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THIS WEEK YOU NEED TO KNOW

LaRouche Issues Pre-Conference Discussion Document

On July 21, Lyndon LaRouche sent the following message to subscribers, staff, and supporters of his political movement, introducing the document below for background discussion for the upcoming international conference of the Schiller Institute and the International Caucus of Labor Committees, to be held in Northern Virginia over the Labor Day weekend, Aug. 31-Sept. 1.

[Click here for information on the conference.](#)

LaRouche said: "During the past several weeks, the world has experienced an expected phase of the collapse of the present world monetary-financial system. The following addresses one of a set of strategically crucial topics, which will be addressed by me, among the arguments to be reported in my August 31st address. The elements reported here, are presented now, because they must also be leading themes of our organizing activity during the immediate month preceding that event."

THE BIG CRASH: SUBSTANCE & SHADOWS

by Lyndon H. LaRouche, Jr.

Monday, July 22, 2002

Although the financial collapse of the recent weeks to date has not completed its rounds, the sum-total of these weeks already represents an global, historical phase-shift. The appropriate Biblical image is not "Armageddon," but rather the ominous moment the triumphal laughter stopped, during Belshazzar's Feast.

With this ongoing global phase-shift which erupted a few weeks ago, the world has entered a turning-point in modern world history. We have now entered fully, into a collapse as ominous as that which struck President Herbert Hoover's U.S.A. in 1929-1933, but one which is worse, deeper, and far more ominous for mankind as a whole. From this point on, persisting efforts by leading nations to continue to adapt to the U.S.A. utopian strategic doctrines unleashed by Richard Nixon's 1966-1968 campaign for the U.S. Presidency, would push the world over the brink, into the global catastrophe waiting below.

I ask you to focus on the individuals who now believe, during recent days, that my forecasts were right, and their doubts were mistaken. For just a moment, put to one side the cases of those fellows who still refuse to face the reality of the present situation, even after the events of the recent three weeks. What is the problem you must now face, in dealing with most among those persons who now admit I was right?

Before bringing the actors on stage—

The presently onrushing global collapse of the 1971-2002 monetary-financial system is not something which just happened; it is something which has been in the process of happening since President Nixon's wild-eyed monetarist's lunacy of August 15-16, 1971. My warnings to this effect were circulated in print, and other ways, first in the U.S.A., and, then, around the world, increasingly, from the early 1970s onward.

Merely drop my name in any meeting of politically active persons, not only in the Americas and Europe, but around much of other parts of the world. The mere mention of my name is sufficient to electrify the room, even to break up the meeting. Wherever that reaction to even the mere mention of my name occurred, during the recent decades, the existence of my long-range forecasts was a crucial issue of the crowd's reaction. Moreover, during those thirty-five odd years, every published long-range forecast of mine has been correct; no other known economist world-wide can match that professional success.

Look back, for example, to my year 2000 campaign for the Democratic Party's U.S. Presidential nomination. I warned that certain developments during the period of my campaign would promptly unleash a process leading toward a collapse of the "new economy" bubble in such areas as the spill-over of a collapse of the Dulles beltway into Loudoun County, Virginia. By March 2001, what I forecast a year earlier was hitting Loudoun and its vicinity hard. The Winstar fantasy is now last year's laughing-stock. The impact of the bankruptcy of WorldCom on the Loudoun County area's real-estate bubble is about to become awesome.

The presently onrushing collapse of the global monetary-financial system, is not an event which I "predicted." It was something which was already happening as I spoke. What I forecast, referenced a new phase of the folly which was being added to those phases I had reported as in process earlier. In this universe, it is impossible to make any competent forecast unless the development being forecast was already in process. Competent forecasters never predict events dropping out nowhere; they report actually existing processes of development which, if continued, will lead to certain included, notably relevant types of events.

A good forecast is a report on the current state of a system. In a relatively simplistic sort of explanation of this point, we might say that any successful theorem in Euclidean geometry, can be forecast on the basis of knowing the system based upon the set of definitions, axioms, and postulates which defines that geometry as a system, which, therefore, defines the unfolding development of that type of geometry as a knowable process. My work in economics has a far more challenging complexity than any classroom geometry, but the proper notion of forecasting can be defined similarly for both cases.

In other words, my forecasting has always been premised on both a rejection of all "ivory tower" teachings about economics. The consistent success of my forecasting, in contrast to the expressed opinions of all of my putative rivals, is that their failure is caused by their reliance upon "ivory tower" doctrinal assumptions, whereas my forecasts are derived from study of the existing systemic characteristics of the political-economy in question (e.g., only adolescent mothers are likely to have daughters who are younger than one of that mother's grandsons).

Therefore, when that fellow who is wearing egg on his face today, said, a few Clinton years back, that my forecast collapse of the "new economy" would not occur, he was not doubting the occurrence of a future event, he was refusing to accept the reality, that that future event was already an inevitable price to be paid if society insisting on continuing certain developments already in progress back then. ("Stop driving when you are roaring drunk," for example.)

Now, let the play begin. Bring that fellow on stage. What is passing through his mind right now?

Two Typical Mistakes

Jack may have been pretending to know that my forecast was wrong, or, instead of saying that outright, he was resorting to conventional methods of lying, as a way of avoiding having to make an apparently rational form of argument. "Sorry, I have to catch a bus," is one typical lie. Another typical lie, "I know all about your man; my ex-mother-in-law's nephew is an expert on LaRouche." Whereas, the passerby walking the invisible straight line down the sidewalk, might have given away the condition of his mind at that moment, moving his hand in an uncertain gesture, "I gave at the office."

Henry was different. He gave you an argument. He was trying to give the appearance of proving that you were wrong. However, that was a show. What Henry was really doing, was defending his fantasy; he had to believe you were wrong, but if he did not, that would have spoiled his illusory faith in the repertoire which he thought might work for him over coming weeks and years.

Earl would have explained Henry's attitude more honestly. "Look. It's a lousy world, but I have to live in it. So, I will just going on seeing the world as I wish to believe it works. So, as far as I am concerned, you just have to be wrong."

Then, there was Mabel, whose face turned white as she said, "If my husband knew I was talking to you...!" and, with that, scurried away, leaving the truculent kibbitzer to put in, "As far as I am concerned, Alan Greenspan's my man, and you guys are nuts."

People are often like that, aren't they? They might say that that is what "makes the world go round," and there is no point in telling them that Kepler and I disagree with that statement.

Behind all those diverse objections, there is a commonly underlying madness to their method. Their minds dwell in a "buggered-up" world, quite literally. The usual arguments against the possibility of what actually happened these past several weeks, are based on the crazy religious beliefs of a medieval religious cult which English tradition refers to as "the buggers," the superstition otherwise known as the "Cathars." Typical "buggers" appear in religious teachings like those of New York banker Aaron Burr's grandfather, the charlatan Jonathan Edwards, or Rev. "Diamond" Pat Robertson. The same "buggered-up" religious ideas turn up in college economics textbooks and classrooms disguised by phrases such as "free trade" and "supply and demand."

The Cathar argues, as Jonathan Edwards did, that there are the equivalent of little green men operating from under the floorboards of the universe. Some call them "god," as Jonathan Edwards did; some call that god "statistics." The assumption is, that if a fellow can get on the good side of those little green men, they will fix the roll of the dice to grace that fellow with riches and happiness, while the rest of humanity will have to learn to put up with bad luck. Sometimes that is called religion. Sometimes it's called "statistics." Sometimes it takes the form recognized as a mental disorder we recognize as gambling for money, either on the stock market, in mutual funds, or a back-alley crap-shoot.

At that turn in the situation, a second problem commands our attention.

As during 1929-32, people are now coming to recognize that their faith in Wall Street's little green men was a mistake. At that point, we are faced with the fact, that getting people to give up belief in Wall Street's version of buggery, is not enough to solve the problem. You will wonder, what could be passing through their minds, now?! Once they agree that the past thirty-five years changes in U.S. economic policy have been a bummer, you might think that they will make the obvious step: Forget the system that did not work, and return to the one that did, return "To the house that FDR built." About that time, you will begin to hear weird objections to FDR. Weird populist schemes, usually centered around magical systems of money, are mixed with wild nonsense about FDR and his reforms.

The common mistake, in the effort to deal with the types of problems I have described, is to attempt to play the part of either "Miss Marple" or "Bozo the Clown." Impotent Miss Marple tries to "explain things nicely," whereas "Bozo" prefers Dubya's "Do as I ask you nicely, or I may have to kill you." There is a third choice: leadership. Don't lure or prod people; lead them as I do. After all, the record of my forecasting is, that I have been leading people in a better direction for more than thirty-five years, and no known forecasting has been able to match that.

Invitation to the Schiller Institute Conference

'Hoover II' Has Happened!

THE GLOBAL FINANCIAL CRASH OF 2002

by Lyndon H. LaRouche, Jr.

Sunday, July 21, 2002

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, 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" 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-Indo-China 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.

U.S. ECONOMIC/FINANCIAL NEWS

Crisis Points Toward Implosions at America's Major Banks

During the past week, *EIR* has received reports that of America's three largest banks—Citigroup, J.P. Morgan Chase, and Bank of America—at least one, and perhaps all three, have experienced internal implosions, and are receiving emergency rescue treatment from Federal Reserve Board chairman Alan Greenspan. Although the mushrooming of bad loans held by these banks would feed this process, it appears that the main factor precipitating the crisis is major problems in the banks' giant derivatives portfolios.

The crisis threatens the core of the U.S. financial system.

Cognizant of the banks' growing vulnerability to financial shock, the Anglo-American financier oligarchy moved to tackle another simultaneous problem: the fall of the U.S. stock markets, which has reached epic proportions. Since Jan. 1, 2002, through the third week of July, the Dow Jones industrial average had fallen by 22.3%; the Standard and Poor's 500 index, by 28.6%; and the Nasdaq index, by 34.2%. Domino-style, the fall of these markets had occasioned falls in the major European stock markets.

So, on July 24, Wall Street deployed the President's Working Group on Financial Markets—known as the Plunge Protection Committee, which consists of the heads of the Federal Reserve Board, the Treasury Department, the Securities and Exchange Commission, and the Commodity Futures Trading Commission—to channel a huge stream of money into the stock market. The Dow Jones rose 488 points for the day. After the same group applied the same procedure on July 29, the Dow Jones rose by 447 points.

But while it is possible to manipulate the stock market for certain periods of time, it is quite something else to address and correct the fundamental *systemic* financial-economic breakdown crisis now unfolding, which means the stock market is fundamentally rotten. That fundamental correction, is what the Bush Administration, as well as Wall Street and the City of London, refuse to do.

Continuing to deny reality, on July 30, Treasury Secretary Paul O'Neill declared that, "America's fundamentals are sound." But reality refutes that: The U.S. trade deficit is at a record level, while durable goods orders plunge; the Brazil crisis rages; and America's Big Three banks are at the point of going under. - The Banking Crisis -

The crisis of America's largest banks is deep-seated and longstanding, although it has manifested itself most strongly within the last two months. This is evident in America's two biggest banks: the \$1.06-trillion-in-assets Citigroup, and the \$713-billion-in-assets J.P. Morgan Chase. Since Jan. 1, their stock prices have fallen by 30% and 40%, respectively. Moreover, since 2001, the market capitalization of J.P. Morgan Chase has fallen from \$107 billion to \$40 billion, i.e., by more than half.

This is the tell-tale sign that something at these banks is terribly wrong. Citigroup and Morgan Chase are exposed and vulnerable to some of the world's riskiest, most cancerous financial loans and investments. For example, they are two of the largest lenders to the energy-trading firms, and also to the New Economy telecom sector. Between 1996 and 2001, Citigroup and Morgan Chase alone extended 49.3% in credit to the U.S. telecom sector. Further, they created the condition to float derivatives, on top of the telecom and energy-trading bubbles. Morgan Chase and Citigroup have \$24.0 and \$9.2 trillion, respectively, of derivatives outstanding. Citigroup and Morgan Chase were also two of the largest lenders to Enron, and Senate hearings reveal that they schemed to artificially build up Enron's fund flows, while hiding a good part of

Enron's debts.

Now the energy and telecom bubbles are punctured; so are a huge volume of Citigroup's and Morgan Chase's loans to these sectors, not all of whose impairment they have fully reported. Further, Citigroup and Morgan Chase have considerable credit exposure to the U.S. housing bubble, as well as in the Brazilian and Argentine crises.

Thus, the evaluation that one or both of Citigroup and Morgan Chase are being secretly rescued by the Fed, is credible. But given the unaddressed enormous underlying problems, such a rescue cannot work, engendering ominous consequences for the world financial system.

The Fed's bailout of America's major banks, if that is occurring, will work just as disastrously as the Plunge Protection Committee's prop-up of the stock market; starting from the financial system's endemic problems, a fundamental reorganization is necessary.

—Adapted from an article by Richard Freeman in *The New Federalist* of Aug. 5.

The Recovery That Never Was

More evidence of the non-existent "recovery":

*Official (that is, faked) Gross Domestic Product (GDP) rose an anemic 1.1% in the second quarter of 2002, only half the expected figure, from the first quarter's growth which was revised down to 5.0% from a previously reported 6.1% (a difference of 1.1%), based on an increase in consumer spending, as well as a rise in business inventories, the Commerce Department reported on July 31. After revision, GDP, in 2001, fell for three straight quarters, not just one as previously announced; GDP grew by 0.3%, rather than 1.2%, for the year.

*Construction spending fell 2.2% in June, from May, to the lowest level since August 2000, with non-residential construction plunging 20%, compared to a year earlier, the Commerce Department reported Aug. 1. Downtown office vacancies, rose in the second quarter to 14.1%, the highest level in more than five years, according to Cushman & Wakefield.

*The Institute for Supply Management's manufacturing index fell to 50.5% in July, from 56.2 in June (where a number above 50 represents growth, and below 50, contraction).

*Continuing claims for unemployment benefits, rose to 3.5 million last week.

Wall Street Police Blotter

Former **WorldCom** chief financial officer **Scott Sullivan**, and former comptroller **David Myers**, were charged in a seven-count criminal complaint of one count of conspiracy to commit securities fraud, one count of securities fraud, and five counts of filing false statements with the Securities and Exchange Commission. Sullivan, released on \$10 million bond, and Myers, freed on \$2 million bond, each face up to 65 years in prison. The complaint filed in Manhattan Federal Court, alleges that Sullivan directed Myers to conceal about \$3.85 billion in expenses, to show profits when the company was actually losing money.

Attorney General John Ashcroft, in a Washington news briefing on the case, invoked the "invisible hands" of **Jeremy**

Bentham and **Adam Smith**, to mete out to "corrupt corporate executives no better than common thieves," the "judgment they fear and the punishment they deserve." The "survival of the free market," he said, depends on reliable, truthful information, "the invisible hand that directs our economy."

AOL/Time Warner is under investigation by the Justice Department for its accounting practices, as DOJ prosecutors work in tandem with the Securities and Exchange Commission. The SEC is probing how the media company used "unconventional" advertising deals to inflate revenue by \$270 million during 2000-2002, according to the *Washington Post* July 18.

Pension Plan Meltdown Will Cost Billions

"Hemorrhaging corporate pension plans are rapidly becoming Wall Street's biggest new worry," *BusinessWeek Online* reported Aug. 5, noting that company plans "have lost hundreds of billions of dollars." Were the companies in the S&P 500 to see a 5% increase in the value of stocks and securities in their plans this year, they would still fall \$40 billion short of their projected pension obligations, and a 5% drop would put them \$150 billion in the hole, according to Morgan Stanley estimates. In 1999, the S&P 500 plans had a \$292-billion surplus and a 30% cushion over their commitments; that year, 78% of the S&P 500 plans had surpluses, but by the end of this year, less than 26% will have them. A record 60% of pension-plan assets were invested in stocks in early 2000, when the stock market began its decline.

Hardest hit are the companies with defined-benefit plans, in which the companies guarantee the payouts to pensioners, and must cover the investment losses themselves, in contrast to companies which have adopted defined-contribution plans, like 401(k)s, in which the individual employees take the hits.

Fears of Massive Debt-Default Shake Banks, Bondholders

U.S. and European banks and bondholders lent an estimated \$500 billion to the U.S. gas-and-power sector, raising fears of bankruptcy at cash-strapped energy traders such as Dynegy and Williams Co. Lenders fear "a further string of corporate failures" after Enron—with heavy losses for banks, including Citigroup and J.P. Morgan Chase, the *Financial Times* wrote July 28. The enormous debt figure probably underestimates the banks' total exposure because of large amounts of undisclosed, off-balance-sheet debt.

"We are past the point of no return on significant levels of debt default in the energy industry, which will dwarf WorldCom and Global Crossing," said Karl Miller, who set up Enron's European trading business. "There is no doubt we will see multiple bankruptcies shortly."

Williams, the Tulsa, Oklahoma-based energy trader and pipeline company, must come up with a \$1 billion secured bank loan to offset building pressure to file for bankruptcy, as it faces \$800 million in debt payments due this week. The company lost \$349.1 million in the second quarter as revenue fell 26%, with its trading and marketing unit posting a \$497.5 million loss, compared to last year's \$262.2 million profit. Shares have plunged 97% in the past year. A conference call which had been set for July 29, was postponed.

And Speaking of Energy Pirates: Who's Walking the Plank This Week?

Dynegy slashed its profit forecast by about 80% for 2002, after a \$328-million second-quarter loss, including a \$212 million reduction in the value of its global communications business and \$80 million in a natural-gas marketing business.

Mirant posted a \$151-million second-quarter loss, as revenue fell 20% from a year ago, and said it overstated as much as

\$253 million in assets and liabilities in 2001.

Chevron Texaco said second-quarter earnings plunged 81% to \$407 million, from \$2.11 billion a year ago, as revenue fell 15%, as the oil company wrote down the value of its 27% stake in Dynegy.

'Consumer Confidence' Swooned in July—And it Ain't Just the Weather

"Consumer confidence" plunged in July, by the largest amount since October of 2001—just after the Sept. 11 events—a turnaround which is attributed to the stock-market collapse and job fears, despite the Bush Administration's Hoover-style attempts to reassure Americans there's a "recovery." According to the monthly survey by the New York-based Conference Board, consumer confidence fell to 97.1 from 106.3 in June, with the percentage of respondents who rated jobs "hard to get" rising to the highest level in more than six years.

Shades of the 'Eighties: Junk Bond Defaults Zoom Again

Eighty-nine companies defaulted on a record \$64 billion in junk bonds, in the first half of 2002, with \$42.6 billion in the second quarter alone—a pace about 16% above last year's record total of \$110.2 billion, according to Moody's Investors Service. WorldCom, with \$23 billion in bonds, is not included, because it began 2002 as an investment-grade company.

The largest defaults came from cable operators NTL Communications, Adelphia, and United Pan-Europe Communications.

WORLD ECONOMIC NEWS

London Source: Fed Does Biggest Stock Market Save Ever

"Without massive central-bank intervention, we would have seen a total market meltdown already," a senior financial source in London told this news service, Aug. 1. What we are seeing since July 24, he said, is the biggest stock-market intervention by the Federal Reserve, ever, and other central banks are playing along. In the markets, since, there has been nothing but intervention. Had the markets been left to themselves, we would have been in the endgame, already, but the endgame will come, nevertheless.

The basis for that is an understanding reached at the top levels of the U.S. government and the Federal Reserve, that it is only market intervention can prevent immediate Armageddon. And the decision has been made to do anything, whatever it takes, to prevent a meltdown of markets before the November U.S. midterm elections. The economic-financial crisis must not be the central theme of the political debate in the U.S., and if the market interventions alone don't do it, there is still the war option.

However, the source continued, it will have the opposite effect, and recommended that the figures released by the Bureau of Statistics in Washington July 31, be carefully examined, because this will show that the government's numbers are as crooked as those of Enron.

Secondly, the source pointed out, is that an understanding has been reached, that if the truth were told, concerning the 1,000 or so major U.S. corporations, nothing could stop a market breakdown. So, you are going to see massaged figures on Aug. 14.

The source added that, there were a number of additional elements concerning the financial situation, which, in and of themselves, a few weeks or months ago, would have meant a major disaster. Watch the pattern that is now occurring: We are now seeing the reverse of mergers and acquisitions, that is, corporations are manipulating earnings by selling off assets. From the age of fusion, we have entered the age of fission in corporate activity. The massive pattern of selling off sections of corporations is just extraordinary.

Deutsche Bank Chief Admits: 'We Are in a Deep Swamp'

Deutsche Bank's chief economist has now admitted that the global economy is in deeper crisis than previously acknowledged. In an exclusive interview for the Aug. 1 issue of the German business weekly, *Wirtschaftswoche*, Norbert Walter said that he sees "structural similarities" between the present financial bubble, and that of the Great Depression following the 1929 Crash.

The bottom may not have been reached yet, and a continuation of the downward spiral of world stock markets cannot be ruled out, he said. There has been a "salami crash" in the U.S., and Alan Greenspan no longer has the power to play god for the markets: "The icon has lost its halo."

In stark contrast with his usual neo-liberal nostrums, Walter called on the European Central Bank to "lower the interest rates," and on the "EU to think about a more appropriate handling of its stability and growth pact." Walter added that he is "not against Keynes, if a Keynesian situation has arrived, and that the Germans should think of moving up planned infrastructure projects for the years 2003-2005, into this year.

All of that is necessary, he added, because "we are, indeed, in a deeper swamp than is signalled by the debate that is being conducted at present."

UNITED STATES NEWS DIGEST

U.S. Reps: Israel's Use of F-16s May Violate U.S. Law

In a letter to President George W. Bush, released on July 26, Reps. John Dingell (D-Mich.) and Nick Rahall (D-W.V.) challenged the legality of the use of U.S. war matériel in an Israeli massacre on the West Bank.

According to the July 26 Saudi English-language publication *Arab News*, the letter says, "As you are well aware, late Monday, Israeli F-16 warplanes launched a missile strike on a densely populated area of Gaza City, killing at least 17 Palestinians and wounding 150, many of them children. We write to express our condemnation of this attack in the strongest possible terms. Furthermore, we request that the Administration examine whether the American-made and supplied military hardware employed in this attack was used in violation of the Arms Export Control Act, U.S. Public Law 90-89." They add, "The use of U.S. weaponry in this manner appears to violate U.S. law," telling Bush that "violent acts that target innocent civilians, regardless of who perpetrates them, must be condemned. There is no justification for killing innocent civilians."

This complaint about Israeli Prime Minister Ariel Sharon's misuse of U.S. weaponry has been brought up before by members of Congress, but this time Dingell and Rahall note that even the White House admitted this attack was "deliberate." *Arab News* reports that State Department officials told them that Israel has been put "on notice."

Denver National Legislatures Conference: Our State Economies Are Collapsing!

The following report is adapted from an article in The New Federalist of Aug. 5

This year's annual meeting in Denver July 23-27, of the National Conference of State Legislatures (NCSL), drew 6,000—a significantly smaller attendance than usual—and it saw a very different mood among participants, directly reflecting the economic collapse process underway nationwide.

On July 24, the Denver-based group released its preliminary report, showing that the aggregate states' budget gap for FY 2003, which just began, is going to hit \$57.9 billion, up some \$20 billion from the June 30 estimate of the states' budget gap of \$35.9 billion. Many legislators could not even come to Denver because they were in state budget emergency sessions.

Understandably, legislators are preoccupied, because 2002—being a mid-term election year—has 26 primaries coming up in August and September. But more to the point, the rapid erosion of state economies, and the impossibility of cutting state budgets or imposing new taxes fast enough, is testing every office-holder to the core. Making this worse is the fact that their own NCSL group based its new estimate of fiscal 2003 state deficits of \$58 billion, on the the sugar-plum projection that nationally, state revenues will rise by 3.7% in fiscal 2003. No way!

The following are individual state reports from conference participants.

Kentucky: The state is running under executive order, by fiat of the governor, because the legislature did not pass a budget. A legal challenge will probably go to the U.S. Supreme Court, as to whether governors can "rule by decree" if state legislatures cannot pass a budget.

Mississippi: A special session resumed July 29, because the state cannot fund Medicaid, and will lose its 4-to-1 matching monies from the Federal government.

New York: Legislators noted how it's all over the press, that Albany just passed a state budget, and 11 days later, the deficit was already \$1 billion, heading towards \$5 billion!

Texas: Legislators confirmed the "unofficial" word from the state comptroller: The deficit is heading for \$5-\$7 billion.

Tennessee: Lawmakers are beside themselves. After their state government, in the absence of a budget, shut down for several days in early July (except for state police, prison guards, etc.), and after a tax-increase-based budget was finally passed July 3, now the state legislative primary is looming on Aug. 1, and no one has had a chance to campaign. Only a handful of lawmakers even came to the Denver conference—those without opponents in the primaries. Moreover, given the collapse of the economy, even the newly increased Tennessee sales tax can be expected to still produce a *lower* rate of state revenue, and the Legislature will be back in special session again soon!

Michigan: Only a tiny handful of legislators came to Denver, because of the upcoming primary, being held in the context of havoc in cities and suburbs. Governor Engler has cut \$859 million in revenue-sharing to the municipalities, which have no way to make up for the lost funds. The former industrial center of Flint is bankrupt.

Virginia: The Commonwealth is struggling to make up for lost prison income. Governor Mark Warner has appointed a special panel to study ways to offset the loss of \$46 million to the state treasury, incurred as the Federal government and other states "reclaim" many of the 1,600 prisoners Virginia houses (and for each of whom Virginia charges up to \$75 a day).

After the Collapse: Phone and Internet Infrastructure Threatened

On July 30, the Senate Commerce Committee, chaired by Sen. Ernest Hollings (D-S.C.), held a hearing on "Financial Turmoil in the Telecom Marketplace," to learn from executives of WorldCom, Global Crossing, and Qwest Communications, and Federal Communications Chairman Michael Powell, how to ensure phone and internet networks continue working amid the telecom meltdown.

"They want to know from the FCC and from the companies, who have obviously been struggling, what needs to happen to ensure we don't have some kind of catastrophic failure" of service, said a spokesman for Senator Hollings.

FCC Chairman Powell, while pledging that the agency would protect customers against abrupt termination of telephone service, warned that the FCC's authority might not extend to the internet backbone, and asked Congress to expand the agency's power to block telecom companies from shutting down internet services.

Power Outages Illuminate the Disasters of Dereg

It's worse than Enron, Dynegy, and the California crisis! The pattern of electricity cuts is increasing, as the United States electric grid—destroyed by deregulation and the speculation carried out by the energy "traders"—cannot handle the demand. In El Paso on Aug. 2, a 45-minute blackout hit the entire city of 500,000, as a high-voltage line from New Mexico short-circuited. In New York City, the eighth power "alert" of the summer occurred Aug. 2, as the New York Power Authority asked its customers to cut back. Under a plan called, "Peak Load Management," customers will get a pay-off of \$40 per kilowatt to reduce their power consumption. Earlier in the week, the small town of Bedford, in southeastern Pennsylvania, was hit with a blackout, as Penelec had a service breakdown. Why is this happening? See this week's InDepth for the *EIR* testimony on Enron submitted to the U.S. Congress.

Louisiana Governor Declares State of Emergency Over West Nile Virus Deaths

Louisiana Governor Mike Foster declared a statewide emergency Aug. 2, and asked for Federal help and money to spray mosquitoes (sometimes known as "the state bird" of Louisiana). Local parishes are using up all their funds, as cases of infection and death from the West Nile virus have become known. There have been 58 cases of infection reported; 4 people have died. Of the 12 hospitalized, 4 are in intensive care. State epidemiologist Dr. Raoult Ratard said, "This is only the beginning."

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WORLD ECONOMIC NEWS

London Source: Fed Does Biggest Stock Market Save Ever

"Without massive central-bank intervention, we would have seen a total market meltdown already," a senior financial source in London told this news service, Aug. 1. What we are seeing since July 24, he said, is the biggest stock-market intervention by the Federal Reserve, ever, and other central banks are playing along. In the markets, since, there has been nothing but intervention. Had the markets been left to themselves, we would have been in the endgame, already, but the endgame will come, nevertheless.

The basis for that is an understanding reached at the top levels of the U.S. government and the Federal Reserve, that it is only market intervention can prevent immediate Armageddon. And the decision has been made to do anything, whatever it takes, to prevent a meltdown of markets before the November U.S. midterm elections. The economic-financial crisis must not be the central theme of the political debate in the U.S., and if the market interventions alone don't do it, there is still the war option.

However, the source continued, it will have the opposite effect, and recommended that the figures released by the Bureau of Statistics in Washington July 31, be carefully examined, because this will show that the government's numbers are as crooked as those of Enron.

Secondly, the source pointed out, is that an understanding has been reached, that if the truth were told, concerning the 1,000 or so major U.S. corporations, nothing could stop a market breakdown. So, you are going to see massaged figures on Aug. 14.

The source added that, there were a number of additional elements concerning the financial situation, which, in and of themselves, a few weeks or months ago, would have meant a major disaster. Watch the pattern that is now occurring: We are now seeing the reverse of mergers and acquisitions, that is, corporations are manipulating earnings by selling off assets. From the age of fusion, we have entered the age of fission in corporate activity. The massive pattern of selling off sections of corporations is just extraordinary.

Deutsche Bank Chief Admits: 'We Are in a Deep Swamp'

Deutsche Bank's chief economist has now admitted that the global economy is in deeper crisis than previously acknowledged. In an exclusive interview for the Aug. 1 issue of the German business weekly, *Wirtschaftswoche*, Norbert Walter said that he sees "structural similarities" between the present financial bubble, and that of the Great Depression following the 1929 Crash.

The bottom may not have been reached yet, and a continuation of the downward spiral of world stock markets cannot be ruled out, he said. There has been a "salami crash" in the U.S., and Alan Greenspan no longer has the power to play god for the markets: "The icon has lost its halo."

In stark contrast with his usual neo-liberal nostrums, Walter called on the European Central Bank to "lower the interest rates," and on the "EU to think about a more appropriate handling of its stability and growth pact." Walter added that he is "not against Keynes, if a Keynesian situation has arrived, and that the Germans should think of moving up planned infrastructure projects for the years 2003-2005, into this year.

All of that is necessary, he added, because "we are, indeed, in a deeper swamp than is signalled by the debate that is being conducted at present."

UNITED STATES NEWS DIGEST

U.S. Reps: Israel's Use of F-16s May Violate U.S. Law

In a letter to President George W. Bush, released on July 26, Reps. John Dingell (D-Mich.) and Nick Rahall (D-W.V.) challenged the legality of the use of U.S. war matériel in an Israeli massacre on the West Bank.

According to the July 26 Saudi English-language publication *Arab News*, the letter says, "As you are well aware, late Monday, Israeli F-16 warplanes launched a missile strike on a densely populated area of Gaza City, killing at least 17 Palestinians and wounding 150, many of them children. We write to express our condemnation of this attack in the strongest possible terms. Furthermore, we request that the Administration examine whether the American-made and supplied military hardware employed in this attack was used in violation of the Arms Export Control Act, U.S. Public Law 90-89." They add, "The use of U.S. weaponry in this manner appears to violate U.S. law," telling Bush that "violent acts that target innocent civilians, regardless of who perpetrates them, must be condemned. There is no justification for killing innocent civilians."

This complaint about Israeli Prime Minister Ariel Sharon's misuse of U.S. weaponry has been brought up before by members of Congress, but this time Dingell and Rahall note that even the White House admitted this attack was "deliberate." *Arab News* reports that State Department officials told them that Israel has been put "on notice."

Denver National Legislatures Conference: Our State Economies Are Collapsing!

The following report is adapted from an article in The New Federalist of Aug. 5

This year's annual meeting in Denver July 23-27, of the National Conference of State Legislatures (NCSL), drew 6,000—a significantly smaller attendance than usual—and it saw a very different mood among participants, directly reflecting the economic collapse process underway nationwide.

On July 24, the Denver-based group released its preliminary report, showing that the aggregate states' budget gap for FY 2003, which just began, is going to hit \$57.9 billion, up some \$20 billion from the June 30 estimate of the states' budget gap of \$35.9 billion. Many legislators could not even come to Denver because they were in state budget emergency sessions.

Understandably, legislators are preoccupied, because 2002—being a mid-term election year—has 26 primaries coming up in August and September. But more to the point, the rapid erosion of state economies, and the impossibility of cutting state budgets or imposing new taxes fast enough, is testing every office-holder to the core. Making this worse is the fact that their own NCSL group based its new estimate of fiscal 2003 state deficits of \$58 billion, on the the sugar-plum projection that nationally, state revenues will rise by 3.7% in fiscal 2003. No way!

The following are individual state reports from conference participants.

Kentucky: The state is running under executive order, by fiat of the governor, because the legislature did not pass a budget. A legal challenge will probably go to the U.S. Supreme Court, as to whether governors can "rule by decree" if

state legislatures cannot pass a budget.

Mississippi: A special session resumed July 29, because the state cannot fund Medicaid, and will lose its 4-to-1 matching monies from the Federal government.

New York: Legislators noted how it's all over the press, that Albany just passed a state budget, and 11 days later, the deficit was already \$1 billion, heading towards \$5 billion!

Texas: Legislators confirmed the "unofficial" word from the state comptroller: The deficit is heading for \$5-\$7 billion.

Tennessee: Lawmakers are beside themselves. After their state government, in the absence of a budget, shut down for several days in early July (except for state police, prison guards, etc.), and after a tax-increase-based budget was finally passed July 3, now the state legislative primary is looming on Aug. 1, and no one has had a chance to campaign. Only a handful of lawmakers even came to the Denver conference—those without opponents in the primaries. Moreover, given the collapse of the economy, even the newly increased Tennessee sales tax can be expected to still produce a *lower* rate of state revenue, and the Legislature will be back in special session again soon!

Michigan: Only a tiny handful of legislators came to Denver, because of the upcoming primary, being held in the context of havoc in cities and suburbs. Governor Engler has cut \$859 million in revenue-sharing to the municipalities, which have no way to make up for the lost funds. The former industrial center of Flint is bankrupt.

Virginia: The Commonwealth is struggling to make up for lost prison income. Governor Mark Warner has appointed a special panel to study ways to offset the loss of \$46 million to the state treasury, incurred as the Federal government and other states "reclaim" many of the 1,600 prisoners Virginia houses (and for each of whom Virginia charges up to \$75 a day).

After the Collapse: Phone and Internet Infrastructure Threatened

On July 30, the Senate Commerce Committee, chaired by Sen. Ernest Hollings (D-S.C.), held a hearing on "Financial Turmoil in the Telecom Marketplace," to learn from executives of WorldCom, Global Crossing, and Qwest Communications, and Federal Communications Chairman Michael Powell, how to ensure phone and internet networks continue working amid the telecom meltdown.

"They want to know from the FCC and from the companies, who have obviously been struggling, what needs to happen to ensure we don't have some kind of catastrophic failure" of service, said a spokesman for Senator Hollings.

FCC Chairman Powell, while pledging that the agency would protect customers against abrupt termination of telephone service, warned that the FCC's authority might not extend to the internet backbone, and asked Congress to expand the agency's power to block telecom companies from shutting down internet services.

Power Outages Illuminate the Disasters of Dereg

It's worse than Enron, Dynegy, and the California crisis! The pattern of electricity cuts is increasing, as the United States electric grid—destroyed by deregulation and the speculation carried out by the energy "traders"—cannot handle the demand. In El Paso on Aug. 2, a 45-minute blackout hit the entire city of 500,000, as a high-voltage line from New Mexico short-circuited. In New York City, the eighth power "alert" of the summer occurred Aug. 2, as the New York Power Authority asked its customers to cut back. Under a plan called, "Peak Load Management," customers will get a pay-

off of \$40 per kilowatt to reduce their power consumption. Earlier in the week, the small town of Bedford, in southeastern Pennsylvania, was hit with a blackout, as Penelec had a service breakdown. Why is this happening? See this week's InDepth for the *EIR* testimony on Enron submitted to the U.S. Congress.

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IBERO-AMERICAN NEWS DIGEST

Great Projects Top Agenda of South American Summit

The heads of state of the 12 nations of South America held their second-ever continental summit in Guayaquil, Ecuador on July 26-27, amid the greatest crisis faced by those nations since their independence battles nearly 200 years ago. The President of Uruguay, and the Prime Ministers of Guyana and Surinam, could not personally attend, but sent representatives, owing to crises at home.

The summit was dismissed in the international media as an insignificant meeting of Presidents who are about to leave office. It is true that five of the Presidents are scheduled to leave office by March 2003 through elections, and another four heads of state face political crises so great they could be run out of office on a rail at any time. But it would be a mistake to ignore the revived drive for integration underway across all Ibero-America, in which the South American summit process is playing, right now, the most interesting part.

The first such summit was held Aug. 31-Sept. 1, 2000, in Brasilia, at the initiative of Brazil's President Fernando Henrique Cardoso. There, then-President Alberto Fujimori of Peru gave voice to the explosive political potential inherent in the idea of integration under today's conditions of global catastrophe. In his address to the gathering, Fujimori called upon his fellow Presidents to join forces, stop the bankers' bleeding of their resources through debt manipulations, fight to ensure that their nations finally develop, prosper, and, perhaps, establish a future "United States of South America." Sources in the region informed *EIR* recently, that Fujimori's visionary speech of a year ago had received prior approval from several of the Presidents attending the Brasilia summit.

Fujimori was ousted less than three months later by a Project Democracy-run coup, which had full political and economic backing from Wall Street and the U.S. State Department; but the movement towards integration was continued. The Brasilia summit established a regionwide network, the Initiative for the Regional Integration of South America (IIRSA), to coordinate the physical integration of this largely undeveloped continent.

IIRSA has drawn up plans for long-needed projects to integrate the continent from north to south, from the Orinoco River in Venezuela to the southern tip of Argentina, and from east to west—joining, finally, the Atlantic to the Pacific. A series of beautiful color maps, depicting the corridors of development which are envisioned growing around these infrastructure "great projects," can be viewed at www.iirsa.org. **Figure 1** shows the overview map.

IIRSA's progress was a principal item on the agenda of the second summit in Guayaquil. The Heads of State were presented reports on 162 transport, energy and telecommunications infrastructure projects identified thus far by IIRSA. - Development Is a Human Right -

None of the Presidents at Guayaquil were as daring as Fujimori two years ago. Nor did they evidence publicly any recognition that they cannot build what they want to build, nor even defend their nations from outright destruction, without breaking with the failed global monetary system killing their countries. They refused, reports make clear, to face the fact that free trade must be dumped, insisting instead on the contradictory demand for *fair* free trade, and focusing much energy on attacking recent moves to revive protectionism in the United States and Europe.

There was much discussion of the need to get around the critical financing bottlenecks, which make it impossible for their nations to get credits to build even basic hydroelectric projects. But no one admitted that there is *no* solution within this dying financial system; nor, that their nations are not suffering mere "financial turbulence," but a *terminal* crisis of the global system, from which they can escape only by battling for an return to economics based on the nation-state.

The tone of the Presidents was angry, however, and the agenda was the right one. The 34-point "Consensus of Guayaquil On Integration, Security, and Infrastructure for Development" signed by the heads of state at the summit's conclusion, expressed an intention to secure human rights for their peoples, including their "universal and inalienable right to development."

Exactly 180 years ago, the principal liberators of South America, Simón Bolívar and José de San Martín, met in Guayaquil to coordinate the final independence of the Spanish colonies in South America, Ecuadoran President Gustavo Noboa noted in his speech inaugurating the summit. Today as well, he said, the Presidents met to discuss "the destiny of our peoples." The objective of the IIRSA project founded at the Brasilia summit, is to make a tangible reality, the ideal of integration inherited from the founding fathers. "Today, however, its realization has become an imperative which cannot be put off, if we truly wish to overcome underdevelopment and all its consequences, the most painful of which are poverty, ignorance and migration."

Ibero-America is extremely vulnerable, Noboa acknowledged. And a principle factor in that vulnerability is "the heavy weight of servicing the foreign debt," which permanently channels off the resources which we need so our people can reach "the standard of living to which they have a right as human beings." - Free Markets Are Not Functioning -

In an echo of the future envisioned by Fujimori, Noboa reminded his fellow heads of state, that the project begun in Brasilia two years ago, seeks not only to build physical projects which connect and integrate the region, but to realize something even greater, "the construction of an integrated space," which can politically defend the fundamental interests of South American peoples. Having laid the bases for a "South American Project," Noboa asked the meeting in Guayaquil to "consolidate, deepen, and expand it. Current reality demands an overview and common action."

The other speech which helped define the summit was that of the previous summit's host, Brazil's President Cardoso. He said that free markets and the international financial system, as presently conceived, are not functioning for all, and that the financial markets "destroy in a short time, what took years to build.... This is a world of unilateralism," which must be made more democratic, and less egotistical.

Several specific initiatives were adopted. One, was to concentrate efforts on developing an integrated energy grid and services, with an eye to drawing up a specific plan. The final statement identified the electrification of Ibero-America's marginalized rural and urban areas as "one of the greatest political, social, and economic challenges facing the governments of the region."

The Presidents were also adamant, that they will not accept any supranational intervention into their neighbor. South America will not endorse any intervention by the United States, nor any other country, in the Colombian conflict, Noboa stated at the summit's close; there will be no continental military force formed to intervene.

—*This article was written for EIW by Gretchen Small.*

Former Mexican President López Portillo Targetted for Prosecution

On July 30, the Mexican daily *El Universal* published a front-page story, reporting that former Mexican President Jose López Portillo (1976-1982) would be hauled before the "Special Prosecutor on Past Political and Social Movements." The new post, created by the government of President Vicente Fox, has López Portillo's name on a list of those under investigation for alleged human-rights violations. Special Prosecutor Ignacio Carrillo Prieto would not, however, say when the former President would be subpoenaed to testify.

As *EIW* reported in its InDepth coverage last week (July 29) (See: "[Mexico in the Crosshairs of Human Rights 'Mafia'](#)"), the Special Prosecutor's investigations into alleged human-rights violations, even wild charges of "genocide," against a growing list of former Mexican government officials, including also former Mexican President Luis Echeverria (1970-1976), backed by Project Democracy's well-paid "human rights" shocktroops, are not aimed at securing justice, but the destabilization of the institutions of the Mexican Presidency and Armed Forces, so as to place Mexico under supranational rule.

Details are sketchy so far on the case being put together against López Portillo, but it should be kept in mind that Wall Street interests have never forgiven the nationalist President for the bold attempt, toward the end of his Presidency in 1982, to implement Lyndon LaRouche's "Operation Juarez" strategy for Ibero-America: to use "the debt bomb" to force the industrial nations to help reorganize the world monetary system to foster production. López Portillo later urged that LaRouche be exonerated following his unjust imprisonment in 1989, and, in 1998, spoke at a joint seminar with Helga Zepp-LaRouche in Mexico City, where he stated that the world must listen "to the wise words of Lyndon LaRouche."

Guatemalan President Suspends Executions in Answer to Pope

Guatemala's President Alfonso Portillo declared July 28 that he will suspend application of the death penalty in his nation for the remainder of his term in office, until January 2004. Portillo announced that he made the decision in response to a request from Pope John Paul II, who had sent a letter to the President before arriving in Guatemala on July 29, requesting that he abolish the death penalty.

On July 29, President Portillo followed up with a request to the Congress, that it abolish the death penalty altogether. This

is in stark contrast to what happened in 1983, when the Pope made a similar appeal, before an earlier visit. On that occasion, then-President Gen. Efraín Ríos Montt responded by executing six people, three days before John Paul II's arrival.

WESTERN EUROPEAN NEWS DIGEST

London Looks at U.S. Economic Breakdown

"America's high-spending households have become the world's consumer of last resort. That is not all for the good," writes Stephen Roach, chief economist and director of global economics at Morgan Stanley, in the *Financial Times*, Aug. 2. In an article entitled, "The Last Line of Defense," Roach points out that, "Recent statistical revisions reveal a 2001 recession deeper and longer than was previously thought. Less support from the consumer was the main culprit. But U.S. households are still steeped in denial, and the imbalances of the 1990s have yet to be fully corrected. The odds are there is more pain to come...."

Roach points to the meltdown of the "wealth effect," which, until recently, financed consumption through stock-market gains. "More recently, however, with stock markets sagging and residential property values rising, consumers have been tapping the home equity till. There are structural pressures on consumption, too: a low saving rate, record debt, an aging population and a lack of retirement security brought about by wider use of defined-contribution pensions."

"Taken together," he observes, "these factors suggest that the U.S. consumer is about to be caught in a vice. Three powerful forces are at work: wealth destruction; a long-overdue U.S. current account adjustment; and the coup de grâce: a negative income shock."

Stock prices have been falling, for some time, Roach writes. "Residential property values have held up a good deal better, enabling consumers to shift their equity-extraction tactics to property. But there is good reason to believe the property cycle is about to turn as well.... A current account adjustment should also put increased pressure on consumers. The massive current account deficit is an unmistakable symptom of a U.S. economy that has long been living beyond its means." As a consequence of these factors, Roach's view is that, "the coming current account adjustment cannot occur without a significant compression in consumer demand and a concomitant reduction in imports."

He continues: "An income shock, if it occurred, would be the clincher. The trigger is likely to be another wave of redundancies and cost-cutting as companies at last face up to the seemingly chronic conditions of bloated structures and excess capacity...."

"The outlook is strikingly reminiscent of the early 1990s. Then, a managerial shake-out kept the national unemployment rate rising for 15 months into a recovery. A decade later, the prospect of another white-collar shake-out conjures up the possibility of a second jobless recovery and below-trend growth in incomes and personal consumption."

Roach then notes the political significance of this process: "It is at this point that politics and economics intersect. In their spare time, consumers are also voters.... Asset-based consumption growth and the excess leverage it spawns set any economy up for systemic risks and a serious shake-out. That, in turn, holds the potential for a significant reversal in public policy.

"The domestic and geopolitical ramifications of a retrenchment by the American consumer would, admittedly, be profound. I worry most about Asia, which remains dependent on U.S.-led external demand. Capitulation by the American consumer would threaten the region with a return to recession; political destabilization could ensue. China would not be

spared, either: its exports to the U.S. surged at an annualized rate of 19 percent in the first half of this year.

"I suspect that the body politic in the U.S. and around the world will do everything in its power to buttress America's last line of defense. Fiscal and monetary restraint could be cast aside, as could the deregulatory thrust of the past 25 years. Shocked? Do not be. In a post-bubble era, the macro usually gets turned inside out." It seems that Roach is finally catching up with what Lyndon LaRouche has been saying for some time.

Helmut Schmidt: Europe Should Reject 'New Roman' U.S. Imperium

In *Die Zeit* July 31, former German Federal Chancellor Helmut Schmidt has a lengthy essay, in which he portrays current U.S. policies as a "New Rome" matrix, saying Europe does not need to be part of it. The piece shows both the strengths and weaknesses of the Continental European policy-making group that Schmidt represents. He titles his essay: "Europe Does Not Need a Guardian. Never before has U.S. foreign policy been as imperial as now. Europe can live with it—but it should not submit."

Schmidt begins with members of the Wolfowitz cabal—the "war party" around Deputy Defense Secretary Paul Wolfowitz—in the Bush Administration, naming such figures as "Robert Kagan or Charles Krauthammer, William Kristol, Richard Perle, Zbigniew Brzezinski or Paul Wolfowitz," as "American proponents of ruthless use of power" and "intellectual leaders of American Unilateralism," based on a philosophy borrowed from Thomas Hobbes, which would discard NATO. "The nationalist, egocentric influence of imperialist-minded intellectuals, on the actual strategy of the U.S., is currently bigger than ever since World War II," Schmidt states, and quotes Edmund Burke's warning against "the hubris of the superpower."

The original instinct of the Bush Administration was to regard China as its sole competitor as a world political power, Schmidt writes, and before the Sept. 11 attacks, the U.S. President regarded a war between the U.S. and China as a definite possibility, if not probability. But, then there was Sept. 11, with its enormous psychological impact on the U.S.A. At first, there seemed to emerge a cooperative response, with the U.S., Europe, Russia, and China, but this has changed. Europe has been discarded, as being obsessed with "a Kantian world order," as opposed to the Hobbesian outlook of U.S. policies, which are similar to those of the Roman Empire: "Today, one can already hear Americans comparing their country with the world empire of the classical Rome—giving Europe the role of provincial Athens, where the Roman patricians sent their sons to study rhetoric and philosophy."

All of this is now coming to the fore, in the context of the likely U.S. attack on Iraq, Schmidt says. "But, there are a number of realities, to which which Washington should not close its eyes":

1. A U.S. intervention may be able to eliminate Saddam Hussein, but it would not eliminate Islamic terrorism, and much rather incite Islamic terrorism.
2. This, and the poverty in overcrowded Islamic population centers, may bring down moderate Muslim governments.
3. U.S. policies toward the Middle East and Near East are incoherent, because they are determined by U.S. domestic factors.
4. U.S. use of nuclear weapons would destroy the policies on nuclear non-proliferation, and were a dangerous precedent.

For Europe, Schmidt says, there are the following strategic principles:

1. Because of its proximity to "hundreds of millions of Muslims," the European Union "must stand for dialogue with and tolerance of Islam," and, "it cannot support policies that will be seen as provocations by the Islamic peoples."
2. Europe has suffered terrorism for decades, and, in fighting terrorism, has never violated international law. There is no reason now, to violate these principles.
3. In case of "preemptive" U.S. attacks, NATO members are not bound to assist. In fact, the German Reunification (2+4) Treaty forbids that Germany participate in wars not explicitly sanctioned by the UN Security Council.

Schmidt develops the point that Europe should try to constructively influence U.S. policies—but without any illusions.

European Opposition Could Prevent Iraq War

Columnist William Pfaff, the European-based American writer for the *International Herald Tribune* says that the European nations should use their "power" against the disastrous policies coming from Washington, especially the Iraq war drive. Although there is much tension and many complaints about U.S. policies, European governments are not saying anything seriously in public, wrote Pfaff in the July 25 *IHT*. Americans think that the Europeans have no alternative but to fall in line, but this could be a dangerously complacent illusion, because the European members of NATO do have an alternative, although they seemingly do not understand their own power.

"Few in Europe's leadership seem to grasp that if the European NATO governments and public indeed object to a U.S. attack on Iraq, as they say, they can prevent it, or at least block it for many months, while accomplishing a fundamental transformation in the Middle Eastern situation to their own advantage," Pfaff writes, adding that this could be done if the Europeans were to take a simple but decisive step: "reaffirm that Europe is an alliance of independent and politically equal countries." The Europeans could refuse to allow the Americans to use NATO's European assets for an attack on Iraq. This would not destroy NATO, Pfaff suggests, but it might even save NATO by re-creating a political equilibrium. Sooner or later, European powers will have to deal with the consequences of American unilateralism, and this could be the best time to act.

The fundamental reason that this will not destroy NATO, Pfaff explains, is that the U.S. needs NATO more than the Europeans do. NATO provides the indispensable material and strategic infrastructure for American deployments throughout Europe, Eurasia, the Middle East, and Africa. Furthermore, "without NATO, the United States has no legitimate claim to a say in European internal matters."

For all these reasons, a polite mutiny within NATO could force the U.S. to back down on Iraq, and after this, the Europeans would never again have reason to complain that the U.S. is not paying attention to them. "But do the Europeans really want this? Or is it all talk?" Pfaff asks, in conclusion.

While there is little open criticism in Europe of the U.S. Iraq war insanity, the deep concern was in evidence behind the scenes at the Franco-German summit in the eastern German city Schwerin. On July 30, German Chancellor Gerhard Schroeder said that, so far, the Americans have not signalled a concrete need for consultations with the Europeans. One should "stay calm" and not engage in "speculations" about American plans, he said. Among the non-European issues on the agenda, the Iraq one was on top of the list in Schwerin, indicating that there is more to worry about it than the leader of Germany wants to discuss openly.

With respect to Pfaff's analysis that the Europeans could force the U.S. to back off on attacking Iraq, Lyndon LaRouche agreed that "they could, but they won't."

British Oligarch Praises Empire Faction in U.S.A

Former British Foreign Secretary Lord Owen praised the American Imperial thrust, and the strategy of the U.S. to use Russian oil to replace Saudi oil—a strategy from which he intends to obtain enormous personal profit.

The Swedish daily *Svenska Dagbladet* ran an article July 28 with the headline, "Lord Owen Wants Us To Stop Complaining About the United States." This article opens a series of interviews, the paper says, on "the controversial question," of whether "the 'U.S. Imperium' is for better or for worse."

Lord Owen states that "we ought to be happy that the USA is taking on terrorism, even when we look at the Mideast," and gives full support to President Bush, expressing admiration for "the clarity of thought which is part of an American attitude," vis-a-vis Yasser Arafat and related matters. He continues, "And people tell him [Bush], 'but what about all the other countries, which also are not democracies'?... I believe that this man intends to take on Saudi Arabia. America will not be nice to the old Saudi leadership only because they have a lot of oil. They have an alternative now—Russian oil."

This last comment is of great significance given that Lord Owen recently joined the board of Yukos Oil, a company owned by the notorious Mikhail Khodorkovsky, who is at the forefront of negotiating various energy deals with the Americans and British, which deals are supposed to supersede American reliance on Gulf oil. Some months ago, Khodorkovsky created an "Open Russia Foundation" in London, on the board of which is ultra-Anglophile, Sir Henry Kissinger.

Joblessness Hits Four-Year High in Germany; Two-Year High in France

Although unemployment figures for July will not be published until about Aug. 7, the German media have already leaked the news that this month's figure is expected to be very close to 4.1 million unemployed—the highest level since July 1998. The unemployment rate is now 9.8%.

In France, unemployment reached the highest level since October 2000, with 2.4 million, or 9%.

Particularly worrisome is the decrease in apprentice jobs for young Germans just graduating from school in June: There are 6.3% fewer such jobs being offered in industry and banking, than in July 2001.

Russia and Central Asia News Digest

Finance Minister Kudrin Notices World Financial Crisis

In his famous poem "*Khorosho!*" ("Good!") about the Bolshevik Revolution, Vladimir Mayakovsky told how the news spread across the huge country, reaching eventually the remotest province and its most illiterate inhabitants, even the drowsiest. On July 25, the drowsy head of Russian Finance Minister Aleksei Kudrin was struck with the fact of a global financial crisis. Speaking with Russian journalists, Kudrin allowed as how one could observe "certain signs of an international financial crisis." Devoted as he is to monetarism and globalization, Kudrin hurried to add, that he was sure the U.S. Federal Reserve and the European Central Bank would take measures, but he didn't sound sure that they would work. Market capitalization has collapsed already, said the Russian Finance Minister, and looming ahead is the inability of companies to service their debts, threatening "the stability of the banking system."

Russia To Proceed With Iran Nuclear Cooperation

Pursuant to its approval by Prime Minister Mikhail Kasyanov on July 24, the Russian government has published a program of long-term economic cooperation with Iran, for the period until 2012. Included is construction of four to six nuclear power stations, including Bushehr-2, Bushehr-4, Ahvaz-1, and Ahvaz-2. Reporting on negative reactions from the United States, as depicted in the U.S. press, *Izvestia* and other Moscow papers emphasized Russian scientists' and politicians' confidence that spent fuel, from the VVER-1000 light-water reactors sold by Russia to Iran, can be handled so as to prevent the accumulation of weapons-grade plutonium.

The question of Russian-Iranian nuclear cooperation jumped to the top of the agenda, in Moscow talks held the week of July 29, by U.S. Energy Secretary Spencer Abraham, and State Department arms control negotiator John Bolton, a leading figure of the "war party" in Washington. At an Aug. 1 press conference in Russia, Abraham said, "Clearly the extension of Russian nuclear cooperation with Iran remains an issue of utmost concern to us. We consistently urge Russia to cease all nuclear cooperation with Iran, including its assistance to the reactor in Bushehr." Russian wires reported that Abraham said the matter had been referred to "the highest level" for further discussion.

In Washington, meanwhile, there are rumors of an attack on the Bushehr plant before the fuel is loaded, likely by the Sharonist militants of the Israeli Defense Force, who carried out such an operation against Iraq in 1981.

Schemes for Using Russian Oil

While chastizing Russia about its nuclear projects in Iran (see previous article), the Abraham-Bolton delegation pursued the "energy dialogue," announced last May when the U.S. and Russian Presidents met in St. Petersburg. The Russian Energy Ministry announced July 31 that Secretary of Energy Abraham and Minister of Fuel and Energy Igor Yusufov had discussed creation of an oil reserve, held on Russian territory, for purposes of "increasing energy price stability." Abraham pledged U.S. assistance in "creating and managing the reserve."

Yusufov called Russia's first big shipment of oil to the United States "a positive experience, despite some problems." The shipper was Yukos, owned by Mikhail Khodorkovsky, whose strong advocacy of Russia's role as oil supplier to the United States has figured in dubious geopolitical calculations about replacements for Mideast oil in the event of war. The shipment arrived in Texas July 3, but Yukos was unable to collect payment, because one of its creditors sued to impound the funds in payment of an outstanding debt.

Wage Arrears Rise Again in Russia

The Russian state budget, which is now under pressure for rising debt-service payments, due to the fall of the dollar, has practically no reserves for emergencies. Early summer floods in southern Russia, for example, became the chief cause of a doubling of state-sector wage arrears, to 3.2 billion rubles (\$101 million), during June. There were no funds available for disaster relief, so payroll was diverted. At the government cabinet meeting of July 22, President Vladimir Putin called for emergency measures to reduce the arrears. According to an *Izvestia* monitored by RFE/RL Newsline, 17 out of Russia's 89 regions have serious wage arrears to teachers, some of whom have not received June wages or their vacation pay. *Vremya MN* reports that medical-sector workers' salaries nationwide are 1.38 billion rubles (\$43 million) in arrears—more than a month, in many areas.

Russian Capital Investment Plummets

At a press conference on July 18, Russian Minister of Economics and Trade German Gref admitted that investment in fixed capital during the first half of this year had come in far below projected levels. Such investment grew only 1.8% in the first six months of 2002, as against the anticipated 4.5% increase. Gref attempted to explain away the collapse, as being

based on companies' confusion about new tax laws, which changed the calculation of depreciation allowances, and lowered the basic tax rate from 35% to 24%, while abolishing a 50% investment tax credit.

'Economic Mobilization Plan' Reported To Be in the Works

A plan for an "economic mobilization program" is in preparation for Russia, and the Franklin D. Roosevelt New Deal should be a model, wrote Mikhail Antonov in commentary for *Pravda.ru* July 26. He reported that the "mobilization program" is being developed by a team close to Sergei Pugachov, for presentation to President Putin in the Autumn. Pugachov is the former head of Mezhkombank, now representing Tuva in the Federation Council (upper house of Parliament). He has long-standing ties to President Putin. In June, right after Putin called for the repatriation of flight capital, the President met with Pugachov for two hours, reportedly on the nuts and bolts of attracting the money of the "oligarchs" back into the country.

According to *Pravda.ru*, the Pugachov program calls for "restoration of the government monopoly on export and import of important goods, to deprive oligarchs of their economic might";

- *preventing capital flight by putting foreign-trade accounts only in authorized banks;

- *"introduction of a state order for enterprises," including that accounts should be settled at government-controlled prices;

- *control over foreign travel, including currency spent;

- *improving the media, including, ending big-business media control.

Elaborating the need for such measures—despite liberal reformers' complaints about alleged "fascist" precedents—*Pravda.ru* writes that the real precedent, is the United States in the 1929 Depression and the FDR program. The Depression was rooted, not just in the stock-market bubble, but in the control of 30% of national private earnings by 5% of the population. Antonov described the economic devastation of the U.S., which was "on the verge of a destructive social outburst" under Herbert Hoover.

The article then describes FDR's New Deal, emphasizing the reconstruction of the banking system; "establishment of governmental control over securities markets" to control speculators; control of currency issuance; and control of gold and silver exports. In addition, there were rural reconstruction and the TVA, followed by the war mobilization. "This was how the U.S.A., industrial giant and first power of the world, appeared." Antonov wrote.

He concluded: "Measures taken by Roosevelt are more far-reaching than Senator Pugachov's program. And Russia may choose among three ways only: ... keep up the present inconsistent liberal line, ... switch over to radical liberal reforms, ... for sure to result in a social outburst. And finally, the third way is to form a mobilization economy to guarantee higher GDP growth and Russia's incorporation into a post-industrial [sic] society."

Tempest Over Kremlin Plan To Make Raw Materials National Property

Kremlin legal expert Dmitri Kozak, deputy chief of the Presidential Administration, is reportedly 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. More details of the plan are emerging, although it is not yet clear where it fits in the ongoing Russian brawls over economic policy. On the one side, elements of the plan

echo Academician Dmitri Lvov's impassioned call, at June 2001 Duma hearings, to "place our national wealth on the balance sheet of the state." On the other, it coincides with a push from oil-sector Russian "oligarchs," to get President Putin to play Russia's oil card in nasty geopolitical dealings with the United States.

What's for sure, is that the possible changes in formal ownership arrangements for Russian oil and other resources have destabilized Moscow and international financiers. An article in the July 26 issue of *Vedomosti* headlined, "Kremlin wants the natural resources: The oligarchs' nightmare may come true; Companies call it nationalization; investors predict outflow of capital." The article says that Kozak's plan is in fulfillment of Putin's request to deal with the situation, where "some of our companies have resources that will last them 10-15, 25, or even 30 years. Some of them are already prepared to sell these resources, boosting their capitalization at the nation's expense." *Vedomosti* says that Kozak has found the solution, in the form of an amendment to the Law on Natural Resources, which "comes down to this: All natural resources will be property of the state."

Under the new law, all existing licenses for raw materials exploitation would be cancelled, and replaced by concession agreements. Kozak told *Vedomosti* that only those companies, which have honored their license agreements, will be eligible for the concessions. According to Kozak, relations between the state and companies handling natural resources "will become only more civilized." He explained, "A license is a purely administrative document. A concession moves relations between the state and the company onto a legal basis. This is an agreement between the state and the private company which offers better guarantees to both signatories.

The *Wall Street Journal* of July 30 also covered the issue, under the headline "Specter of Nationalization Spooks Investors in Russia." Jeanne Whalen wrote, "A word most investors thought the Kremlin had expunged from its vocabulary—nationalization— crept back to the fore last week as the presidential administration floated a puzzling proposal for the state to retake greater control of oil reserves and other natural resources now in private hands." Cancelling the license agreements that give companies the right to produce and sell oil and other minerals, wrote Whalen, means that "the state would own the minerals and pay companies a 'commission' for producing them, according to a copy of the proposal given to the government." Kozak told the *WSJ* that the plan was being "misinterpreted," and was merely an attempt "to give the state greater control of oil at the wellhead, in order to ensure that taxes are paid in full."

Both the *WSJ* and *Vedomosti* highlighted anguished reactions from a certain David Hearne of Brunswick Capital Management, who said, "I guarantee that as soon as the government tried to push this through, capital will flee from Russia en masse.... Essentially, this is a text-book example of asset-stripping: licenses are the companies' major assets. Russian companies' shares will plummet." Sergei Aleksashenko, a former government official who is now Vice President of Interros, said, "Kozak has gone even further than the Russian communists, who merely dream of nationalizing natural resources scheduled for export.... If this is not nationalization, I don't know what is."

MIDEAST NEWS DIGEST

Colin Powell to Meet Palestinian Representatives in Washington

Colin Powell will meet with Palestinian representatives in Washington upon his return to the U.S.A., following the annual Association of Southeast Asian Nations (ASEAN) meetings in Brunei, he told reporters in Bangkok, on July 29. Powell said the meeting "is part of our process of moving forward to help the Palestinian community transform itself." This would be the first U.S. meeting with Palestians representatives since President Bush's June 24 calling for the election of Palestinian leaders who are not "compromised by terror."

The *Washington Post* July 29 said the meeting is likely to be viewed as a victory for Powell and those in the State Department who have made no secret that they would prefer a more balanced approach, that would give the Palestinians

more hope for a political solution.

Powell returns to the U.S. Aug. 4., and the meetings would take place Aug. 5-6. Although Powell told the press conference that he did not know who would represent the Palestinians, Palestinian negotiator Saeb Erekat said he and Palestinian Authority Interior Minister Abdel Razak Yehiyeh would attend. Informed Washington intelligence sources told *EIR* that the Sharon government, and the right wing of the U.S. Israeli lobby, are engaged in intensive "arm-twisting," in an attempt to force a cancellation of the meeting.

Israeli Historian: 'Israel Is Destroying Itself'

"Israel Is Destroying Itself," is the headline of an incisive commentary in the Aug. 2 German daily *Die Welt*, authored by leading Israeli military historian Martin van Creveld.

It will be recalled, in reading the following, that Lyndon LaRouche warned, already several months ago, that the policies of the Ariel Sharon government would end up destroying Israel.

Van Creveld writes: "Whom the gods would destroy, they first make mad.... In its criminal insanity, or its insane criminality, Israel appears fully resolved to destroy itself."

Van Creveld stresses that, even in its own terms, Sharon's policy of "absolute security" for Israel, has been a dismal failure. Since Sharon came to power a year and a half ago, some 450 Israelis have lost their lives, which, in proportion to overall population, would be comparable to 7,000 Germans dying. Three times as many Palestinians as Israelis have been killed, and the recent slaughter of a family in Gaza, is only making things worse.

In the meantime, "the consequences of this policy have reached the borders of being able to be sustained." Students have to spend increasing amounts of time running around in the occupied territories, on military duty, or in security jobs watching vital infrastructure. The currency, the shekel, which was formerly very strong, is collapsing, as is the economy overall. "In other words, Israel is expending its future, to pay for the present." The budget is being massively cut, unemployment is growing, and so on.

Another dreadful sign, is that among the "ultraright" in Israel, a "solution" to the problems is gaining support, which "in many ways, recalls what the German Army did in their occupied lands" during World War II.

And, the whole concept of rendering Yasser Arafat "insignificant," is only strengthening Hamas and Islamic Jihad, "which presents a danger not only for Israel, but for the entire world."

The only heroes in Israel now, insists van Creveld, are the military "Refuseniks," such as the 28-year-old David Sonnenschein, who is willing to risk a longer jail sentence than might otherwise be the case, so that he can bring out into the open, in court, why he is refusing to be part of the military operations in the Occupied Territories. Van Creveld is the author of an important work on the history of the Israeli Defense Forces called *The Sword and the Olive*.

Syrian-born German Leader Karsli Attacks IDF Nazi-like Policy

Former German Green Party politician Yamal Karsli blasted the policies of Ariel Sharon and the Israeli Defense Forces (IDF), for their Nazi-like actions in the the Palestinian Territories. Syrian-born Karsli, whose struggle against the Green Party's leadership, and the media's pro-Sharon propaganda, sparked a heated controversy inside Germany several weeks

ago, was the guest of honor at the Arab Democratic Party convention in Nazareth, in late July.

In an interview published in the Israeli daily *Ha'aretz* July 29, Karsli said that his harsh criticism, several weeks ago, of Israeli policy in the Palestine Territories, "never referred to the Israeli people or government as Nazi-like, only to army tactics in the occupied territories."

But he does consider Prime Minister Ariel Sharon and Foreign Minister Shimon Peres "war criminals," and holds that "it is shameful for the world that Peres still has the Nobel Peace Prize," Karsli said.

"I want peace and am ready to meet and work with anyone who wants peace. I do not reject the state of Israel, but for the Jews to live in security, they must let the Palestinians have their rights to an independent state," Karsli said. "Sharon's policies are that of a man of war, and cause suffering not only to the Palestinians but to the Jews themselves."

Israel Adopts Nazi Policy of Punishing Families

The Israeli intelligence service Shin Beth, and IDF chief of staff Moshe Ya'alon, say families of suicide bombers should "suffer" for the terrorists' actions. Senior Israeli military commentator for *Ha'aretz* Zev Schiff writes in the Aug. 2 issue, that there will be "much more aggressive Israeli measures" against "the families of suicide terrorists, specifically those who aided, abetted, or supported their relatives' terror missions. The Shin Beth is most aggressive in demanding this measure and they are fully backed by ... Ya'alon."

Schiff says Ya'alon is "an enthusiastic supporter of house demolitions against the families, as well the expulsion of relatives." He also believes that "suicide bombers should know that suffering will follow their families for the rest of their lives." Schiff says that Ya'alon argues that punishing the families is "more moral" than closure and curfews against "millions of Palestinians." The expulsions and demolitions have already been carried out this week, and as many as several dozen more are planned. Accused family members are given several days to dispute the charge against them.

The house demolitions and the expulsions are just a step away from the proposal put out by U.S. attorney Nathan Lewin, a former U.S. Justice Department official in May 2002, when he called for the families of terrorists to be executed en masse. Lewin, a supporter of the Likud, admitted that the Nazis used this policy against resisters, but insisted that the Israelis, unlike the Nazis, would be justified in doing it.

An article in the June 28 *EIR* reported that Jewish scholars in the United States reacted with outspoken revulsion to Lewin's proposal, made in the May 2002 issue of *Sh'ma*, an English-language journal. Brandeis University Prof. Arthur Green, the former president of the Reconstructionist Rabbinical College, wrote that his "first desire upon reading Lewin's essay was to 'tear my garments as a sign of mourning on hearing the desecration of God's name,' " according to the newspaper *Forward* on June 7. Many other Jewish leaders have joined this denunciation of Lewin.

Schiff also reveals in his *Ha'aretz* article, that Sharon's two emissaries in Washington last week—attorney Dov Wiessglass and Maj. Gen. Moshe Kaplinski, the military liaison—were told in "firm" and "blunt" language by National Security Adviser Condoleezza Rice that Israel must begin easing the conditions imposed on Palestinian civilians. However, Israel has taken no such action, and instead, begun new incursions into West Bank towns (see this week's InDepth for more Middle East coverage).

Iran Targetted by Sharon/U.S. in 'Clash of Civilizations' Nightmare

A leading British newspaper has reproached the Bush Administration for menacing Iran with the threat of war. The the

London *Guardian* July 31 took Washington to task for endangering the reform process that is underway in that nation, in a prominent article entitled, "War on Iran Is the Next Nightmare." The *Guardian* says, "By demonizing, destabilizing, and threatening Iran, like Iraq, with violence, the U.S. foolishly obstructs this evolution, boosts the hardliners, and risks provoking a widening Middle East conflagration. At present, Iran is not a threat. Mr. Bush is."

Iranians, it says, have good reason to wonder whether their country may be next after Iraq, considering the following: that Iran is considered a rogue state, a member of Bush's "axis of evil," a supporter of Hezbollah, a harbinger of al-Qaeda, and in possession of weapons of mass destruction. Since the Afghan war, the paper notes, Bush has cut off all contacts with Iran, and "the ostracism is total," especially, considering that another member of the so-called axis of evil, North Korea, is on Powell's diplomatic contact list. Now, with the U.S. military build-up in the region, and the pressure on Russia to halt nuclear energy cooperation with the Gulf state, Bush has come out with his bid for protestors to bring down the Khatami government.

"The clear implication of this extraordinary bit of meddling, was that Iran, like Iraq, must change—or face the (U.S.-dictated) consequences. Washington wants a second, secular Iranian revolution—and it wants it now."

The article goes on to acknowledge that the repression from the conservatives is all too evident, "but," it notes, "it does not go unchallenged," referring to the stance taken by Isfahan cleric Ayatollah Taheri and his "clarion call for peaceful social change." The paper also remarks that "social and civil reform will come, as surely as old men grow weak and die."

Iran Will Respond to an Attack on Its Nuclear Plant

In response to an alarming report in the *Washington Post* July 29, gloating that the Bush Administration had decided to "drop" all channels of discussion with Iranian "reformers," the *Tehran Times* stated that Iran will respond to any attack against its nuclear installations. The *Post*, which is closely linked to Ariel Sharon through *Post* heiress Lally Weymouth, had mooted U.S. and Israeli concerns about Iran's nuclear plant, and warned that there are circles ready to destroy it. The *Times* presents a list of nuclear plants around the world, along with their energy capacity, and observes that no one seems to be concerned about them.

"There are various reasons for the irrational U.S. objections to Iran's nuclear energy program, some of which are enumerated below," says the Tehran paper. These include, that Bush was elected illegitimately; that several big corporations have gone bankrupt since then; and that "Bush has to externalize these problems"; that the Afghan operation has failed; that "Bush is in trouble with regard to the Middle East"; and, that the U.S. has still not settled the Iraq problem. "Therefore, any insane move against Iran would only reflect the bankruptcy of U.S. diplomacy."

The article concludes: "Iran will not sit by idly and do nothing if its nuclear installations are attacked. Iran will take any measures it sees fit in such an event. It is a matter of national pride and security."

The moves by this U.S./Israeli war party would trigger a regional, if not global catastrophe. According to a well-informed Iranian source, several high-level politicians have stated recently that, if attacked, Iran would fight back. The gist of the statements is that, although Iran may not be militarily capable of defeating the U.S., it is capable of attacking U.S. interests outside Iran. The source recalled an article by German writer Scholl-Latour, following Sept. 11, that if the U.S. were to attack Iran, the result would be the unleashing of hostilities on a front from Morocco to Indonesia.

Iraqis Invite Head of U.N. Weapons Inspection Team

"The 'war party' in the United States has suffered a political defeat, now that the Iraqis have invited the chief UN weapons

inspector [Hans Blix] in, and he has accepted," a leading Russian strategist told *EIR* on Aug. 2, just after the announcement came from Baghdad.

According to the Russian source, who had been briefed on Lyndon LaRouche's Presidential campaign intervention against the Lieberman-McCain duo, and their role in the "Clash of Civilizations" war, said, "This Iraqi move, which I have been fighting for, for six months, could well slow down the momentum toward a war. It will drive a wedge between the 'war party' in the U.S., and both the Arabs and Europeans, and should weaken the 'war party' in the U.S. itself. I think what Iraq has done, is extremely important."

In Washington, evidence that the Russian expert's observations of how the 'war party' was destabilized, became immediately evident. It would have been too blatant for the U.S. to demand that Blix turn down the invitation to talk to the Iraqi government. So, instead, a barrage of new anti-Iraq propaganda and disinformation came out on Friday, Aug. 2, following the announcement of the diplomatic initiative by Iraq. Among these developments:

*A "senior White House official" planted a story in the *Los Angeles Times* that there is a link between Iraq and al-Qaeda, asserting—with no new information—that Iraqi intelligence officials met with Muhammed Atta, one of the alleged hijackers, in Prague, five months before 9/11. The story has been totally discredited, and denied by the Czech government, previously. Only the most fanatical and untrustworthy members of the cabal around Deputy Secretary of Defense Paul Wolfowitz such as James Woolsey and Richard Perle, have continued to "ride that hobby horse."

*Senator Richard Shelby (R-Ala.) told reporters that there "must be" a preemptive strike against Iraq, since Saddam Hussein is building weapons of mass destruction.

*Bush spokesman Sean McCormack said that the Blix meeting with Iraq "doesn't change the Administration's position on the need to oust Saddam ... our policy remains the same since 1995, regime change." Other "sources" told Associated Press that this could be another "false promise." NSC spokesman Michael Anton added that the objective is not "inspections," because that is just a "means to the end of ensuring that Iraq disarms." He said that if Iraq didn't have weapons of mass destruction, then they would not be objecting to inspections.

Despite these provocative statements, plans for a meeting between UN Chief Inspector Blix and the Iraqi government continue.

MIDEAST NEWS DIGEST

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Israeli Historian: 'Israel Is Destroying Itself'

"Israel Is Destroying Itself," is the headline of an incisive commentary in the Aug. 2 German daily *Die Welt*, authored by leading Israeli military historian Martin van Creveld.

It will be recalled, in reading the following, that Lyndon LaRouche warned, already several months ago, that the policies of the Ariel Sharon government would end up destroying Israel.

Van Creveld writes: "Whom the gods would destroy, they first make mad.... In its criminal insanity, or its insane criminality, Israel appears fully resolved to destroy itself."

Van Creveld stresses that, even in its own terms, Sharon's policy of "absolute security" for Israel, has been a dismal failure. Since Sharon came to power a year and a half ago, some 450 Israelis have lost their lives, which, in proportion to overall population, would be comparable to 7,000 Germans dying. Three times as many Palestinians as Israelis have been killed, and the recent slaughter of a family in Gaza, is only making things worse.

In the meantime, "the consequences of this policy have reached the borders of being able to be sustained." Students have to spend increasing amounts of time running around in the occupied territories, on military duty, or in security jobs watching vital infrastructure. The currency, the shekel, which was formerly very strong, is collapsing, as is the economy overall. "In other words, Israel is expending its future, to pay for the present." The budget is being massively cut, unemployment is growing, and so on.

Another dreadful sign, is that among the "ultraright" in Israel, a "solution" to the problems is gaining support, which "in many ways, recalls what the German Army did in their occupied lands" during World War II.

And, the whole concept of rendering Yasser Arafat "insignificant," is only strengthening Hamas and Islamic Jihad, "which presents a danger not only for Israel, but for the entire world."

The only heroes in Israel now, insists van Creveld, are the military "Refuseniks," such as the 28-year-old David Sonnenschein, who is willing to risk a longer jail sentence than might otherwise be the case, so that he can bring out into the open, in court, why he is refusing to be part of the military operations in the Occupied Territories. Van Creveld is the author of an important work on the history of the Israeli Defense Forces called *The Sword and the Olive*.

Syrian-born German Leader Karsli Attacks IDF Nazi-like Policy

Former German Green Party politician Yamal Karsli blasted the policies of Ariel Sharon and the Israeli Defense Forces (IDF), for their Nazi-like actions in the the Palestinian Territories. Syrian-born Karsli, whose struggle against the Green Party's leadership, and the media's pro-Sharon propaganda, sparked a heated controversy inside Germany several weeks ago, was the guest of honor at the Arab Democratic Party convention in Nazareth, in late July.

In an interview published in the Israeli daily *Ha'aretz* July 29, Karsli said that his harsh criticism, several weeks ago, of Israeli policy in the Palestine Territories, "never referred to the Israeli people or government as Nazi-like, only to army

tactics in the occupied territories."

But he does consider Prime Minister Ariel Sharon and Foreign Minister Shimon Peres "war criminals," and holds that "it is shameful for the world that Peres still has the Nobel Peace Prize," Karsli said.

"I want peace and am ready to meet and work with anyone who wants peace. I do not reject the state of Israel, but for the Jews to live in security, they must let the Palestinians have their rights to an independent state," Karsli said. "Sharon's policies are that of a man of war, and cause suffering not only to the Palestinians but to the Jews themselves."

Israel Adopts Nazi Policy of Punishing Families

The Israeli intelligence service Shin Beth, and IDF chief of staff Moshe Ya'alon, say families of suicide bombers should "suffer" for the terrorists' actions. Senior Israeli military commentator for *Ha'aretz* Zev Schiff writes in the Aug. 2 issue, that there will be "much more aggressive Israeli measures" against "the families of suicide terrorists, specifically those who aided, abetted, or supported their relatives' terror missions. The Shin Beth is most aggressive in demanding this measure and they are fully backed by ... Ya'alon."

Schiff says Ya'alon is "an enthusiastic supporter of house demolitions against the families, as well the expulsion of relatives." He also believes that "suicide bombers should know that suffering will follow their families for the rest of their lives." Schiff says that Ya'alon argues that punishing the families is "more moral" than closure and curfews against "millions of Palestinians." The expulsions and demolitions have already been carried out this week, and as many as several dozen more are planned. Accused family members are given several days to dispute the charge against them.

The house demolitions and the expulsions are just a step away from the proposal put out by U.S. attorney Nathan Lewin, a former U.S. Justice Department official in May 2002, when he called for the families of terrorists to be executed en masse. Lewin, a supporter of the Likud, admitted that the Nazis used this policy against resisters, but insisted that the Israelis, unlike the Nazis, would be justified in doing it.

An article in the June 28 *EIR* reported that Jewish scholars in the United States reacted with outspoken revulsion to Lewin's proposal, made in the May 2002 issue of *Sh'ma*, an English-language journal. Brandeis University Prof. Arthur Green, the former president of the Reconstructionist Rabbinical College, wrote that his "first desire upon reading Lewin's essay was to 'tear my garments as a sign of mourning on hearing the desecration of God's name,' " according to the newspaper *Forward* on June 7. Many other Jewish leaders have joined this denunciation of Lewin.

Schiff also reveals in his *Ha'aretz* article, that Sharon's two emissaries in Washington last week—attorney Dov Wiessglass and Maj. Gen. Moshe Kaplinski, the military liaison—were told in "firm" and "blunt" language by National Security Adviser Condoleezza Rice that Israel must begin easing the conditions imposed on Palestinian civilians. However, Israel has taken no such action, and instead, begun new incursions into West Bank towns (see this week's InDepth for more Middle East coverage).

Iran Targetted by Sharon/U.S. in 'Clash of Civilizations' Nightmare

A leading British newspaper has reproached the Bush Administration for menacing Iran with the threat of war. The the London *Guardian* July 31 took Washington to task for endangering the reform process that is underway in that nation, in a prominent article entitled, "War on Iran Is the Next Nightmare." The *Guardian* says, "By demonizing, destabilizing, and threatening Iran, like Iraq, with violence, the U.S. foolishly obstructs this evolution, boosts the hardliners, and risks provoking a widening Middle East conflagration. At present, Iran is not a threat. Mr. Bush is."

Iranians, it says, have good reason to wonder whether their country may be next after Iraq, considering the following: that Iran is considered a rogue state, a member of Bush's "axis of evil," a supporter of Hezbollah, a harbinger of al-Qaeda, and in possession of weapons of mass destruction. Since the Afghan war, the paper notes, Bush has cut off all contacts with Iran, and "the ostracism is total," especially, considering that another member of the so-called axis of evil, North Korea, is on Powell's diplomatic contact list. Now, with the U.S. military build-up in the region, and the pressure on Russia to halt nuclear energy cooperation with the Gulf state, Bush has come out with his bid for protestors to bring down the Khatami government.

"The clear implication of this extraordinary bit of meddling, was that Iran, like Iraq, must change—or face the (U.S.-dictated) consequences. Washington wants a second, secular Iranian revolution—and it wants it now."

The article goes on to acknowledge that the repression from the conservatives is all too evident, "but," it notes, "it does not go unchallenged," referring to the stance taken by Isfahan cleric Ayatollah Taheri and his "clarion call for peaceful social change." The paper also remarks that "social and civil reform will come, as surely as old men grow weak and die."

Iran Will Respond to an Attack on Its Nuclear Plant

In response to an alarming report in the *Washington Post* July 29, gloating that the Bush Administration had decided to "drop" all channels of discussion with Iranian "reformers," the *Tehran Times* stated that Iran will respond to any attack against its nuclear installations. The *Post*, which is closely linked to Ariel Sharon through *Post* heiress Lally Weymouth, had mooted U.S. and Israeli concerns about Iran's nuclear plant, and warned that there are circles ready to destroy it. The *Times* presents a list of nuclear plants around the world, along with their energy capacity, and observes that no one seems to be concerned about them.

"There are various reasons for the irrational U.S. objections to Iran's nuclear energy program, some of which are enumerated below," says the Tehran paper. These include, that Bush was elected illegitimately; that several big corporations have gone bankrupt since then; and that "Bush has to externalize these problems"; that the Afghan operation has failed; that "Bush is in trouble with regard to the Middle East"; and, that the U.S. has still not settled the Iraq problem. "Therefore, any insane move against Iran would only reflect the bankruptcy of U.S. diplomacy."

The article concludes: "Iran will not sit by idly and do nothing if its nuclear installations are attacked. Iran will take any measures it sees fit in such an event. It is a matter of national pride and security."

The moves by this U.S./Israeli war party would trigger a regional, if not global catastrophe. According to a well-informed Iranian source, several high-level politicians have stated recently that, if attacked, Iran would fight back. The gist of the statements is that, although Iran may not be militarily capable of defeating the U.S., it is capable of attacking U.S. interests outside Iran. The source recalled an article by German writer Scholl-Latour, following Sept. 11, that if the U.S. were to attack Iran, the result would be the unleashing of hostilities on a front from Morocco to Indonesia.

Iraqis Invite Head of U.N. Weapons Inspection Team

"The 'war party' in the United States has suffered a political defeat, now that the Iraqis have invited the chief UN weapons inspector [Hans Blix] in, and he has accepted," a leading Russian strategist told *EIR* on Aug. 2, just after the announcement came from Baghdad.

According to the Russian source, who had been briefed on Lyndon LaRouche's Presidential campaign intervention against

the Lieberman-McCain duo, and their role in the "Clash of Civilizations" war, said, "This Iraqi move, which I have been fighting for, for six months, could well slow down the momentum toward a war. It will drive a wedge between the 'war party' in the U.S., and both the Arabs and Europeans, and should weaken the 'war party' in the U.S. itself. I think what Iraq has done, is extremely important."

In Washington, evidence that the Russian expert's observations of how the 'war party' was destabilized, became immediately evident. It would have been too blatant for the U.S. to demand that Blix turn down the invitation to talk to the Iraqi government. So, instead, a barrage of new anti-Iraq propaganda and disinformation came out on Friday, Aug. 2, following the announcement of the diplomatic initiative by Iraq. Among these developments:

*A "senior White House official" planted a story in the *Los Angeles Times* that there is a link between Iraq and al-Qaeda, asserting—with no new information—that Iraqi intelligence officials met with Muhammed Atta, one of the alleged hijackers, in Prague, five months before 9/11. The story has been totally discredited, and denied by the Czech government, previously. Only the most fanatical and untrustworthy members of the cabal around Deputy Secretary of Defense Paul Wolfowitz such as James Woolsey and Richard Perle, have continued to "ride that hobby horse."

*Senator Richard Shelby (R-Ala.) told reporters that there "must be" a preemptive strike against Iraq, since Saddam Hussein is building weapons of mass destruction.

*Bush spokesman Sean McCormack said that the Blix meeting with Iraq "doesn't change the Administration's position on the need to oust Saddam ... our policy remains the same since 1995, regime change." Other "sources" told Associated Press that this could be another "false promise." NSC spokesman Michael Anton added that the objective is not "inspections," because that is just a "means to the end of ensuring that Iraq disarms." He said that if Iraq didn't have weapons of mass destruction, then they would not be objecting to inspections.

Despite these provocative statements, plans for a meeting between UN Chief Inspector Blix and the Iraqi government continue.

AFRICA NEWS DIGEST

Breakthrough Agreement in Sudan Made Possible by U.S. Mediation

The breakthrough agreement in Khartoum, between the government of Sudan and the Sudanese People's Liberation Army (SPLA), was made possible through U.S. mediation, a Sudanese diplomatic source told this news service July 22, confirming wire reports. Although the deal is not final, it does constitute a significant development in resolving the 20-year civil war, 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 North, 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 10, 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 with Khartoum, or secession. This will be decided by the two parties (the government and SPLA) only. The second round should also decide on 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.

A wire from Agence France Presse emphasized that "Western oil firms stand to gain from peace moves" in Sudan. Bill Farren-Price of the Cyprus-based Middle East Economic Survey called this "potentially good news for Western oil companies."

The fact is, Sudan has significant oil reserves. According to the diplomatic source, there are four major oil fields. The amount being produced and exported—245,000 barrels per day (bpd)—represents 30% of only one field. In January, a second field will start producing, which means they will move to 300,000 bpd rapidly, and thence, to 450,000 bpd. All this is being done without U.S. investment. In fact, it is the Chinese and the Malaysians, as well as a Canadian firm, that have developed Sudan's oil production, pipeline, and refining capabilities.

Now, the U.S. wants in. John Danforth, the U.S. special envoy for Sudan, reportedly said a few days ago, that if the Sudanese conflict is solved, the area will change from being a conflict zone to being a major oil exporter.

According to AFP, Sudanese political analyst Adlan Hardlallu said that 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."

—*This article appeared in The New Federalist of July 29.*

Bush Administration Official: Grab African Oil as Alternative to OPEC

U.S. Undersecretary of State for African Affairs Walter Kansteiner was in Nigeria at the end of July for private meetings with Nigerian President Olusegun Obasanjo, on "oil and security issues," *The Times* of London reported July 29. The paper quoted Kansteiner: "African oil is of national strategic interest to us, and it will increase and become more important as we go forward."

The Times comments that this statement makes the "U.S. objective very clear.... The Bush Administration is anxious to secure alternative sources to Gulf Arab states which are seen as increasingly hostile to U.S. interests.... For the U.S., the producers of Africa's Gulf of Guinea offer a more attractive source of energy than Russia. Nigeria is close to U.S. refineries on the East Coast and the Gulf of Mexico."

Coincident with Kansteiner's arrival in Nigeria, there were reports that the U.S. was pressuring Nigeria to leave OPEC. Nigerian Information Minister Jerry Gana responded, by saying: "The United States is trying to put pressure on us. They are luring us to pull out of OPEC. But we know how our interests would be best served, and so we are not going to leave OPEC."

EIR has been following recent deployments of Kansteiner, and knows that he has been in other oil-producing countries in western Africa, Angola certainly being one of them. Future *EIW* articles will identify his connections to the Wolfowitz "cabal," through the neo-conservative and Likud-spawned private operation, reported below.

Kansteiner 'Caught by Surprise' by Nigeria/OPEC Question

The first question put to Undersecretary of State Walter Kansteiner at the State Department special briefing July 29 on his

trip to Africa was about the U.S. demanding that Nigeria leave OPEC. Kansteiner mumbled that he was "taken by surprise" by this report, and denied it.

Nigeria Will Not Quit OPEC, Despite U.S.-Israeli Push

"Nigeria Will Not Leave OPEC, Says National Oil Firm," proclaimed the South African wire service, SAPA, July 22. It turns out that the institute pushing Nigeria to leave OPEC is a creation of a racist, far-right-wing 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 a "clash of civilizations" war with Islam. IASPS also overlaps with U.S.-based institutions that are advocating a neo-imperialist U.S. military assault to seize the oil fields in Iraq and Saudi Arabia, under the guise of "reducing U.S. dependency on Middle East petroleum."

IASPS's involvement in African oil operations emerged after SAPA and AFP reported that Nigeria has no intention of quitting OPEC, as had been reported.

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, President Olusegun 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 African Oil Policy Initiative Group (AOPIG), which visited Nigeria in late June, and reportedly encouraged Nigeria to break from OPEC to supply the West's oil needs. AOPIG, formed by the Jerusalem-based think tank IASPS, reported SAPA, believes the U.S. should look to Africa to supply most of its oil. 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."

Big Shakeup at South African Communist Party Meet

"South African Communist Party Axes Cabinet Bigwigs," is the news from the 11th National Congress of the South African Communist Party (SACP), a headline from *Dispatch Online* July 29 announced. Half of the members of President Thabo Mbeki's cabinet, who were also members of the SACP Central Committee, have been voted off the Committee, while militant leaders of the Congress of South African Trade Unions (COSATU) took their places. COSATU President Willie Madisha, "a fierce critic of the government," according to *Dispatch Online*, received the largest number of votes.

President Mbeki, who discontinued his SACP membership a few years ago, was scheduled to open the Congress, but withdrew the night before it opened on July 24. His representative, African National Congress (ANC) national chairman and defense minister Mosiuoa Lekota, was nearly prevented from speaking as the attendees sang a militant song, according to *The Star* of South Africa.

COSATU general secretary Zwelinzima Vavi called for support for a planned October strike against privatization and said that the future did not belong to cowards, *The Star* reported.

The SACP "reaffirmed its commitment to the alliance [of SACP, COSATU, and the ruling ANC] and to building an effective ANC," *Dispatch Online* said.

Johannesburg's *Sunday Times*, the most widely read newspaper in the country, commented on the elections in an editorial on July 28, entitled, "A Voice of Conscience": "South Africa is too young a democracy to allow the silencing of voices, especially on economic options.... Together with COSATU, the SACP has tried to be the voice that pulls the ANC and the government back to their stated objectives of improving the lives of South Africans. If the SACP serves to remind the ruling elite of this, then it is a voice that should be heard and taken seriously."

Iran Would Aid Zimbabwe in Irrigation Development

Iran has proposed assisting Zimbabwe in the development of irrigation, as part of its support of the country's land-reform program, *The Herald* of Harare reported July 26. Iran's outgoing Ambassador Behrooz Kamalvandi made the announcement at a news conference in Harare July 26, after meeting with President Robert Mugabe. Behrooz said negotiations were underway and there was a possibility that Harare could access Tehran's official development funds, which would then be used to purchase irrigation equipment from Iran. Ambassador Behrooz said the Iranians were going to expand their investment in Zimbabwe's textiles sector, through buying modern machinery for Modzone Enterprises in Chitungwiza. He said a delegation from the Zimbabwe National Chamber of Commerce would be visiting Tehran soon, to explore business and investment opportunities. The Iranians are also planning to invest in Zimbabwe's medical sector by building a hospital that will specialize in open-heart surgery.

Zimbabwe and Iran enjoy excellent political and diplomatic ties, *The Herald* noted, and President Mugabe said he was looking forward to the strengthening of economic relations between the two countries.

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: This principle—the truth defense—did not prevail in England for decades more—and is still not practiced 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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