication of violence tainting the face of human thought, religion, and culture.... This world according to our faith is nothing but the manifestation of God's love and compassion."

One day earlier, at a news conference covered by *Agence France Presse*, President Khatami condemned plans for U.S. military action against Iraq to oust President Saddam Hussein, warning against the pervasive "environment of war" that is being pushed from Washington.

"We live in a very frightening situation today. In the course of world history, we have never witnessed war being promoted so much. Even in the course of the two world wars and the very difficult era of the Cold War, never has such an environment of war been created in the world by the U.S. and the U.S. Administration."

While terrorism is a "very horrendous and dangerous phenomenon," he said, U.S. behavior in the aftermath of last September's terror attacks was misguided. "Terror is a global issue, and the entire world should be mobilized against it..., but the war environment created today is very worrying."

"The behavior of the U.S. today is neither in the interest of the U.S. nor of the world...."

During his trip, Khatami also urged that the U.S. and other nations learn from Iran's long, debilitating war with Iraq. He said that the U.S. should accept that other nations have a right to choose their own paths. "We had eight years of war in Iran and we had a lot of problems with Iraq. We still believe that Iraq should abide by UN Security Council resolutions and by the public opinion of the world...."

"But at the same time, we condemn any foreign interference in Iraq and we recognize their sovereign integrity. No one has the right to decide for the people of Iraq, they should decide for themselves."

Russia and Iran Talk on Nuclear Cooperation, Regional Stability

Russian First Deputy Foreign Minister Trubnikov, visiting Tehran, said July 20 that Russia is ready to receive and accept new proposals to build more nuclear plants in Iran. Speaking to press after talks with his Iranian counterpart Mohsen Aminzadeh, Trubnikov said cooperation on the Bushehr nuclear power plant does not violate international accords, and would continue. Asked about Bush's criticism of the cooperation, and the U.S. President's attacks on Iran, Trubnikov said, "Russia's stance is clear; we do not accept the U.S. President's view on the axis of evil. Iran has had good cooperation in regional developments generally, especially in realization of peace and the campaign against terrorism."

Trubnikov was in India before arriving in Iran. At the end of his New Delhi visit, he stressed Moscow's desire for a trilateral cooperation scheme among Iran, Russia, and India, in the matter of Afghanistan.

The *Tehran Times* carried an editorial emphasizing the importance of such a triangular relationship, and added that Russia and Iran must also discuss ways and means of preventing a U.S. strike on Iraq. The editorial proposed that Russia persuade Iraq to accept the UN inspectors, to deprive the U.S. of a pretext for attacking. It said the attack against Iraq was clear; the only question was the timing. The editorial also stressed the need for Russia to reaffirm its commitment to nuclear cooperation, and to consolidate the "Tehran-Moscow defense cooperation and joint infrastructure development projects."

On July 27, the *Washington Post* reported that Russia and Iran have laid out plans to produce a total of five nuclear energy plants.

Wolfowitz Crazies Targeting Iran for Military Strikes

A retired U.S. counterintelligence specialist has warned that the neo-conservative crazies in the Bush Administration, led by Paul Wolfowitz, may be immediately targeting Iran for a military strike after their demands that Russia stop cooperation with Iran were rejected.

The source, who has had repeated run-ins with the "cabal" because of his opposition to a new war against Iraq, told *EIR* that

the same crowd that is fanatically pushing the war with Iraq, is putting so much pressure on the Iran question that a "surgical" bombing of Iran could actually precede an Iraq war, and could come this summer. The Wolfowitz empire gang is saying that if the Iranian nuclear energy plant goes on line as scheduled next year, "then the plutonium can be used to supply terrorists to make a dirty bomb." Therefore, a preemptive attack (along the lines of Israel's 1981 bombing of the Iraqi Osirik reactor) has to be carried out. This drive has become especially pronounced since discussions between the U.S. and Russia about the Iranian nuclear plant broke down.

Despite the substantial opposition from the Pentagon uniformed services, and others against an Iraq war, this source explained that Defense Department neo-cons, Doug Feith, and Wolfowitz are so aggressive that they are overpowering the resistance, and will go to any lengths to get the war with Iraq. For example, when Wolfowitz was told that Turkey will not participate in the Iraq war, a new plan was floated to go to war against Iraq with *no* ground basing at all. Considered by military professionals to be an insane, utopian idea, this would mean massive air strikes from fighter planes deployed from aircraft carriers, combined with B-1 and B-2 attacks against Iraq.

This report about Iran is especially interesting given a *Washington Post* "signal piece" which appeared on the front page of the July 23 edition, indicating that the Bush Administration is ending probes and discussions with Iranian moderates around President Khatami, in exchange for supporting "street revolution." To further this end, Wolfowitz cabal ally and NSC official Zalmay Khalilzad, taped an interview in Farsi for *Voice of America* to broadcast inside Iran, supporting opposition to the government.

Defense Minister Warns That Iran Will Retaliate Against U.S. Attacks

According to *IslamOnline*, Iranian Defense Minister Rear Admiral Ali Shamkhani was reported in the *Jam-e-Jam* daily newspaper of July 23, to have warned that "Iran would answer in minimum time, reciprocally and in a powerful way, any military attack against its political, military, media and social bodies." He added, "Any fast and short-term action of the U.S. against the Islamic Republic will receive multiple and varied responses." The Defense Minister's statements were published several days after reports circulated in the Iranian media that the U.S. has plans to invade Iran.

Only U.S. Cutoff of Aid Has Stopped Sharon in the Past

Washington Post veteran columnist Jackson Diehl reports on "Sharon's Stealth Plan," to publicly lie about wanting a peace agreement with the Palestinians, while pursuing an expansion of the occupation of the territories.

Diehl writes that the only time Ariel Sharon was really challenged by the U.S. on the issue, was when President George H.W. Bush and his Secretary of State James Baker III cut off a U.S. loan-guarantee program, over Congressional opposition, an act which contributed to voting Sharon and Shamir out, and voting Yitzhak Rabin in. Today, says Diehl, Sharon is nothing if not absolutely consistent, in pursuit of sinking any possibility of, or inclination for, side-by-side Israeli and Palestinian states through his new settlements policy. Repeatedly, Sharon agrees publicly with Bush, but keeps right on building new settlemetns illegally in the West Bank.

Sharon has achieved this expansion, despite a serious budget crisis in Israel. He is so blatant that, four days before Bush gave his "peace initiative" speech in June, tenders were announced for construction of 957 new units. And when Defense Minister Ben-Eliezer announced with fanfare that the Army would shut down 11 new settlements in July, Peace Now showed that only three unpopulated outposts were dismantled, but not a single settler was moved.

When confronted on the issue, Sharon's response is that there is no expansion, only "natural growth."

Sharon Is the Obstacle to Peace

Before the deadly massacre of civilians by the Israeli defense forces in Gaza on July 23, a number of leading Arab officials were warning President Bush that Sharon stands in the way of peace.

On July 18, speaking to reporters in Washington after his meeting with Bush, Saudi Foreign Minister Prince Saud Al-Faisal stated that the prospects for Middle East peace would improve were Israeli Prime Minister Ariel Sharon "not there." The Saudi Foreign Minister stated, "[The Sharon government] must be changed by the Israelis themselves, those who want peace.... If the Israelis can stand firm for this peace, then they will achieve the security they need. If they leave it to Sharon, he will lead the Middle East only to tragedy and conflict." Saud al-Faisal stated, "[Sharon] is a man who thinks still on the lines of Fortress Israel, that the only good Arab is a dead Arab, and that Israel is facing enemies from all sides...."

The same warning was being made by Egyptian President Hosni Mubarak, in a series of diplomatic meetings. Mubarak met July 19 with Sheikh Zayed Bin Sultan Al Nahyan, the President of the United Arab Emirates, at his residence near Geneva, Switzerland. The meeting dealt with the escalating situation in the Middle East, Israeli attacks against the Palestinian people and efforts underway for bringing the peace process back on track. Mubarak was on a two-day visit to Switzerland for talks with King Fahd Bin Abdul Aziz of Saudi Arabia and Sheikh Zayed. On July 22, in Cairo, Mubarak began a series of meetings with other Arab leaders during national celebrations, where he accused Prime Minister Ariel Sharon of blocking peace negotiations, and said that the only path to peace is an independent Palestinian state.

'Baghdad by Christmas'?

A rabid article appears in the British Hollinger Corporation's July 20 *Spectator* magazine, under the headline "Baghdad by Christmas." In it, Bruce Anderson says that, after a period of hesitation and disagreement, the U.S. has now accepted the idea that if they want to get rid of Saddam Hussein, they will have to go in and get him. Saddam can't be allowed to develop nuclear weapons, or to use other weapons of mass destruction. Anderson proclaims: "There will be risks in preventing him; we are about to enter into a most dangerous period in world history. But those risks are manageable and ultimately containable." Saddam "has thrown down a fundamental challenge to us, to our way of life, and to our hopes for a peaceful future.... He cannot be allowed to prevail. Saddam delenda est."

While Anderson is just a writer, Hollinger's stable of operatives includes members of the war coalition "molehill" inside the Bush Administration, including Richard Perle. Hollinger also keeps on tap Zbigniew Brzezinski, advocate of the "Clash of Civilizations" showdown.

Occupation Causes Malnutrition Among Palestinians

Palestinian children under 5 are severely malnourished. A study sponsored by the U.S. Agency for International Development has surveyed 1,000 Palestinian homes, and found that for children under 5 years old, 30% suffer from chronic malnutrition, and 21% from acute malnutrition—thus, over 50% of Palestinian children under 5 are malnourished.

This horrific reality is directly attributable to Israel's war drive. In 2000, the comparable numbers were 7.5% of children under 5 suffering from chronic malnutrition, and 2.5% suffering acute malnutrition. The economic strangulation of the Palestinian people with Israeli-imposed curfews, closed borders, refusal to allow Palestinians to travel to Israel for work, and withholding of \$600 million of tax monies due to the Palestinians, have all contributed to intolerable conditions.

The survey is not yet complete, and therefore the statistics for the entire population may eventually change. However, the results so far show:

*The World Bank says 70% of Palestinians in the West Bank and Gaza live below the poverty line of less than \$2 per day—and this is up from 50% as of 90 days ago in April 2002;

*Some 30% of 3.5 million Palestinians in the West Bank and Gaza depend on food handouts, and the number increases daily;

*The March-April 2002 incursions led to a 50% increase in the number of home demolitions since the beginning of the intifada;

*Increased risk of communicable disease outbreak exists due to lack of potable water, residence overcrowding, etc.

Meanwhile, according to the *Jerusalem Post* July 21, there are bread shortages in Israel, following a flourmillers' strike that began last week, to protest the high price of imported wheat. The costs have soared, as the Israeli shekel has depreciated against other currencies. The owner of one bakery supplying a third of the bread consumed in Jerusalem, said he can't recall this had a bread shortage, even in 1948, when the city was under siege during warfare. The Industry and Trade Minister is to meet July 21 with millers and bakers, on whether to approve a bread price rise.

Von Sponek: 'Go On, Call Bush's Bluff'

Writing in the London *Guardian* of July 22, Hans von Sponeck says there is absolutely no basis for a U.S. war against Iraq, nor is there any support for it, whether in the Arab world or internationally. Von Sponeck was the UN humanitarian aid coordinator for Iraq, from 1998-2000, and has just returned from a two-week stay in Iraq. In the commentary, he enumerates how Iraq has been normalizing its relations throughout the Middle East, to the extent that "Iraq's political and economic isolation" in the region "is all but over."

But, he goes on, "a wave of senior U.S. visitors has tried to dislocate these trends toward normalization and reconciliation in this troubled region," especially by effectively undermining the negotiations with the UN on weapons inspectors. This attitude has made Europe, Turkey and the Arab states "increasingly uncomfortable.... An entire region is being destabilized to suit American preferences for political change in Iraq."

Von Sponeck goes on: "Concurrently, a systematic dis- and mis-information campaign, one of the biggest ever undertaken by the U.S. authorities, is intensifying. The U.S. and the international public are being sedated daily, with increasing doses of propaganda about the threat Iraq poses to the world in 2002. In the forefront of those advocating war against Iraq has been the U.S. Deputy Secretary of Defense Paul Wolfowitz, who sees a military solution as the only option...."

Von Sponek is the second top UN official to speak out against the war on Iraq lies. For documentation, see *EIW's* INDEPTH this week for former UN weapons inspector Scott Ritter's presentation to the British Parliament.

Asia News Digest

Chinese Embassy Denounces Washington Attacks on China

On July 22, Xie Feng, Press Counselor at the embassy of the People's Republic of China in Washington, rejected the content of the two U.S. reports attacking China that were released this month (see [*EIW* #20](#)).

Referring to the reports released by the Pentagon and a Congressional Commission on July 12 and July 15, Xie told the press: "Though they are two different reports, the themes, I think, are quite similar. The conclusion these two reports arrived at, is that China poses a threat to—not only to the United States, but also to the world. And I think they are not true to facts.... China has progressed rapidly during the past 20 years or so, but still, China is a developing country with a relatively low GDP per capita.... Our basic national policy right now is to continue concentrating on economic construction so as to further raise the living standard of our people. This is our priority. Second, I would add to that, China has a history of peace-loving. If you have studied Chinese culture, you will find that the essence of Chinese philosophy lies in peace and harmony. And if you have studied Chinese history, you will find a very interesting point, that the map of China right now, compared with the map of China in the Han dynasty, that is 2,000 years ago, they are almost similar. So what does this show? I think this is a manifestation of China having no tradition of foreign expansion....

"I think that this theory of a China threat is really not something new. Through my limited experience in Sino-U.S. relations, I have come across many times that when Sino-U.S. relations have reaped some progress, then some people, who cling to the Cold War mentality, will come back and blow up this China threat theory. But each time they come up, I think they lose more credibility because more and more people, here in the United States as well as in the world, have come to realize more and more clearly that a threat to U.S., the threat to Sino-U.S. relations, and the threat to world peace, doesn't lie in China, but, rather, in these people who have fabricated this China threat."

Administration Conflict: Effort To Improve China Relations Reported

On July 12 and July 15, two separate reports on an alleged threat from the Chinese military were released in Washington, setting off protests from the Chinese government, both in Washington and at home (see preceding item).

Yet, the *Washington Post* on July 22 reported efforts by the Bush Administration to improve U.S./China military relations, despite the anti-China reports released by the Pentagon and the Congress.

The opposition to the confrontational approach espoused by leading neo-conservative warmongers—JINSA's Michael Ledeen and Stephen Bryan, and Deputy Secretary of Defense Paul Wolfowitz—continues to show itself in the Administration. The *Post* reports that the trip by Assistant Secretary of Defense Peter Rodman to China in June "yielded encouraging results." Following that trip, a number of moves are under consideration, including "expanded educational exchanges for military officers and resumption of a regular high-level dialogue begun in the 1990s known as the Defense Consultative Talks."

Brent Scowcroft, who was National Security Adviser under President George H.W. Bush, and who now presides over the President's Foreign Intelligence Advisory Board (PFIAB), is quoted by the *Post* as strongly supporting improving the military-to-military relations with China, calling the Chinese military the "most isolated and therefore most in need of outside exposure" among Chinese power groups.

Great Project for China Water Management Readied

All the technical and field preparations for launching the great "move South water North" project in China, have been fulfilled, reported the *People's Daily* newspaper on July 22. Vice-Minister of Water Resources Zhang Jiyao announced that the project can be launched at any time. "Consensus has been reached on all aspects of the project, including priorities, layout, water-pollution controls, water-saving measures, protection of ecosystems, investment shares and water pricing," Zhang said.

The first step will be enlarging the dam at the Danjiangkou Reservoir in northwest Hubei Province, which is already the largest manmade lake in Asia. This project, to divert water from water-rich southern China to the arid North—the center of

population and China's grain belt—has been under consideration for some 40 years.

No End in Sight For U.S.-Philippines Defense Exercises

As *EIW* readers were alerted back in March about the nature of a hidden agenda for U.S.-Philippines so-called training exercises, there is no end in sight for continuing and expanding these operations. According to the *Philippines Inquirer* of July 24, even though the Mutual Logistics Support Agreement between the Bush Administration and the Macapagal-Arroyo government has still not been signed, due to unresolved Constitutional and legal questions raised by Vice President Teofisto Guingona, nine new training exercises and "training packages" have been scheduled to begin in October 2002 and run until June 2003. Philippines Defense Secretary Angelo Reyes made this public on July 24.

Of the 1,200 U.S. troops deployed in the southern Balikatan 02-1 exercises, which officially end July 31, some 400 will stay until June 2003 to take part in five more exercises under the Mutual Defense Treaty. The war games in October 2002 will include counter-terrorism operations, involving thousands of Filipino troops and an undetermined number of U.S. military advisers, who will be deployed in camps north of Manila as well as in the south, Armed Forces chief of staff Gen. Roy Cimatu said. The nine-month program includes night navigation, training of at least two companies of "light reaction teams," or counter-terrorism units, eight army battalions, intelligence cooperation, and classroom work.

U.S. Secretary of State Colin Powell is expected to discuss the upcoming deployments during a visit to the Philippines on Aug. 3, Defense Secretary Angelo Reyes said.

Philippines President Regains Control of Senate

Through a series of fast and loose maneuvers, if not outright purchases of Senators, Gloria Macapagal-Arroyo appears to have regained control of the Philippines Senate by 13 seats to the opposition's 10, which will ease pressure on her Administration around such issues as former President Ramos' energy boondoggles à la Enron, as well as keeping the Bush Administration happy that the Philippines will remain acquiescent in its foreign military plans.

Arroyo announced July 25 that Sen. Blas Ople, formerly allied to President Joseph Estrada, has accepted the post of Foreign Minister, which appointment will necessitate his resignation from the Senate. Earlier in the week, Sen. Robert Jaworski struck a deal which could help him with some nasty loan problems, in exchange for moving to Arroyo's party.

U.S. embassy spokeswoman Karel Kelley issued a statement today welcoming Ople's acceptance of the Foreign Minister's post.

Survey Shows 800 Afghan Civilians Killed by U.S. Bombing

A survey conducted by the U.S. aid group, Global Exchange, which sent teams into Afghan villages over a six-month period, reports that more than 800 civilians have been killed in U.S. air strikes. Global Exchange claims that figure is likely to rise as information comes in from more remote areas.

But, according to the British Broadcasting Corporation, this is not upsetting "all" Afghans. On July 21, BBC News said a spokesman for Afghan President Hamid Karzai, Tayeb Jawad, told the BBC that fewer than 500 civilians were believed to have been killed in U.S. air strikes—a "low figure," considering the size of the military campaign. Tayeb Jawad's statement came after the reports about the Global Exchange survey were known.

At the same time that the Karzai spokesman was rejecting criticism of American military strategy to defeat the Taliban and

crush the al-Qaeda, other Afghan leaders were not so kind. Foreign Minister Abdullah Abdullah, a Panjshiri Tajik, said that the deaths of so many civilians are a matter of grave concern. A BBC correspondent reporting on these differing voices, claimed that such a difference could indicate a split in the Karzai government on the issue of the continuing American military campaign, and maybe even of the American military presence.

American Bodyguards Now Guarding Afghanistan President

The events in Afghanistan should be a warning about what would follow an attack on Iraq.

Around July 20, it was admitted that, in view of "credible threats," Afghani President Karzai has replaced his Afghan bodyguards with 46 American soldiers. The shift, by the President of the transitional government, is yet another indication of the steady deterioration of Afghanistan's situation. At the early stages, when Karzai became the chairman of the interim government, he had with him a few Pushtun soldiers from his native province as bodyguards. Later, when the Panjshiri-Tajiks took control of most of the government, his personal security landed in the hands of Defense Minister Mohammad Qasseym Fahim, a Panjshiri-Tajik.

Replacement of these bodyguards by American soldiers means that somewhere along the line, Karzai has become suspicious of the Northern Alliance crowd, overtly represented by the Panjshiri-Tajiks. Talking to a *Time* magazine correspondent, a commander ostensibly loyal to Defense Minister Fahim, said that the replacement "is an insult to the Defense Minister."

'Bin Bags' Full of U.S. Dollars Going To Pay Off Afghan Warlords

"Quagmire" is not a word that is welcomed by the U.S. Secretary of Defense, or by the Bush Administration.

Jason Burke, reporter for the *London Observer*, wrote on July 21 that Britain and the U.S. are sending "bin bags" full of dollars to persuade Afghan Pushtun warlords not to rebel against the Karzai government. The *Observer* says that Foreign Office sources in London confirmed last week that they were aware money was being "circulated" to key Afghan warlords to persuade them to support the government. The *Observer* has been told by "reliable sources" in Afghanistan and Pakistan that some U.K. money is being distributed, although most of it is American.

One such warlord is Gul Agha Shirzai, Governor of Kandahar province. Another is Hazrat Ali, a commander in Nangarhar province and an opium warlord who was very close to the recently assassinated Vice President Haji Abdul Qadir. Observers claim that, besides these two, other Pushtun warlords have been paid millions of dollars brokered by British and U.S. intelligence.

The *Observer* points out that previous attempts to buy the loyalty of Afghan warlords have met with mixed results. During the farcical battle of Tora Bora in April, local commanders were paid huge sums to send their own troops into mountainous cave complexes where Osama bin Laden was thought to be hiding. The warlords involved in this operation, including Hazrat Ali, accuse each other of taking bribes from bin Laden to allow him to escape.

In Paktia province, the Americans paid Bacha Khan Zardran, a local commander who seized control of the eastern city of Khost last November, an estimated \$400,000 to train and equip fighters to patrol the border with Pakistan. Since then, Karzai has appointed his own man to govern the province and Bacha Khan Zardran has fled into the mountains, from where he is shelling civilian areas to destabilize the provincial government.

AFRICA NEWS DIGEST

Likud/Neo-Conservative Front Behind Push To Grab African Oil

On July 22, *SAPA* (the South African wire service) reported, "Nigeria Will Not Leave OPEC, Says National Oil Firm," strongly denying stories that Nigeria plans to sever ties with the OPEC, the Organization of Petroleum Exporting Countries. It turns out that the institute pushing Nigeria to leave OPEC is a creation of a racist, far-right Israeli Likud front, the Institute of Advanced Strategic and Policy Studies (IASPS). According to information being analyzed by *EIR*, IASPS created a group called the African Oil Policy Initiative Group (AOPIG), to pressure Nigeria and others to leave OPEC.

IASPS is part of an Anglo-American-Israeli intelligence operation, dominated by Likud crazies in Israel and the U.S., which is pushing "clash of civilizations" wars to destroy Islamic countries. IASPS also overlaps with U.S.-based institutions that are advocating a neo-imperialist U.S. military assault to seize the oilfields in Iraq and Saudi Arabia, under the guise of "reducing U.S. dependency on Middle East oil."

IASPS' involvement in the oil operations in Africa emerged after the news wire service *SAPA* and *Agence France Presse* (*AFP*) reported that Nigeria has no intention of quitting OPEC, as had been reported.

EIR has noted that Ndu Ughamadu of the Nigerian National Petroleum Corporation told *AFP* that a group of U.S. lobbyists had floated the idea on a recent visit to Nigeria, but that it had not found favor with the government. "OPEC is of tremendous importance to us; we are not contemplating pulling out." Similarly, responding to a report in a British weekly that Nigeria was on the verge of pulling out, Nigerian President Obasanjo's special adviser on the budget, Oly Ezekwesili, told *AFP*: "They are just flying a kite."

The references to "a group of U.S. lobbyists," referred to representatives of the AOPIG who visited Nigeria in late June and reportedly encouraged Nigeria to break from OPEC to supply the West's oil needs. Said AOPIG in a recent report: "With Middle Eastern suppliers openly discussing the possibility of an embargo ... increasing and diversifying supply is a matter of national security. It is a prerequisite to freedom of action in U.S. foreign policy. West Africa offers the quickest, most secure and least complicated potential for such an increase."

Mugabe Suggests NEPAD Should Be Rejected

According to the Harare-based paper the *Herald* of July 19, Zimbabwean President Robert Mugabe, speaking for the first time on NEPAD (New Economic Policy for African Development), told African ambassadors accredited to Havana and leaders of the Cuban government that, because of the differences of opinion on NEPAD shown at the African Union meeting in Durban, it was not at all clear how the plan could be implemented. "It's up to us to remain vigilant in any process of cooperation with them [the West] and reject any tendencies to subject us to their whims." Africa must reject any Western aid under NEPAD if it comes with conditions, Mugabe insisted.

Nigerian Ambassador Ngam Nwochukwu, in the dialogue with Mugabe, insisted there was no way the West would fund NEPAD and let Africa run its own affairs. "Mr. President Olusegun Obasanjo is one of the founding fathers of NEPAD but he still has doubts and reservations. One thing which is of great concern is why our leaders still tend to trust the West," Nwochukwu said. He added, "If we go back to history, these particular people have done everything to demonize us, colonize and make us slaves and they still are doing everything to keep us down.... Why do we believe that NEPAD will work?... So if we engage NEPAD shall we try as much as possible to keep them out, because he who pays the piper dictates the tune."

South African Unions Critique NEPAD

According to the July 21 issue of the *Sunday Times* of Johannesburg, the Congress of South African Trade Unions (COSATU) now has an 18-page document, "COSATU Critique of NEPAD" that was circulated to COSATU affiliates and discussed at the Federation's executive committee meeting last week. COSATU says NEPAD's analysis of the causes of poverty and underdevelopment in Africa are flawed, and do not address the unequal nature of globalization. The Union Federation says that while the emphasis on strong, democratic, and corruption-free states as a basis for good governance is positive, NEPAD limits states by restraining spending and looking to the private sector to provide basic services. COSATU said it is naive of the NEPAD architects to expect an influx of foreign investment.

South African Communist Party General Secretary Blade Nzimande joined the chorus of criticism of NEPAD, noting a real danger that it would be "hijacked" by the world's most powerful nations and their "lackeys." Nzimande told the *Sunday Times* that NEPAD put more emphasis on Africa being accepted into the global marketplace than on the "fundamental partnerships between the people of Africa and their governments." "This cannot be a partnership between the elite on the continent and the West," Nzimande continued. "Multiparty democracy must not be turned into a fetish. It is not what it presents itself to be.... Political parties have become the views of the elite. It is multi-elite democracy."

'HIV/AIDS Could Lead to Collapse' of Mozambique

Mozambique's Prime Minister Pascoal Mocumbi has warned that his country will face collapse if measures to halt the spread of AIDS are not taken. Speaking at a Maputo press briefing on July 18, he admitted that the AIDS epidemic will throw out all calculations of the amounts needed to recruit and train staff for areas such as education and health services and the police force. "Hence the government's concern for the future of the country, if this disease is not checked," Mocumbi told reporters. "We could face the collapse of the state, the collapse of companies, the collapse of your newspapers...."

Mocumbi confirmed that generic anti-retroviral drugs, produced in India, will shortly be available in both public and private health units.

Mocumbi had attended the recent UN conference on AIDS in Barcelona. He said this conference had clearly shown that "if there is a lack of political will, it's not on the part of African leaders." He pointed out that last year's commitments by the developed nations, had not been fulfilled.

Andrew Young Agrees With Mbeki On AIDS

In an interview with *AllAfrica.com* reporter Charles Cobb, Jr., on July 22, Andrew Young, the former U.S. Ambassador to the United Nations, said that British and U.S. "arrogance literally forced [South African] President Mbeki to try to give [Africans] these drugs, which proved to be very toxic to Americans, who are having two or three thousand calories a day," and that "Whether to give those same toxic drugs to Africans who get two or three thousand calories a week is a legitimate medical question." The British and U.S. "literally forced Mbeki to come to the political position where the government is giving drugs to people without fully knowing the impact of them," Young, also a former Mayor of Atlanta, charged.

In a wide-ranging interview, Young, who has extensive involvement in Africa, consistently "swam against the tide," as *AllAfrica.com* termed it politely. He strongly supported President Mugabe as "the only one who is making any effort to deal with poverty in Africa," and supported President Mbeki's perspective on AIDS.

On the Mbeki position, Young was almost lambasted by the interviewer: "Well, they do know that anti-retrovirals for pregnant women do save the lives of children!" Young's response: "Well they know that they don't die of AIDS. But they don't feed them. Keeping children alive without mothers is a *major* political problem when you're talking about millions of children."

Question: But their lives shouldn't be lost because of that political problem. You certainly cannot be making *that* argument?

Young: No. But I am making the argument for good, solid nutrition for those children. I've been working with a group of AIDS orphans in South Africa, and the first five years I worked with them they were not taking the medicines. We were sending them money and they were getting a good diet, going to school and being cared for. In the meantime, the little boy who was being used as the poster boy [12-year-old Nkosi Johnson] to harass Thabo Mbeki, and who was getting the drugs, died [June 1, 2001]. I'm not saying that there is any cure for AIDS, but I am saying that a loving, nutritious environment for children, even if they are HIV-positive, might be better than anti-retroviral drugs."

Negotiations for Congo/Rwanda 'Understanding' on Peace Agreement

The Democratic Republic of Congo and Rwanda have reached an "understanding" on a peace agreement, according to numerous media sources July 23. The five days of negotiations in Pretoria "were centered around the withdrawal of the Rwandan forces from the DRC, and the disarming and dismantling of the Ex-FAR (former Rwandan armed forces) and the Interahamwe (Rwandan Hutu militias] forces currently stationed in the DRC," a statement from the office of South African Deputy President Jacob Zuma said.

In announcing that an agreement had been reached on Monday, Zuma was flanked by DRC Minister in the Presidency Mwanke Katumba, and his Rwandan counterpart, Patrick Mazimbaka, the chief negotiators in the talks.

Those talks, which had been scheduled to last only one day but kept going for five, were a continuation of discussions held two weeks ago in Durban, between Presidents Joseph Kabila of the DRC and Paul Kagame of Rwanda, on the sidelines of the inaugural summit of the African Union. Central to those discussions—brokered by South African President Thabo Mbeki, according to UNIRI, was the proposal to create a security zone along the DRC/Rwanda border to prevent Hutu rebel incursions into Rwanda.

Zuma declined to divulge details. The Presidents of the two countries had to be briefed first, he said.

The DRC ambassador to South Africa, Bene M'Poko, was quoted by the Belgian daily newspaper *Le Soir* as telling the news conference that "this is the beginning of the end of the war in the Congo."

Mazinhaka told the media briefing that the agreement met the requirements for taking forward a difficult process. "We have no doubt that if we can diligently execute this broad agreement we shall bring to an end this conflict that has been engulfing our countries for several years, sooner rather than later."

Zuma said the Presidents of the two countries would decide on a date for the signing of a final agreement.

Breakthrough Agreement Between Sudanese Government and SPLA Mediated by U.S.

The breakthrough agreement between the government of Sudan and the Sudanese People's Liberation Army (SPLA), was possible through U.S. mediation, said a Sudanese diplomatic source, confirming wire reports. Although the deal is not final, it does constitute a major development, as the most important points at issue have been agreed upon: that there is a federal state, and that Islamic law (Sharia) will be applied to the majority-Muslim northern part of Sudan, while other (custom, or African) law will be applied in the non-Muslim south. One open question is whether the south will consist of three or ten states. The south will elect its own state parliaments.

Round two of the talks, scheduled for mid-August, should lead to a ceasefire. Six months thereafter, a six-year period will begin, at the end of which a referendum will be held in the south, regarding union or secession. This will be decided by the two parties (the government and SPLA) only. The second round should also decide a formula on wealth-sharing.

The diplomatic source stressed that there is nothing new for the government in the accord, in the sense that all the clauses agreed upon, had been included in the 1996 talks, and even incorporated into the Sudanese draft Constitution. What is new, is that the SPLA has agreed, and this is to be attributed to the U.S., whose representatives were on the scene in Nairobi, where the talks took place.

Many believe that Sudan's significant oil reserves, and the possibility of American development of these, induced the U.S. to finally help broker the peace.

According to *AFP*, Sudanese political analyst Adlan Hardlallu said what is crucial here is the "interests of the United States in a stable area, particularly when it comes to oil production and other economic interests" in Sudan. "They want to compete with the Chinese, Malaysians and the others who are working in the area," he said. "I don't think the Americans would like these people monopolizing this particular thing."

The most important point is that the Sudanese peace developments show that, if the U.S. wants to put pressure on one party, in this case, the SPLA, to comply, it can do so.

This Week in History

July 29-August 4, 1735

This week we choose to go back to 1735, the year in which the nascent United States (then still 13 colonies) established a principle which most Americans have come to take for granted. That principle is that *truth* is a defense against the charge of criminal, or seditious, libel.

The case in question is that of John Peter Zenger, a printer in the colony of New York. There is a room named after Zenger at the National Press Club in Washington, D.C., because some people indeed do understand the significance of his action. Zenger published what we would today call an "exposé" on the colonial Governor of New York in his *New York Weekly Journal*, and was thrown in jail as a result. The charge against him was seditious libel.

Zenger had known that this might happen. Under the oligarchical tradition which reigned in England, as on the European continent, the publication of damaging material against a representative of the monarchy was a violation of the principle of *lèse majesté*. If the monarchy objected, the publisher could be thrown in prison. What about the question of whether the publisher were telling the truth, or a lie? That was settled also. According to the feudal *lèse majesté* dictum, the more true the damaging statements were, the greater the crime!

What Peter Zenger sought to assert went to the heart of the matter. Zenger, and his lawyer, argued that *truth* was a defense against the charge of libel. And a jury of his peers agreed with him, establishing once and for all the "truth defense."

What the Zenger case did was truly revolutionary, and set a precedent for the republican standard throughout the colonies. The same principle did not prevail in England for decades more—and still is inoperative in parts of Europe today. In Germany, for example, it is impossible (that is, illegal) to publicly accuse someone of being a "Nazi," even if the content of the charge can be thoroughly proven. "The greater the truth, the greater the libel," still rules there.

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