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## **This Week You Need To Know**

# **Senate Defeat of Coup d'État Leaves Bush a Lame Duck**

**by Debra Hanania-Freeman**

Late in the day on May 23, in a series of events that few Americans yet understand, George W. Bush was rendered a lame duck President, just four months into his second term, as a move led by Vice President Dick Cheney to carry out a cold coup, by destroying the functioning of the U.S. Senate, was dealt a dramatic and stinging defeat.

There were only hours to go before there was a forced vote on an illegal change in Senate rules orchestrated by Senate Majority Leader Bill Frist and Vice President Dick Cheney (in his rarely occupied seat as the President of the Senate), whose purpose was to overturn the U.S. Constitution, by breaking the Senate's unique power to impose checks and balances against an out-of-control Presidency. But a bipartisan group of 14 Senators—seven Democrats and seven Republicans—led by Senate veterans Robert Byrd (D-W.Va.) and John Warner (R-Va.), announced that they had reached an agreement that would prevent Cheney and Frist from carrying out their unconstitutional "nuclear option." Two additional members of the Senate, Daniel Innoye (D-Hi.) and Lincoln Chaffee (R-R.I.), were not present at the press conference, but were signators to the negotiated agreement. (See [Documentation](#) for the text of the press conference and the full agreement.)

As an essential part of the agreement, the Republican signers pledged to block any effort by Cheney and Frist to eliminate the filibuster for judicial nominees through an illegal change in Senate rules. Also under the agreement, the seven Democrats pledged to vote to allow three of Bush's judicial nominees to receive up-or-down votes on the Senate floor, but with no guarantee that they would be approved. They further agreed that the filibuster would only be invoked under extraordinary circumstances.

Senator Minority Leader Harry Reid (D-Nev.) was clearly pleased with the agreement. Appearing almost immediately after the agreement was made public, a jubilant Reid, joined by Senators Charles Schumer (D-N.Y.), Richard Durbin (D-Ill.), and Barbara Boxer (D-Calif.), declared: "Tonight the Senate has worked its will on behalf of reason and on behalf of responsibility. We have sent President George Bush, Vice President Dick Cheney, and the radical arm of the Republican base an undeniable message: Abuse of power will not be tolerated, will not be tolerated by Democrats or Republicans. And your attempt—I say to the Vice President and to the President—to trample the Constitution and grab absolute control is over."

That Reid was pleased came as no surprise. The final agreement was, in substance, identical to a compromise that he had proposed to Frist two weeks earlier. At the time, Frist had agreed to the measure, and an announcement was scheduled for the following day. But that announcement was short-circuited when Frist was called to the White House and told by Cheney and Bush's political guru, Karl Rove, that there would be no deal, and that the nuclear option showdown was to be put on a fast track.

Bill Frist clearly did not share Reid's enthusiasm for the accord reached by the 14 Senators. Following the announcement, a grim Frist delivered a terse statement to the press, in which he expressed his disappointment over the measure. He claimed that the only good news was that the agreement had "disarmed the filibuster." The statement was patently untrue. Nowhere in the agreement had anyone—neither Republican nor Democrat—relinquished the right of filibuster. Frist went on to state, rather arrogantly, that he would monitor the agreement very carefully in the months to come. But the simple fact is that Frist can monitor to his heart's content. He was not party to the agreement and, in fact, the agreement was negotiated and signed in distinct opposition not only to his expressed desire to ram through the measure, but to his role as Majority Leader.

## LaRouche: A Victory for the Nation

Lyndon LaRouche welcomed the agreement, citing the very same words that Robert Byrd had used in announcing it. Senator Byrd had commented, "Well, I remember Benjamin Franklin, the oldest of the group that signed the Constitution of the United States. He was approached by a lady who said, 'Dr. Franklin, what have you given us?' And Dr. Franklin replied, 'A republic, madam, if you can keep it.' We *have* kept it."

LaRouche added that the agreement constituted a major strategic defeat for the Administration and an unambiguous strategic victory for the nation, in that a bipartisan group within the Senate directly challenged Bush and Cheney on a fundamental issue of how the Senate would function, especially at a critical moment when the incumbent occupant of the White House is insane, and when there are urgent matters of war and peace, as well as economic life and death, that are on the table for urgent discussion. In the same spirit, LaRouche added that "this was a shot that will be heard around the world."

It is important to note that the agreement came in an environment shaped by an ongoing mobilization by LaRouche's political movement in the United States. From the very beginning of this Administration, indeed since January 2001, LaRouche has repeatedly warned that, under conditions of intensifying financial and economic crisis, we would see this Administration move increasingly toward dictatorial, emergency rule.

When the fuse for the Cheney-Frist nuclear option was lit on May 18, as Frist brought the nominations of two controversial Bush judicial nominees to the Senate floor, LaRouche advised the Democrats that, if Dick Cheney tried to ram through a Senate rule change to cut off a filibuster—something that Cheney repeatedly said he intended to do—that their only choice was to shut down the Senate. "Cheney is out of order if he doesn't have the 67 votes required to change the Senate rules," LaRouche said. "That's the end of the procedure. Shut down the Senate at that point."

LaRouche was emphatic that any effort to change Senate rules without the required votes was nothing less than a coup d'état. "They will have violated the Constitution, and you cannot continue business in the Senate as long as they're doing that," he said. Several days later, LaRouche issued a statement, "Save Our U.S. Constitution Now" (reprinted below) that was mass distributed in and around the nation's capital, as well as throughout the country.

LaRouche's sentiments were reflected throughout the Senate debate (see *Documentation*). In his opening statement, Democratic Leader Harry Reid made clear that what was at stake was far more than the confirmation of a few judicial nominees. Reid declared that the Administration, driven by the radical right wing, was on a dangerous drive for unchecked power both on the question of Presidential nominations in general, as well as on critical legislation like Social Security privatization. He warned the American people that what was indeed under way was an attempt to "throw out 217 years of Senate history in the quest for absolute power."

Sen. Frank Lautenberg (D-Fla.) called what Cheney was planning a "coup d'état" on the floor of the Senate. Sen. Joseph

Biden (D-Del.) delivered a powerful and impassioned speech on the constitutional significance of the pending showdown, including a detailed exposure of the stated intention by the group calling itself the Constitution in Exile (which several of Bush's judicial nominees are active participants in), to undo President Franklin D. Roosevelt's New Deal. Biden's statements were expanded by Senators Schumer and Diane Feinstein (D-Calif.), both of whom went after statements by judicial nominee Janice Rogers Brown, that the 1937 Supreme Court decision upholding the legality of the New Deal was "our socialist revolution."

Indeed, although it never came to that, at least a few Senators had privately vowed that, if Cheney proceeded as planned, with reckless disregard for both the spirit and letter of the Constitution, they would initiate the necessary measures to have him impeached.

One after another, Democratic Senators rose, not only to speak out in defense of the responsibility for "Advice and Consent" that the Framers of the U.S. Constitution gave the Senate, but also to make clear that the Administration's reckless grab for absolute dictatorial power was designed to stop any action by the Senate in defense of the population, when people, like George Shultz and other controllers of this Administration, proceed with their determination to rob the American people of their pensions, their health care, and bankruptcy protection against the onrushing Depression. In fact, the Senate floor debate of May 23 constituted the first time that the full scope of the economic crisis facing the United States was placed squarely on the Senate agenda.

And, in the press conference where the agreement to block the planned coup d'état was announced, Sen. Lindsey Graham (R-S.C.) admitted that he had initially planned to vote for the nuclear option, but then was persuaded that it would be a tragedy to shut down the Senate at this moment of crisis, when "Social Security is coming apart and kids are dying."

## A New Political Geometry

Clearly, Washington, D.C. is now a very different place. A few weeks earlier, in a lunchtime discussion with some senior Capitol Hill professional staff, LaRouche had commented that the issue of which political party held the majority in Congress was not necessarily the sole determinant of U.S. policy. said, "Give me 15 U.S. Senators who are prepared to act boldly and provide real leadership," he said, "and I guarantee you we can change the course of history." On May 23, a bipartisan group of 14 proved him right. They went head-to-head with an Administration that pulled out all the stops, in an attempt to bully Senate Republicans to change the rules in a blatant violation of the Constitution—and the Administration lost.

The Cheney-Bush-Shultz crowd weren't the only ones who suffered defeat. The Senate, as an institution, is now freed from the blackmail of the right-wing "Christian" fundamentalists and their fascist leanings. Clearly, the issue is not religion, it is economics. The Senate, as a body, is now freed up to proceed to deal with the urgent business of finding a solution to the nation's economic collapse.

LaRouche stated the task clearly. Yes, we have kept the republic, he said. And now, patriots must seize the new situation in the Senate to press the agenda of economic reconstruction, saving General Motors, and saving the pension system. It's time to get Congress to act!

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## Latest From LaRouche

# WE'RE NOW AT THE MOMENT OF TRUTH

*Here are Lyndon LaRouche's remarks to the EIR Staff in Wiesbaden, Germany, on May 23. An extended discussion followed, a small part of which follows LaRouche's opening statement.*

Europeans are used to parliamentary systems; and when they talk about the U.S. Congress, they talk about parliament; when they talk about U.S. politics, they talk about parliamentary systems. The United States system is a republic, it is not a parliamentary system. It's a unique kind of a republic. There's nothing like it, anywhere else in the world.

For example: the case of the Senate. The Senate has three elections in a six-year period. Every two years, one-third of the Senate is elected. Now, that means that the Senate never goes out of business. Because the Senate always continues one-third, approximately (there may be a death or something else going on), but otherwise, only one-third of the Senate is replaced at any time. So, during this six-year period, there's an unbroken continuity of the Senate.

The Senate is very significant. It's not like a European Senate, or a European upper body. The Senate has the authority, chiefly, of "advice and consent." It is the essential control mechanism over the Presidency. Certain things, like the appointments of Federal judges, the confirmation of other positions, can not be undertaken without the consent of the Senate.

Now, the consent of the Senate must be such that, if more than one-third of the Senators withhold consent, under the Constitution, the consent is not given. Appointment of ambassadors—if more than one-third of the Senators oppose it, it can not happen.

Now, what's happening is an attempt, at this point, to overturn the authority of the Senate and to reduce it to a parliamentary institution. Which gives you the same kind of problem you get in Europe, where you have parliamentary institutions and they don't function in a time of crisis. See, the other side—even though we have a Federal Reserve System, we don't have the disease you have in Europe. In Europe, there are no governments: The governments exist by consent of independent central banking systems, which means that the banking systems can overthrow the government. It can't happen like that in the United States—even with the Federal Reserve System, which is a form of corruption.

So therefore, our politics are different from those of Europe.

Now, in this present crisis, Europe by itself, including Russia, could actually do nothing to forestall and defeat the presently onrushing world crisis—nothing. Because we're dealing in Europe with parliamentary systems and traditions, which will not allow the effective kind of action to be taken. The only thing you get in Europe, instead of a constitutional control over a crisis: You may get a coup d'état, you may get an overthrow of the government by force; or by some trickery of that type. You may get a dictatorship. But, in the United States, we've never had a dictatorship. Because, the process of changing the government is such, that it's accessible to the constitutional institutions.

Now, what we're doing now—and I'm in the center of it; I'm in on the planning of it, so I know what's going on; that is, I'm working with leading Senators and others who are planning what we're doing. Now, we don't know what's going to happen. It's like war: You *don't* know what's going to happen. Anybody who tells you what's going to happen—if you've got inside information you can predict what's going to happen—tell them to shut up and go away. They don't know a damned thing. Nobody knows. *I* don't know, and I probably know more than anybody in Europe does. So, if somebody tells you the situation is "doomed," that this is going to happen; they tell you it's about Supreme Court judges or things like that, it's not true. It's nonsense. It's gossip.

# Shultz: The Oligarch

What it's about, is the attempt by a would-be Hjalmar Schacht, George Pratt Shultz, the man who created the Bush Administration, who crafted it; the man who picked Condi Rice, who used to be a coach of an all-male football team (if you could know what kind of raw interests she had!). She never got married: How could you marry a whole football team? You can exercise 'em, but you can't marry them.

Anyway, so she and the rest of them were all picked by George Pratt Shultz.

What is George Pratt Shultz? Well, he's the third generation of a European oligarchy, American division. His great-grandfather was a Pratt, one of the oligarchs. His grandfather was one of the oligarchs. His father was an oligarch. He's an oligarch. He's tied to the international Synarchist group, that is, the financier groups' interests. He's the guy who actually put Pinochet, a Nazi, into dictatorship in Chile. That's the kind of guy he is.

So, he's a representative for the banking community, which is determined to do, what? They're determined to do what Schacht was determined to do, under orders from London, from the Bank of England, in Germany. Remember what happened: First step was, the system was not going to work. The Young Plan was not going to work. So what did they do? They formed the Bank for International Settlements. This dealt with the problem of the war debt and so on, in Europe. Then, the power, therefore, the financial power was now concentrated in the Bank for International Settlements, as the center of a network of banks of the Synarchist system. Which still exists, by the way. Interesting, hmm?

So, as this was being formed, Schacht left the position in the German government, that is, the bank, and went into semi-retirement to be part of the Young Plan apparatus, which created the Bank for International Settlements. When the Bank for International Settlements was formed, all banking power in Europe was politically controlled through the Bank for International Settlements, of which Schacht was an agent!

These guys went through everything, with Brüning, von Papen, and so forth—and put Hitler into power!

Now, what did they do when they put Hitler into power? They put him in the Chancellory. He was considered a joke, by people who didn't take the world seriously. So, Goering set fire to the Reichstag. And two days later, you had a *Notverordnung* [Emergency Decree], and you had a dictatorship that didn't quit, until the end of April in 1945.

What you're getting now, in the United States, is, you're getting an attempt to move preemptively to establish a dictatorship of the Presidency—*now*! Not of the Supreme Court—the Presidency. *Now*. And the President is not the President; the President is the idiot who is swinging from the rafters inside the Oval Office. The Presidency is a group of people, including Karl Rove, the ideologue, sitting in the White House as a committee, which is actually running the Presidency. And the committee says: *I'm* the number one enemy of the committee. That I've organized the Democratic Party to resist and stand up, which is true. I did.

We've gone through a number of things. Now, we've got a fighting organization. We don't know what's going to happen! I know that our people, the Senators involved, are doing the right thing: They're going to fight. The question is, we've got to look at six guys on the Republican side (there are actually nine, potentially): Are six going to lose their nerve, or not? If they don't lose their nerve, we win. That's all we need. Six votes and we can block the thing.

So, that's where we are. We're at a point of a power struggle. If we win, this thing is beaten, for the time being. If we win, the situation in Europe changes. If we win, Schröder's situation begins to look excellent for the fall. Because there's no bullshit in what Müntefering is doing.

The key problem that Schröder has, *is the Greenies!* You can not organize a government that will hold together, if you have any Greenies in it! And the CDU [Christian Democrats] were a bunch of fascists or worse, with a few exceptions here and there.

So therefore, the problem is, you have to have a panic situation, where you can form a government under conditions of emergency, and you don't have to have Greenies. That's Schröder's problem. Because if he's got a re-election of a Greenie coalition, you don't have a government! These guys are fascists! And they'll do everything possible to sabotage any effort to make reforms which are essential for recovery.

So, the only thing that's going to change the situation in Europe—the French are a bunch of whores, as usual. There're some good French, but there are a lot of whores over there, too. And they're very specialized in whores. You know, France is the country that invented modern prostitution: They call it a Parliament. So, you're not going to get anything from that. You're getting a revolt in France, because they smell something, and they smell opportunity. They smell a problem in the right wing in the government, and they're seeing if maybe they can get back in power.

But, something good will happen in Europe, *if* Europe sees something coming out of the United States, which means a change in the strategic situation. And the whole game is to get that effect, because you won't get it from Europe, because Europe is run by parliamentary systems. Parliamentary systems can not deal with a crisis of this type, except if they get inspiration from the outside. And the only place they're going to get relevant inspiration is from the United States. And for that to come, you have to have a change in the direction in the United States.

Now, the Democratic leadership in the Senate—the House of Representatives has more like a parliamentary quality—but the Senate, as I said, is a different kind of institution. The Senators are serious. They're ready to fight. And they *are* fighting. You would be astonished at what some of these guys are saying and are doing. They're ready to fight. It's just a question: Do we have the margin *to win*? So, we're going to a war we might lose. But we're going to a war. And the next two days are going to be crucial.

Don't worry about the judges. It's not a judge issue. That's the propaganda being spread—forget the propaganda. It's the issue of making an immediate dictatorship of the Presidency.

## The GM Crisis

Why? They had a schedule, which was the summer: That the GM crisis impact wouldn't hit until summer. It hit the next week! The sequence was: I gave this webcast. We had, coming alive on the webcast, we had several committees of the Senate, which were asking me to answer questions on how to deal with this crisis. We got into a serious dialogue on the question of the GM and related crisis. What happened is, suddenly, this word came out—and even Bill Clinton was taken in by it, who should have known better: "No, it's not going to happen. There won't be anything until mid-summer. The bankers are going to control it. They're going to *unwind* the liabilities, the credit derivatives liabilities. They're going to *unwind* them. And then, in mid-summer, when we've extricated a lot of the hedge funds from the explosion, *then* we'll let the thing go down! And it will all be nicely managed."

Two weeks after this bullshit came out—the thing collapsed. And it's now in a process of collapse. They're collapsing! They're collapsing left and right! What they do, is they carry the corpses out, and put them in the deep freeze, and then bring the next one in. And they're dying, one after the other, these hedge funds! They're falling! But, they stick 'em in the deep freeze, so you won't know they're dead. That's what's happening.

In the meantime, there's a crumbling of structure: So that, you have a potential explosion at any moment. This thing can blow—it can blow out at any moment. And this will not be a 1929. This will be a *collapse*. A total collapse. A sudden, total collapse. It could be a few days or so forth, but it will be a precipitous collapse, not a depression. But an actual *breakdown crisis*.

Now, the rush is: Who's going to be in charge, when the breakdown crisis hits? If the Congress is in charge, if the Congress's powers remain—and these are largely the "advice and consent" powers of the Senate—if those powers remain, then there's going to be a reaction from the elected government which is going to demand FDR-style responses to the crisis. Therefore, the rush is on, to establish the dictatorship before the collapse occurs.

So it's not the next year's Federal judge thing. Don't buy that story. That's a piece of propaganda, to get people thrown off the track. *This is a move for dictatorship*. These days now are a moment in history, which you may wish to remember, or might wish you couldn't remember—one of the two. Because, out of this, somewhere in this process, someone is going to be defeated: It's either going to be the effort to stop the establishment of a dictatorship, which will mean things will go in a good direction; or, it's going to mean a dictatorship, a Nazi-style dictatorship.

At that point, then, your religious nuts come into play, because the religious nuts in the United States are your potential fascist movement. That's the character of the United States, that's where you get a fascist movement—is from the right-wing Catholics and the right-wing Protestants—these crazies. And they're about the same thing. There's really no difference between them. It's just that one sleeps on the right side, and one sleeps on the left side. But they're the same thing.

So, that's where we are.

So, as I say, this is not a time for pessimism. It's is a time for a healthy dose of fear. Not enough fear to tremble and freeze, but enough fear to realize you have to fight.

Now, we have a pretty good mobilization going in the States right now. We kicked some butt this past week, and we're kicking it this weekend. So, we've got a real mobilization, the best we can do. And we're working closely with the people in the Senate and elsewhere, who are working on this case. And we know, *the leaders of the Senate know what the crisis is*.

Forget the bullshit you get from the European press and from the gossip. Forget the pessimism you're getting about Germany, here in Germany; the only reason for pessimism in Germany is fear that we lose the fight in the United States. Because, if we *turn* the situation in the United States, then you'll find options will open up in Europe. Otherwise, they won't.

Russia, for example, will react. With a coup like this in the United States, against this Bush nonsense, Russia will react. Russia wants agreements with Europe, as part of its Eurasian agreements. Right now, they're kissing Bush's ass—they hate his guts, but they're kissing his ass. Because, they say, "We used to be a superpower. The United States is a used-to-be superpower. We used-to-be superpowers have got to get together, and get a feeling of being superpowers again—a partnership." And so therefore, Putin is looking for this kind of ante. But they hate the United States! They don't like it—they hate it! But they want to go to bed with it! Like the guy who wants to marry this woman because he hates her; he's going to make her suffer.

But, if a change occurs so that you get optimism, about political options, freedom to exert political options in Europe, and you find a direction coming out of the United States in the direction of a general need for an economic recovery globally, *then* you'll get some positive reactions in Europe. Without something from the United States, I don't think it's possible.

So again: Don't be pessimistic. That'll kill you. Be optimistic in spirit, but have a healthy respect for fear. And we can win.

It's a very refreshing change that's gone on around me in the United States in recent times. I'm rather pleased with it. I had to create a few bloody noses here and there in our own organization to do it, but we did it. And we're getting some improvements.

So, that's where we stand. We're now at the moment of truth. This may not be the last moment of truth, but it's one right before us, right now. And that's what you have to understand. It's fun—good, healthy war.

## 'Strategic Bankruptcy'

*Q:* Concerning this fight, if the Senate now wins against the Cheney gang, would this mean in effect that the Senate is now in power and not the President? And would they have the power to dictate a New Bretton Woods?

*LaRouche:* No, it wouldn't go that way. But New Bretton Woods is a concept which you need as a propagandistic conception of what we have to do. You know, in which you have to have a target, what you want to do. What you will get, you don't really know. So, the broad outlines—not over-specification—but the broad outlines of the principle. And when you say "Franklin Roosevelt," that makes it. Because that tells people what your philosophy is, what kind of thing you're going for.

So, what we have, in the situation here, in the U.S. now, is different than it was before. The problems are different. Then we had a depression. Now we're faced with a precipitous general collapse. We're faced with a breakdown crisis, not a depression. That means, forget money, in the ordinary sense. You're not going to "arrange" the money, in such a way that you're going to bring the accounts into order.

You're going to do much more arbitrary methods. You're going to freeze things. You're going to freeze debt. You're going to make sure that the money is available to keep essential functions functioning. You're going to make sure the money exists, the credit exists to expand employment—things of that sort. So, you're going to go to a managed economy, based on the principles of the General Welfare. And the fact that you need a recovery. That's what we'll be heading toward.

Now, we have in the Senate—and everything is kind of open to me on this one—that, what I proposed as a general recovery approach, is a conception which is accepted by most of the leaders of the Democratic side of the Senate: that we have to organize a recovery, an FDR-style recovery. Clinton, who is running around in Europe, dealing with the tsunami thing, also agrees with that. What that means, he's not sure. But he's sure that something like that is needed—what it is, he doesn't know. It's unclear in his mind. And that's true of a lot of the others.

But, once they get in the direction, they will buy—for example, Harry Reid, who is the Democratic leader in the Senate: A tough guy, very important that he is a tough guy; he's put some spine into this thing. And, on the idea of using infrastructure projects, here; on the idea of what I'm working on, defining a package of infrastructure—in other words, you can't just go slapping projects in, because you've got limited resources, so you've got to set a package of projects, which are compatible, could conform to the resources, what you can do: These guys will put it through.

So, if it comes to emergency legislation, and designing a package of recovery programs, which will be equitably distributed through the states and so forth—that will come out of that.

The committees in the Congress, in general, the large, major committees, are generally pretty good people. Many of these



guys have been in the Federal government on committee positions in one place or another, over a period of 20-30 years. So, these are senior people, much more senior, much more experienced than most of the members of Congress. And these committees are a repository of knowledge. Want to know how to do something? They've got it somewhere in the filing cabinet. It's all worked out. They've been through it before; they know it.

So what you would get, you get an immediate juggernaut type of effect, in a panic situation, where they would be going out with legislation. And the most significant thing from that standpoint that I've written, is my paper on "Strategic Bankruptcy." Because that was what they needed. They were unclear, until they read this thing on strategic bankruptcy, as to how we would deal with this problem. And that's the way we'll go—because they said that's what they like.

So, if we win, we know we're going to have to go in that direction....

# InDepth Coverage

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## Feature:

### **Senate Defeat of Coup d'État Leaves Bush a Lame Duck**

**by Debra Hanania-Freeman**

Late in the day on May 23, in a series of events that few Americans yet understand, George W. Bush was rendered a lame duck President, just four months into his second term, as a move led by Vice President Dick Cheney to carry out a cold coup, by destroying the functioning of the U.S. Senate, was dealt a dramatic and stinging defeat.

### **Republic Saved! Congress Must Rebuild the Country!**

Upon hearing of the May 23 agreement in the U.S. Senate, which stopped cold the coup d'etat which Dick Cheney et al. were planning to carry out with the 'nuclear option,' Lyndon LaRouche seconded the words of senior Senator Robert Byrd. Senator Byrd said: 'Well, I remember Benjamin Franklin, the oldest in the group that signed the Constitution of the United States. He was approached by a lady who said, 'Dr. Franklin, what have you given us?' 'And he said, 'A republic, madam, if you can keep it.' 'We have kept it.'

### **Bipartisan Senators: We Have Kept the Republic**

This May 23 press conference, announcing an agreement to prevent the 'nuclear option,' was addressed by Senators John Warner (R-Va.), John McCain (R-Ariz.), Joseph Lieberman (D-Conn.), Ben Nelson (D-Neb.), Olympia Snowe (D-Me.), Mark Pryor (D-Ak.), Mike DeWine (R-Ohio), Robert Byrd (D-W.V.), Mary Landrieu (D-La.), Susan Collins (R-Me.), Lindsey Graham (R-S.C.), and Ken Salazar (D-Colo.).

- **Lautenberg Warned Of Coup d'État**
- **Biden: An Arrogant Grab for Power**
- **Reid: 'Abuse of Power Will Not Be Tolerated'**
- **Frist: Up or Down, Up or Down, Up or Down**

# Economics:

## Rumsfeld's Base-Closing Plan Is a Huge Real Estate Swindle

by Carl Osgood

Lyndon LaRouche, commenting on Secretary of Defense Donald Rumsfeld's base closing plan on May 15, noted that embedded in those decisions is an insane plan to decentralize U.S. military infrastructure. This is not base closing, LaRouche said, because there is no net closure of bases. It is base switching—to far-out suburbs of the major urban centers of the United States. The action is aimed at building up a new real estate bubble in remote suburban areas, which do not have the infrastructure to absorb these bases, and the families and service requirements that go along with them. The resulting process will increase costs, not decrease them.

## Cuts, Real Estate Deals Target VA Hospitals

by Marcia Merry Baker

The Veterans Affairs Department is currently carrying out a process intended to designate, by February 2006, more than a dozen major VA hospital campuses for real estate sell-off, or lease—all or in part. The sites range from New York City, to Pittsburgh, to Los Angeles (see map, page 24). Using talk about 'business-based' decision-making for 'asset-value' and real estate revenue, the VA calls its scheme, 'Capital Asset Realignment for Enhanced Services' or CARES.

## Vets Face Deepening Austerity at the VA

by Carl Osgood

The Bush Administration, from the President himself, to Secretary of Defense Donald Rumsfeld, to public affairs officers at every level, constantly proclaim the virtues of the American soldier, and their support for giving him everything he needs. On Memorial Day, President Bush will make the solemn journey to Arlington National Cemetery, and extol the sacrifices made by the members of America's armed forces in every war, including the present wars in Iraq and Afghanistan. Yet, veterans of those same wars are finding a different story when they turn to the Department of Veterans Affairs for health care. They are finding 'reprioritization'...

## Italian Parliamentarians Fight Against Usury, for Return to a Real Economy

Italy's Chamber of Deputies debated and passed a resolution on April 6, written in collaboration with the LaRouche political movement in Italy, which called on the Italian government to convene an international meeting of heads of state 'to create a new and more just global monetary and financial system.' It was supported by Deputies from all the parties

- Interview: Oskar Peterlini

Sen. Oskar Peterlini is from Bolzano, in a region of Italy where most of the inhabitants speak both German and Italian. He is a leader of the South Tyrolean People's Party, on whose slate he was elected to the Senate. He sits on the Labor Commission, and has also worked as a leader of a regional pension fund for many years. Peterlini has introduced a number of motions into the Senate calling for a New Bretton Woods, and has used material from EIR to present other initiatives and parliamentary questions on various strategic and economic issues.

# Science and Technology:

## ON THE NOËTIC PRINCIPLE Vernadsky and Dirichlet's Principle

by Lyndon H. LaRouche, Jr.

May 18, 2005

The following is prompted by an examination of an implicitly accredited English translation of V.I. Vernadsky's 1935 *On Some Fundamental Problems of Biogeochemistry*, secured through the Columbia University files contributed by V.I. Vernadsky's son, Professor George Vernadsky, New Haven, Conn., U.S.A.

# International:

## Early Elections in Germany Open New Options for Change

by Rainer Apel

Forecasts that the outcome of the May 22 elections for state parliament in North Rhine-Westphalia would be decisive for Germany as a whole, were more than appropriate, as surprising developments illustrated within a few hours after the election. With the final results of that election not even in yet (although the defeat of the Social Democratic Party [SPD] was already clear), German Chancellor Gerhard Schröder (SPD) announced that he would call early national elections by September.

- Documentation

### Zepp-LaRouche Speaks Out

This leaflet by Helga Zepp-LaRouche, chairwoman of the Civil Rights Movement Solidarity (BüSo), was issued in Germany on May 26, under the title 'A Coup d'État in the U.S.A. Was Averted! The BüSo Enters Full Force Into the Federal Election Campaign.'

## New Provocations by Sharon in the Works

by Dean Andromidas

Israeli police recently revealed the arrest of five Israeli fanatics who were planning to attack the al-Haram al-Sharif/Temple Mount in the Old City of Jerusalem. The plot involved the launching of a Lau anti-tank missile at one of the mosques atop Islam's third most holy site—an attack that many fear could trigger a new religious war, if not World War III.

## France

### Why Is the Vote So Important On the European Constitution?

by Christine Bierre

On May 29, a national referendum will be held in France on whether to accept or reject the European Constitutional Treaty which was adopted by the European heads of state at two European Union summits on June 18 and Oct. 29, 2004. This text is now in the process of being ratified by the 25 EU members, either via popular referenda or parliamentary votes. Were one nation to vote against it, this entire process, in principle, should come to an end. As of this writing, polls in France are pointing towards a defeat. But the election will be highly contested until the very end.

## Looted by the Bankrupt IMF System, The Philippines Opens to LaRouche

by Michael Billington

A brief May 15-18 visit to the Philippines by EIR representative Michael Billington, the first Philippines visit by a U.S. representative of statesman and physical economist Lyndon LaRouche since 2001, met an open and enthusiastic response by the Philippine press and by leading layers of the political establishment. Almost 30 print, radio, and television media representatives packed a press conference on May 16, organized by the prominent journalist Julius Fortuna, and by Butch Valdes, the leader of the LaRouche Society of the Philippines, with considerable assistance from the Philippines LaRouche Youth Movement.

# National:

## The Franklin/AIPAC Case: Cheneygate Revisited

by Jeffrey Steinberg

On May 24, the U.S. Attorney's Office in Martinsburg, West Virginia, announced a new criminal complaint against Larry Franklin, charging the Pentagon analyst with illegal possession of classified U.S. government documents. The indictment stemmed from a June 30, 2004 raid on Franklin's West Virginia home, during which 83 classified documents were seized. At the beginning of May, Franklin was arrested on a similar criminal complaint issued by the U.S. Attorney for the Eastern District of Virginia. Each complaint carried a potential ten-year jail sentence.

## AFL-CIO Leader: We're Ready To Do the Work

Bill Londrigan has been the president of the Kentucky AFLCIO since 1999, representing 100,000 union members, including mineworkers, fire fighters, office workers, and many others. On May 11, a resolution was pre-filed in the Kentucky legislature (for next session), by Louisville/Jefferson County Representative Perry Clark (D), calling on legislators of the Commonwealth of Kentucky, to act for the purpose of, 'Urging Congress To Take Emergency Actions To Save the Economy and the Auto Industry.' Londrigan was interviewed for EIR on May 25 by Mary Jane Freeman, on his views of how to deal with the political and economic crisis in Kentucky and nationally.

## **Wilbur Ross Cartel Dumps Mineworkers' Health Care**

On Oct. 1, 2004, then-bankrupt Horizon Natural Resources, the coal company based in Kentucky, West Virginia, and Illinois, was acquired by corporate scavenger Wilbur Ross's firm, WL Ross & Co. LLC, to form the International Coal Group. A day earlier, U.S. District Court Judge Henry R. Wilmot had lifted a stay on a decision by Horizon Natural Resources to terminate healthcare benefits for nearly 5,000 Horizon retired and active miners. This cleared the way for a takeover by Ross...

## **Wisconsin Lawmaker: Use GM, Ford To Rebuild U.S.**

State Representative Christine Sinicki, a Democrat from Milwaukee, issued the following statement on May 25. She represents Assembly District 20 in the Wisconsin State Legislature.

# **U.S. Economic/Financial News**

## **PBGC Pension Troubles Mount**

The Pension Benefit Guaranty Corp. has revealed another \$150-billion deficit, on top of the \$450 billion already reported, according to the *Wall Street Journal* May 26. The PBGC is now worried about multi-employer pension plans which, as of 2004, were underfunded by \$150 billion. (Multi-employer plans were established to cover workers who move from employer to employer within various unionized industries.) PBGC's growing pool of pension liabilities, following the United Airlines bankruptcy ruling allowing the airlines to offload its pension on the PBGC, and the looming auto-sector blowout, compounds the vulnerability of pension coverage.

The \$150-billion underfunding of multi-employer plans represents a 50% increase in their deficit over 2003. There are about 1,600 such plans, paid for by 65,000 mostly small companies with 10 million unionized workers, in industries such as trucking, construction, groceries, etc. A plan by Rep. John Boehner (R-Ohio) to introduce a bill to overhaul the pension system, when Congress reconvenes in June, includes multi-employer plans.

## **Pilots Lobby for Pension Protection**

A group of airline pilots with Southwest Airlines, JetBlue, and others, have formed a group, Airline Pilots Against Age Discrimination, and are lobbying to have the Federal Aviation Administration's mandatory retirement age raised from age 60 to 65, the *Baltimore Sun* reported May 26. The pilots hope this will give them more time to recover pension benefits lost due to slashing of pensions resulting from the many airline bankruptcies, mergers, etc. Under the PBGC assumption of their pensions, when they worked for other airlines, they no longer get a maximum payout unless they retire at age 65.

United Airlines opposes the change, as does the FAA. Senator James Inhofe (R-Okla) has legislation pending to raise the limit, while Sen. Daniel Akaka (D-Hi) introduced a bill that would keep the age 60 requirement but allow PBGC to treat a 60-year-old pilot the same as 65-year-old workers.

## **Senator Murray Rebukes Mineta for 'Starving' Amtrak**

Amtrak CEO David Gunn testified on May 12 before the Senate Transportation Appropriations subcommittee, that the Bush Administration's stated policy of putting Amtrak into bankruptcy has had a "negative impact on Amtrak's cash

position"—resulting in Amtrak's bond rating being downgraded, in turn causing the railroad's insurance and accounting costs to increase and suppliers to tighten financial requirements. Now, Transportation Secretary Norman Mineta has called for Gunn to "implement cost-cutting measures" immediately, to conserve cash. In response to Mineta's demand, Sen. Patty Murray (D-Wash) issued a statement calling on the Administration to "rethink [its] short-sighted funding policy." It reads in part:

"Secretary Mineta shouldn't be surprised that Amtrak is facing a financial crisis. His own Administration's budget policies have been one of the largest contributors to it.... After starving the patient for the last four years, Secretary Mineta is now complaining that the patient is malnourished. Secretary Mineta and the Bush Administration should have been thinking about Amtrak's ability to sell tickets and control other costs before they proposed zeroing out Amtrak's budget and pushing the railroad into bankruptcy.

"The Bush Administration's budget policies have been severely detrimental to Amtrak's financial condition...."

## **Senators Defend Amtrak**

Republican Senators Conrad Burns (Montana) and Christopher "Kit" Bond (Missouri) took a rail and airplane tour of Montana's northern tier, over the May 21-22 weekend, to survey and assess the impact on both states' economies of passenger rail and certain water infrastructure. Both Burns and Bond oppose the Bush/Mineta plan to "kill Amtrak," and both sit on the Senate Appropriations Committee. A Burns spokesman said transcontinental rail service is vital to America and should be protected, and that Federal funding may be needed for Amtrak. Senator Bond, who also serves on the Transportation Appropriations subcommittee, issued a press release in which he vowed that he would not allow the Bush Administration "to bankrupt Amtrak."

To rally bipartisan support in Montana for the Amtrak Empire Builder route, a two-day whistle-stop tour is planned with town hall meetings in Glasgow, Havre, and Whitefish on June 1 and 2, led by Montana Gov. Brian Schweitzer. Participation is expected from Montana's Sen. Max Baucus (D) and Rep. Denny Rehberg (R), and Amtrak CEO David Laney among others.

## **U.S. Housing Bubble Still Superinflating**

The runaway U.S. housing market, recently described by Federal Reserve Board Chairman Alan Greenspan as "frothy," continued to run after its tail in April. Sales of existing homes reached 15% above April 2004 levels, and the national median price of existing homes, at \$206,000, was 12% higher than one year earlier. "Frenzied buying" was the way the chief economist of the National Association of Realtors characterized the situation. Price differentials of 600-800% between comparable houses in different local housing markets, have appeared. "Economists worry that real estate is to this decade, what technology stocks were to the 1990s," said the *New York Times* May 25. PIMCO bond-fund chief Bill Gross, on MSNBC, said that without the "homes as ATMs" consumer phenomenon, the U.S. economy would be in recession, and that he expected GDP growth rates to fall below 2% later this year.

## **Atlanta Fed Head Warns Against Housing Speculation**

While speaking to the Atlanta home-builders group May 25, Jack Guynn, the Atlanta Federal Reserve president, said, "There are some local markets where home prices have risen 30% in the past year, and that is unsustainable, and this behavior can only be characterized as nothing other than speculation," *USA Today* reported May 26. Guynn added, "some buyers and some lenders are going to get burned."

# World Economic News

## OECD Warns of Coming Dollar Crash

OECD (Organization for Economic Cooperation and Development) chief economist Jean-Philippe Cotis, presenting the organization's semi-annual economic outlook, noted on May 24 that the U.S. trade deficit could further expand next year to \$879 billion, or 6.7% of gross domestic product (GDP). An ever larger part of this deficit can only be financed by foreign central banks. Private investors are about to lose confidence in the dollar, and could engage in a capital flight out of U.S. assets. "The risk of a brutal fall is rising," Cotis stated at the press conference in Paris. The OECD report describes the global current-account imbalances as unsustainable and presents results of a simulation on the consequences of a dollar crash. A 30% drop in the dollar would boost inflation in the U.S., forcing the Federal Reserve to sharply increase interest rates, causing a crash on stock and bond markets.

In a separate interview with the May 25 *Financial Times*, Cotis "dropped the usual diplomatic language of international organizations in relation to the risks posed by growing imbalances in the world economy." He stated: "We're not saying there will be a doomsday tomorrow morning ... but because the adjustments [to global imbalances] are very slow, we are running the risk that an accident will happen. That's where we are." He added: "[A global adjustment] may happen, but late and at a less propitious time. Time is running out—the numbers are getting big, big, big."

## Central Bankers Against Hedge-Fund Regulation

In response to questions from members of the European Parliament, European Central Bank president Jean-Claude Trichet on May 23 denied any urgent need to regulate the hedge-fund sector. Instead, he called for a study, which will probably take years to complete. Trichet said: "We are all called to study this question of the hedge funds and the reason why they have developed so rapidly over the last years.... Also, the very rapid development of some credit derivatives is calling for further examination.... After having understood exactly what is at stake," that is, after the study has been published, lawmakers can "draw the consequences."

Bundesbank board member Edgar Meister, in an extended interview with the German daily *Die Welt* on May 24, also rejected the need for short-term action. Any regulation of hedge funds, in any case, has to be done on an international level, he said, and "in certain ways" hedge funds would contribute to the "stability of the financial system."

European Commissioner Charlie McCreevy, responsible for financial services, told reporters in Vienna on May 23, that hedge funds are playing a positive role in markets, and he isn't planning rules on the industry at present. He added: "I don't think we should ever reach a situation in financial markets by excessive regulation to such an extent that you hinder innovation. We are not planning as of present to introduce any new legislation in this area."

"I'm also very much aware that there is disquiet in many member states as to the activity of hedge funds. I have read some complimentary articles about hedge funds in newspapers in recent weeks, which have said that hedge funds do provide a tremendous benefit by keeping everything competitive in the financial world."

## China Produces Nearly One-Fifth of World's Clothing

Seventeen percent of the clothing worn in the world is produced by Chinese textile companies, as reported by both Bloomberg and the *China Daily* May 23. With Wal-Mart and other mega-retailers seeking to take advantage of China's cheap labor, this number will grow. This year, quotas for textiles coming into countries ended, and Wal-Mart sought to save 12-15% on apparel. Hence, it is no surprise that retailers are opposed to the quotas being reimposed. The quotas were

favored by the American textile manufacturers. However, applying quotas on Chinese textiles will not bring back the textile industry in the U.S.; market penetration into the United States will still exist.

Fawn Evenson, a vice president of the American apparel and footwear association, said 1 million manufacturing jobs have been lost since the 1980s, and those jobs are not coming back. If anything, companies will outsource to other countries in Asia or South America, where cheap labor is plentiful, she said. Essentially, European firms and U.S. firms can easily get around the quotas being imposed on China.

One of the areas in the United States that has not been crushed by globalization is the cotton industry. But U.S. cotton growers do not rely on the domestic market to sell their high-quality cotton, most of which comes from Arizona and California. For the eighth straight year, demand for cotton by the U.S. has shrunk. So, who keeps the 31,400 U.S. cotton growers in business? China: Some 60% of the cotton China uses come from the United States.

## **United States News Digest**

### **Texas Judge Rules Against Tom DeLay's PAC**

Texas State District Judge Joe Hart ruled on May 26 that Bill Ceverha, the treasurer of the political action committee formed by House Majority Leader Tom Delay (R-Texas), had violated state election code by not reporting hundreds of thousands of dollars in campaign contributions. In a letter outlining his ruling, he said that the money—much of it corporate contributions—should have been reported to the Texas Ethics Commission. The judge ruled that the PAC, Texans for a Republican Majority (TRMPAC), will have to pay nearly \$200,000, to be divided among the Democrats who brought suit.

### **Reid and Pelosi: Medicaid Commission Wrong**

In a brief statement issued May 26, Senate Minority Leader Harry Reid (D-Nev) and House Minority Leader Nancy Pelosi (D-Calif) said they could not accept a non-voting advisory role on President Bush's Medicaid Commission, as announced by Health and Human Services Secretary Mike Leavitt. "Unfortunately, the partisan nature of the commission and the lack of voting rights are not our only reasons for refusing to appoint members," the two lawmakers said their statement. "We fundamentally disagree with the premise that this commission should make recommendations on how to cut Medicaid outlays by \$10 billion by Sept. 1." Senior Democrats on the Congressional committees overseeing Medicaid also declined to participate.

### **FBI Memos Cite Koran Abuse at Guantanamo**

Despite the Pentagon's continued denial of religious abuse at Guantanamo, newly disclosed FBI memos written by agents at Guantanamo in 2002 include complaints from prisoners that guards had mistreated the Koran, according to a May 25 ACLU press release.

In one 2002 summary, an FBI interrogator noted a specific allegation that guards had flushed a Koran down the toilet. The prisoner said that "the guards in the detention facility do not treat him well," the FBI agent wrote. "Their behavior is bad. About five months ago, the guards beat the detainees. They flushed a Koran in the toilet. The guards dance around when the detainees are trying to pray. The guards still do these things." Others reported the Koran being kicked, withheld as punishment, and thrown on the floor, and said they were mocked during prayers.



The ACLU notes that the release of the FBI interviews follows the disclosure last week of Defense Department documents regarding other cases in which military personnel mistreated the Koran, and used a religious symbol to taunt detainees.

In the newly released FBI documents, one detainee told FBI interviewers that using the Koran as a reprisal or as an incentive for cooperation has failed, and that the only result would be the damage caused to the reputation of the United States once what had occurred was released to the world.

"The United States government's own documents show that it has known of numerous allegations of Koran desecration for a significant period of time," said Amrit Singh, an ACLU attorney.

## **Cheney Intimate Named as Number Two at Justice**

Timothy Flanigan has been nominated by the White House to be Deputy Attorney General, serving directly under Attorney General Alberto Gonzales, in the Justice Department. Flanigan was previously Deputy White House Counsel, serving as the number two to Gonzales there also. In 2001, in the days and weeks following 9/11, he worked closely with Dick Cheney's legal counsel David Addington, in crafting the scheme of military tribunals as a means of circumventing both U.S. military law and the criminal justice system, and also in rejecting the application of the Geneva Conventions to the so-called war on terrorism.

## **Diverse Group Calls for Independent Torture Probe**

A group of prominent conservatives and liberals, including two former Republican Congressmen, is calling for Congress and the President to establish a bipartisan, independent commission to investigate abuse of prisoners at U.S. detention facilities. The call, which was released at a May 25 press conference in Washington, D.C., is sponsored by the Liberty and Security Initiative of the Constitution Project, funded by George Soros's Open Society Institute. The co-chairs are David Keene of the American Conservative Union and David Cole, professor of law at Georgetown University. Others participating in the press conference were:

- \* John Podesta, Clinton Chief of Staff, now president of the Center for American Progress
- \* Thomas Pickering, former Ambassador and Undersecretary of State for Political Affairs in the Clinton Administration
- \* former U.S. Rep. Bob Barr (R-Ga)
- \* former U.S. Rep. Mickey Edwards (R-Okla)
- \* Eugene Fidell of the National Institute for Military Justice (NIMJ)
- \* retired Coast Guard Capt. Kevin Barry, also NIMJ.
- \* John Whitehead, Rutherford Institute.

During the question period, *EIR's* correspondent noted that there had been a similar initiative launched last September by a group of retired military flag officers, and that it had fallen by the wayside, under tremendous pressure from the Administration to keep the lid on the torture scandal. *EIR* asked: "Are you encouraged by what happened in the Senate in the past few days, where a bipartisan group of Senators came together and overcame a lot of pressure to accomplish



something very significant? Does that give you hope that there's a new climate now, in which your initiative could be taken up?"

Podesta and Barr both downplayed the importance of the action in the Senate, but Edwards acknowledged that he does see a similarity between what happened around the filibuster and this initiative. "What happened the other night, was a reassertion by the Congress, that it's not just a matter for the Executive Branch to make all the important determinations," Edwards said, and added that so far, it is only the Executive that has conducted any investigation of prisoner abuse. "We think the Congress of the United States ought to be more involved and assert itself.... So in that way, there is a similarity with what happened around the judicial nominations."

## **Amendments to Patriot Act Marked Up in Secret Session**

The Senate Intelligence Committee is preparing legislation to give the FBI unlimited subpoena power as part of amendments to the Patriot Act, signed into law six weeks after the Sept. 11, 2001 attacks. Parts of the act are set to expire at the end of this year.

In drafting legislation to make certain provisions permanent, Senate Intelligence Committee Chairman Pat Roberts (R-Kans) is also working to expand the FBI's authority in terrorism and espionage cases. The intelligence panel held a closed session to mark up the legislation on May 26, even though Senate Democrat Ron Wyden (Ore) had asked Roberts to open the session to the public. Roberts' draft bill calls for giving the FBI expanded subpoena power (administrative subpoenas) that would enable agents involved in terror investigations to obtain records, electronic data or other evidence, without approval from a judge or grand jury.

On May 24, Joseph Onek, Senior Counsel of the Constitution Project, testified before the Intelligence Committee regarding the use of such administrative subpoenas, which are used in many other types of investigations, but are being sought by the government for use by the FBI against terrorist suspects. Onek said that administrative subpoenas are generally used for limited purposes to obtain specific types of records. But under the new proposals, such subpoenas would be seeking records relating to foreign intelligence and terrorism, an enormous range of activities with virtually no limit to the types of records that the FBI will be able to get. Included could be financial, employment, transportation, medical, and library records.

Another problem with the new draft is that the FBI's subpoenas must be kept completely secret whenever the FBI says that national security requires non-disclosure. So, a person whose First Amendment rights are violated will not be able to complain to the press, the Congress, or the public. Said Onek: "We should not permit, for the first time in our history, the massive use of secret subpoenas that have not been approved by a judge."

## **Republicans Revolt Against Bush on Stem-Cell Bill**

Fifty House Republicans revolted against both President George Bush and House Majority Leader Tom DeLay (R-Texas) on May 24, by voting in favor of a bill to expand stem-cell research. The bill passed by a vote of 238 to 194, with 50 Republicans in favor. The previous week, Bush had threatened to veto the bill if it passed. Tom DeLay led the effort to defeat the bill. Although the votes for the bill fell short by 50 votes of the two-thirds majority required to overturn a Presidential veto, the vote is a further significant reflection of the growing bipartisan revolt against Bush and DeLay, his henchman in the House.

## **Ibero-American News Digest**

## **Panama: Violent Clashes Over Social Security Privatization**

Four days of protests against government moves to privatize Panama's Social Security and medical insurance plan, have involved violent clashes with police, and are rapidly moving toward an indefinite general strike. At the same time, Panama's Congress ignored a 10,000-person protest, and on May 25, voted up the privatization "reform" package in the first of two required debates. More than 240 workers and students have already been arrested, and scores injured as well. The Social Security system serves 75% of the Panamanian population.

Eduardo Rios, who has written three books on the Panamanian Social Security System, told *EIR* on May 26 that the "reforms" include raising the retirement age, increasing the number of years you must contribute to qualify for retirement, and moving the Social Security funds from the National Bank, to private banks. "From the banks' standpoint, this is even better than the Chilean scheme," said Rios, who is also a former labor leader, and founding member of the Schiller Institute's Trade Union Commission. "Instead of individual accounts, they get the whole thing in one fell swoop; they don't have to bother with administering anyone's pension—the government does it for them—and all they have to pay is minimum interest, if that," Rios added.

The *New York Times* of May 26 obligingly argues the government's viewpoint, that "The social security system's reserves are inadequate for its future pension commitments, and the government needs pension reform to rein in a hefty budget deficit. Cleaning up public finances is key to Torrijos' ambitious plan to expand the country's interoceanic canal, whose locks are too small for a new generation of vast vessels." President Torrijos, whose party holds a majority of the 78 seats of the national assembly, is planning to ram the reform through, come what may.

## **Bolivian Upheaval Continues; Military on Alert**

In Bolivia, three more departments (provinces) have joined with Santa Cruz in its separatist drive, as the impoverished municipality of El Alto, adjacent to the capital La Paz, remained paralyzed in the last week of May, amidst a strong military/police deployment to protect both the international airport and the fuel plant which supplies La Paz. A 15,000-person demonstration addressed by *cocalero* leader Evo Morales in the capital on May 23 vowed to continue daily protests, and gave the Congress four days to convene a Constituent Assembly to "transform and unite the country."

In a May 23 statement, the Armed Forces warned that the situation "is generating uncertainty among the citizenry, and far from leading to a solution to problems, is increasing the risk of confrontation among the regions." The military stated that it will be on alert "for the purpose of guaranteeing respect for order and the legitimately constituted government." The military said it would be carefully monitoring any "de facto measures" intended to prevent the country's "constitutional process" from functioning.

## **Argentine President Calls for National 'Industrial Mission'**

"Argentina cannot have a weak President"; it is still "in hell," and must "consolidate an industrial mission" to get out, said President Nestor Kirchner, in a broad-ranging interview with the daily *Clarín* published May 22. The interview was granted on the occasion of the second anniversary of his taking office on May 25, 2003.

Kirchner noted that he took office at a crucial "inflection point, at a very tough moment. Four years aren't much, looking at it in historical terms, but I hope that ... it will be said that [I] took the steps to provide the necessary leadership."

He pointed out that the Argentine people don't have an infinite capacity to keep paying the debt: "How long can Argentine society keep up this effort?" As for current negotiations with the International Monetary Fund, Kirchner said they are being

carried out in a very serious way, but "cannot be done from a standpoint of unreality.... We have just come from a very difficult swap, with excellent negotiations, but there are multilateral agencies that don't like what Argentina has done." The debt swap "will not be reopened," he underscored. "We must respect what we have said." Negotiations will go on for as long as necessary with the Fund, Kirchner said, "because the country is engaging in a sovereign discussion."

The priority now is to "consolidate an industrial project. It must be understood that our recovery is gradual.... We must reindustrialize the country."

## **OAS Recognizes Ecuadoran Government**

The Organization of American States (OAS) issued a six-paragraph document May 20, giving de facto recognition to the Palacio government in Ecuador. The document was the result of long weeks of negotiations over whether the new government should be recognized. The previous government of President Lucio Gutierrez was ousted on April 20.

President Alfredo Palacios has vowed to finish out his ousted predecessor's term, which ends in 2007. This was initially not to the liking of the Bush Administration, which called instead for early elections. When little backing was forthcoming for that proposal, the U.S., together with Peru, attempted to get the OAS to add a clause to its resolution on Ecuador mandating the designation of a person or group of persons, and even "special mechanisms," to monitor the advance of democracy in Ecuador. That proposal was defeated in the final negotiations over wording of the support resolution.

Thus far, the Palacios government has continued to maintain a firmer line toward international creditors. On May 23, just as an IMF mission to Ecuador began its "evaluation" of the country's economic policies, Economics Minister Rafael Correa rejected IMF "insinuations" as to what policies it must adopt. The IMF mission would be informed of the government's plan to suspend layoffs of government officials, suspend "repurchasing" of foreign debt with oil revenues, and suspend restriction on public spending, he reported. Correa added that all of these agreements with the IMF had been made by the Gutierrez government, and that the relationship that Ecuador will maintain with the IMF from here on in "will be that of any sovereign country ... based on mutual respect."

## **Bush Administration on Hot Seat Over Posada Case**

The May 13 formal request by the Venezuelan government for the extradition of Cuban-Venezuelan fugitive Luis Posada Carriles, on charges that he was the co-author of the October 1976 bombing of a Cubana airplane in which 73 people died, has the Bush Administration squirming. Posada had entered the U.S. via Mexico in March using a false passport, and was seeking asylum from the Bush Administration for services rendered.

Cuban President Fidel Castro and Venezuelan President Hugo Chavez are making appropriate political hay over this one: Posada Carriles has a decades-long history as an assassin and terrorist for the Dulles brothers' wing of the CIA, extending from his recruitment to anti-Castro operations in the early 1960s, through his role in George H.W. Bush's Contra drug-running crew, to his attempted hit on Fidel Castro in Panama in 2000. He was jailed in Venezuela from 1978 to 1985, when he conveniently "escaped" from jail.

The bombing of the Cuban airliner was carried out as a part of Augusto Pinochet's Operation Condor apparatus. In fact, the U.S. FBI established that the bombing was planned at the same June 11, 1976 meeting of Cuban exiles, attended by Posada and fellow exile Orlando Bosch, where the assassination of former Chilean Defense Minister Orlando Letelier was planned. The Cubana airplane was blown up over the Caribbean just 15 days after Letelier was assassinated on the streets of Washington. (Bosch has lived comfortably in the U.S. since President George Bush, Sr.'s Administration overruled the Justice Department's 1989 deportation order against him; the DOJ order identified Bosch as "a terrorist, unfettered by laws or human decency.")

Posada was arrested by U.S. immigration agents on May 17, but so far, he faces only charges of illegally entering the country. William P. Rogers, the former Assistant Secretary of State for Inter-American Affairs, today a senior partner at Arnold & Porter, warned the Bush Administration, in a recent interview with the Inter-American Dialogue, that "the costs of a failure to extradite Mr. Posada Carriles are not trivial.... It will not be helpful for this country, now that the boot is on the other foot, to be seen as manipulating the legal process of extradition for political purposes."

## Western European News Digest

### French Nobel Economist Condemns Deregulation

French economist and Nobel Prize winner Maurice Allais pointed out the truly revolutionary ferment in France. In an interview with the May 26 issue of the daily *L'Humanité*, Allais reviewed how deregulation policies since 1974 have ruined the economy of France, making things worse and worse. Against that background, the current social and political upheaval in France does not come as a surprise.

Allais remarked: "Although of a very different nature, the forces of social disintegration are perhaps far stronger today, than those you would have seen on the eve of the French Revolution, and no one knows what could happen tomorrow, if 'the street' were to arise to wipe out public order. Now, as then, the unconsciousness of certain dominating feudalities who think of themselves as being protected and who take mostly undue advantage of privileged situations, is absolutely here."

The fact that Allais, who so far has written for the conservative daily *Le Figaro*, did the unthinkable by granting an interview to the communist *L'Humanité*, helps suggest the changes going on in France now.

### After the Referendum: Major Crisis Expected in France

French President Jacques Chirac made a last-ditch attempt May 28 to convince the French to vote for the hated European Constitution in the May 29 referendum. According to all commentaries, he failed totally. Two polls are now crediting the "No" with 55%, and a third, with 54%. Given the level of panic, the police polls are probably higher than those of the normal polling agencies. At this point, the main parties for the "Yes" are already preparing for defeat. According to an article in *Le Figaro* recently, the only question is whether it will be a small "No" or a big "No."

Discussion is on the table concerning who will replace Prime Minister Jean Pierre Raffarin, who backed the Constitution. Dominique de Villepin seems to be choice number one, followed by Defense Minister Michele Alliot-Marie, who has done "well" at Defense and who is considered to be compatible with former Finance Minister, current UDR Party chair Nicolas Sarkozy. Lastly there is the lady-do-rightly of the government, Jean Louis Borloo, Minister of Social affairs who has just now proposed to create 500,000 service jobs for people in their homes!

Analysts and commentators in the media are talking about a crisis of the system which has run things for the last 30 years.

### Will the French Socialist Party Implode After the Referendum?

If the "No" wins, a deep crisis will erupt in the Socialist Party. Already, the "Yes" and "No" camps in the party leadership continue to attend meetings without speaking to one another! All major decisions are taken by the "Yes" camp—Francois Hollande, Segolene Royale, Dominique Strauss Kahn, Martine Aubry, and Jack Lang—outside of the leadership body. Their strategy against the leaders of the "No," and in particular against Laurent Fabius, who still carries significant weight

in the party, has been to demonize them as "xenophobic and fascistic! Polls taken within the Socialist Party, however, show that more than 60% of the membership are against the Constitutional Treaty. So clearly, if the "No" wins, the present leadership will blow up.

So, we are on the verge of a total reorganization of the French political scene. (See InDepth for more on the French Referendum.)

## **German Momentum Spills Over into Netherlands, France**

Numerous German media report that the remoralization and beginning transformation of the SPD into an anti-monetarist, pro-labor party, is having a positive impact on the situation, especially in neighboring France and the Netherlands. There, the number of those that oppose the EU Charter, is said to have increased since the weekend.

For France, a 56% majority for a "No" to the Charter in the referendum on May 29, is no longer ruled out. In the Netherlands, where the referendum takes place June 1, the latest opinion polls see 63% against the charter, with the tendency increasing. (See InDepth for more coverage of post-election German developments.)

## **Schroeder Mooted as Ally of Economic Reform**

German Chancellor Gerhard Schroeder could be a potential ally in reform of the European Central Bank (ECB), stated Jacques Sapir during a public meeting in Paris. Sapir, director at the High Level School of Social Sciences, made interesting statements during a speech at a "Constitutional Cafe" meeting in Paris. He polemicized against the notion of free competition which is omnipresent in the proposed European Constitution that he fights. For competition to really be fair, each economic actor would have to be perfectly informed on all opportunities of today and tomorrow and be able to process all of that information. He ridiculed such an idea, saying that one thing which is common to David Hume, Bernard de Mandeville, Adam Smith, and all the others of the same school, is that they all have in their libraries the founding books of Jansenism, the Catholic French version of Calvinism! Therefore, the "invisible hand" must be the hidden God of Port Royal.

## **Brown Plans Huge Bailout of British Housing Bubble**

British Chancellor of the Exchequer Gordon Brown will soon announce his new plan for British taxpayers to sustain the British housing bubble, at the cost of hundreds of millions of pounds. This is being presented as a government policy to fund "cheap" mortgages for at least 100,000 first-time buyers to get them into the housing market, BBC reported May 22. These buyers would have to raise between 50% and 75% of the cost of their new homes, with the rest of the equity in the house being shared by the government and a bank or building society.

The previous week, it was revealed that house prices in some areas are *eight times* the average salary, and in nine out of ten British towns, nurses, teachers, and firefighters cannot afford to buy houses on their incomes.

Brown is nervous not only about the absence of first-time buyers, but also the whole shebang. If no new buyers can get into the market, the whole vast bubble of "selling chains" will collapse, and the millions, whose financial situation is based on rising property values will find themselves out on the street.

The Brown scheme, actively supported by Deputy Prime Minister John Prescott, will just expand the housing bubble further: immediately they will unveil plans to release more land for home building, cut the costs of construction, and ease planning rules.

"When Harold Macmillan said in the 1950s that he wanted a property-owning democracy, there was only 30% of the population that owned their own homes," Brown blathered. "There are a million more home owners than there were in 1997, and we believe we can get the numbers of home owners up to nearer 75%. We are probably the first government that will be able to put this asset-owning democracy into practice." What this means is that the government and banks would hold the equity in the house not covered by the purchaser's mortgage. The buyer would have to pay "rent" to the government until he finally bought the whole house.

## **Schroeder To Visit U.S. End of June; Agenda Still Not Public**

German Chancellor Gerhard Schroeder's June visit to U.S. will take place at a crucial moment. The visit will begin less than two weeks after the June 13 special Berlin address by Schroeder on the hedge-fund issue, and last almost five days, June 26-June 29. The meeting with President Bush will most likely take no more than 30-45 minutes, translations included; the question is, therefore, who else does Schroeder plan to meet during these five days? So far, no details of the Schroeder timetable have been made public. No details on former U.S. President Bill Clinton's talks with Schroeder (and other European leaders), during Clinton's ongoing Tsunami Relief mission in European capitals, have been made known, either.

Former German Chancellor Helmut Kohl is in the States these days as well, and although he has his own Atlanticist and CDU agenda, it is known that on questions concerning the interest of Germany as a nation, Kohl has repeatedly been consulted by Schroeder, through channels sealed off from the media. In a similar category, one may assess certain missions carried out for Schroeder by Kohl's former Defense Minister Volker Ruehe, an adversary of present neo-con CDU chairwoman Angela Merkel. Ruehe was in the States last week, apparently having many meetings about which nothing has been made public in Germany, meetings that are not only related to his nominal mission, namely, rallying support in Congress for the Schroeder proposal for UN reform.

## **Russia and the CIS News Digest**

### **Recriminations Fly After Moscow Power Blackout**

A May 25 electric power blackout in the southern part of Moscow interrupted the city's functioning for nearly 24 days and stranded thousands of people on the subway. The main cause of the outage was widely reported as equipment failure at a substation where the most recent upgrades date back to 1958-62. In addition, it was reported that the substation operators failed to shed load when the local failure occurred—being under pressure not to cost the energy company one kilowatt-hour's worth of revenue—and therefore guaranteed that that outage would snowball.

President Vladimir Putin made a late-night TV appearance about the situation. Charging the leadership of UES, the national power utility, with responsibility, Putin alluded to the "human" factor that compounded the non-investment in infrastructure (which is also a human factor, of course). He said, "As for the reasons for the accident, ... they are of a technological nature. I think we can say that there is insufficient attention by UES to the company's ongoing operations. Not only problems involving global energy policies and reform of the company need attention, but day-to-day operations do, too. I think that the problem is not just worn-out equipment—although this is also a factor, as at the substation where the accident took place, the main equipment dates from 1962—but also of the low competence of those who should have maintained and repaired what needed repair."

Prime Minister Mikhail Fradkov (whose possible ouster, due to poor economic performance, is the subject of intense current rumors) likewise blasted UES leadership at a May 26 cabinet meeting. The CEO of the power utility is none other than Anatoli Chubais, architect of Russian industry's privatization during the 1990s. He was summoned for questioning

about the blackout in a Moscow criminal court, but did not appear before the end of the court's work day on May 26.

## **Baku-Tbilisi-Ceyhan Pipeline Opened**

The Presidents of Azerbaijan, Georgia, Kazakstan, and Turkey gathered in Baku on May 25 to celebrate the formal opening of a pipeline that was designed to prevent Russia from transporting Caspian Basin oil. U.S. Energy Secretary Samuel Bodman, who also attended the opening ceremony, said the pipeline would "defuse the current tension on world oil markets." It is not clear what Bodman meant. Western geopoliticians have been ardent supporters of this pipeline, because it bypasses Russia. Although oil started pumping on the 1,100-mile-long pipeline on May 25, it will take at least another six months for it to fill completely, making it exportable to Ceyhan terminal by the end of this year. The \$4 billion pipeline was built by British Petroleum.

## **U.S. Energy Secretary Visits Moscow**

A few years ago, when the U.S.-Russian Commercial Energy Dialogue was launched, Mikhail Khodorkovsky of Yukos Oil starred in the cow-pat toss at the Bush-league conference held at Rice University to promote it. Today, Khodorkovsky is sitting in a cage in a Moscow courtroom, where the reading aloud of a 1,000-page verdict against him for tax evasion and other crimes went into its second week on May 23. But the Bush league is still pushing for Russian oil concessions. Before proceeding to the opening of the Baku-Ceyhan pipeline May 25, U.S. Secretary of Energy Samuel Bodman visited Moscow for talks with Minister of Energy and Industry Victor Khristenko and Economics Minister German Gref, among others.

According to the May 25 *Moscow Times*, Bodman brought up the possibility of U.S. oil majors forming partnerships with Rosneft, the Russian state-owned oil company. Rosneft's merger with Gazprom has fallen through, and now Rosneft is to be auctioned. The Russians are also seeking for China or India to purchase a stake in Rosneft. (Gazprom, meanwhile, is reportedly seeking to purchase Sibneft, another West Siberia-centered oil firm, in order to proceed with the planned creation of a state-dominated oil/gas conglomerate.)

Andrew Somers, head of the American Chamber of Commerce in Moscow, told the *Moscow Times* that U.S. Commerce Secretary Carlos Gutierrez's visit to Russia the week of May 30 will also focus on the U.S.-Russia energy dialogue. Meanwhile in Washington, the government-funded Woodrow Wilson International Center for Scholars held a gala on May 26 to honor two individuals: former Ambassador Thomas Pickering for "public service" and Russia's LUKoil chairman Vagit Alekperov for "corporate citizenship"—a somewhat strange designation, analyst Peter Reddaway pointed out in a communication to Johnson's Russia List, for a company "burdened by wide-ranging unanswered allegations ranging from murder to tax evasion to links to organized crime." On the other hand, Reddaway added, Bush Cabinet members Condoleezza Rice (Secretary of State) and Margaret Spellings (Secretary of Education) sit on the board of the Wilson Center.

## **Uzbekistan's President Karimov Visits China**

Uzbekistan's President Islam Karimov, who is under attack from the terrorists, human-rights activists, orthodox Islamic networks and Anglo-Americans, arrived in Beijing May 25. The visit took place just days after clashes in Andijon, Uzbekistan saw a violent uprising and hundreds of deaths in the Fergana Valley town. Ahead of the visit, the Chinese Foreign Ministry endorsed Karimov's position by saying that the crackdown against the Islamists and others in Andijon was necessary to prevent an armed insurrection and that most of the dead were Islamic extremists. Karimov had earlier announced that he would like to have the anti-terrorism unit of the Shanghai Cooperation Organization (SCO) headquartered in Tashkent.

Karimov received a red-carpet welcome in Beijing, with a 21-gun salute. Following his meeting with Chinese President Hu Jintao, Karimov said: "Uzbekistan sees the People's Republic of China as a reliable partner and friendly neighbor."

Meanwhile, a human rights activist from Uzbekistan was arrested following his visit to Osh, Kyrgyzstan. The Kyrgyz uprising was organized from Osh, which is at the head of the Fergana Valley, near the Uzbekistan border. The arrest has given a big play in the international media. The *Financial Times* of London forecast in a May 26 commentary, that Fergana will become a permanent hotbed of war, like the Balkans.

## Asia News Digest

### Source: Iran Asks Indian Aid, if Attacked by U.S.

Iran reportedly has sought assurances from India that, should Iran be attacked by the U.S., India would provide adequate assistance, according to one Indian source, who reported the exchange during Indian External Affairs Minister K. Natwar Singh's recent meeting with Iran's Foreign Minister Kamal Kharazmi. When Natwar Singh asked, "Where is the war?," Kharazmi reportedly answered it was coming within weeks, not months.

India is now evaluating this, along with what Secretary of State Condoleezza Rice told the Indians during her March visit to New Delhi—i.e., that "instability is coming to Asia, but which would lead to stability." New Delhi thinks she was referring to Iran, where New Delhi believes the hardliners will come to power soon.

The other indicator, this source reported, is the Iranian decision to convert a third of its \$40 billion holdings into euros. This could be to avoid American sanctions.

U.S. military sources have similarly reported that senior Bush Administration officials are saying that one reason they felt confident, as of several weeks ago, that there could be a large troop withdrawal from Iraq beginning at the end of the year, is that they expect a democratic revolt to overthrow the mullahs in Tehran, and install a pro-Western regime in its place. Deputy Secretary of State Robert Zoellick, in his recent visit to Southwest Asia, where he attended the World Economic Forum regional meeting in Jordan, also announced a fundamental change in U.S. foreign policy, to go beyond diplomacy and actively intervene to promote democracy.

### Indian, Russian Presidents Discuss Economic Ties

Reporting on his recent visit to Russia, Indian President A.P.J. Abdul Kalam told reporters that during his talks with President Vladimir Putin May 24, they decided on enhancing space research, civilian nuclear research, joint production of armaments, and other high-tech areas.

It was also announced that Russia will collaborate with India's Chandrayan (Moon flight) program scheduled for 2010. A 30-member delegation of Indian scientists will be in Russia in June, to be followed by the visit of a Russian team, to evaluate India's space-research infrastructure.

Russian Foreign Ministry spokesman Aleksandr Yakovenko told reporters that during talks between Kalam and Putin, special emphasis was paid to working together on economic matters.

### Zionist To Replace Neo-Con as U.S. Ambassador to Afghanistan



A crestfallen Afghan President Hamid Karzai headed home last week after being ruthlessly Bush-whacked in Washington; President Bush told him to his face, during a joint press conference May 23, that notwithstanding the sanctity of Afghanistan's sovereignty, U.S. troops in that country will remain under U.S. command. The Afghan government will have no jurisdiction over the U.S. troops' actions.

No sooner had Karzai departed Washington for other U.S. locations, than Bush named Ronald Neumann, a pro-Israel acolyte and career bureaucrat, to replace neo-con Zalmay Khalilzad as the Ambassador to Afghanistan. Neumann, who earned praise from the Israelis as U.S. Ambassador to Bahrain, and is close to Madeleine Albright, is also quoted in at least one article by Daniel Pipes as one of two U.S. Ambassadors based in Arabia who has the guts to stand up for Israel.

## **China and India To Hold Joint Army Exercises**

Indian Army Chief General Joginder Jaswant Singh told newsmen that following his discussions with visiting Chinese Chief of General Staff Gen. Liang Guanglie, who began a six-day tour of India on May 23, the armies of India and China plan to hold unprecedented joint counterterrorism and peacekeeping training programs, the *Daily Times* of New Delhi reported May 27.

The two armies fought a brief war in 1962, but their military ties have vastly improved since then, and their soldiers have gone on joint mountaineering expeditions in the Himalayas. "The momentum given by the leaders of our two countries is being enhanced further by the two militaries," Gen. Singh said.

"On the roadmap of military-to-military cooperation in the future are exercises where both countries could carry out counterterrorism or UN missions," he added.

## **Malaysia Prime Minister Says Dollar Peg Stays**

In the course of his just-concluded state visit to Germany and the Netherlands, Malaysian Prime Minister Abdullah Ahmad Badawi declared that his country's currency, the ringgit, would remain at its current peg of 3.80 to the dollar, which was set on Sept. 1, 1998, against the strong objections of then-Finance Minister Anwar Ibrahim, who was overridden by then-Prime Minister Dr. Mahathir bin Mohamad.

That peg continues today. When asked, in talks with the Dutch and Germans, if the peg would continue, Badawi said: "Nothing is cast in stone and we are watching developments very closely."

He added that the government has prepared a number of scenarios on the movement of certain currencies, so that Malaysia will be able to adjust to any sudden development.

Making the point clear, Badawi said: "We don't want to be caught unprepared and we refuse to be caught unprepared."

## **Globalization Not Benefitting China**

"Big U.S. multinationals that have factories in China actually oppose Washington's policy to upvalue the renminbi; they are making a lot of money on the re-export of their processed goods from China to the U.S., and want to keep things that way," a leading Chinese economist and advisor to the Peoples Bank of China emphasized to *EIR*.

"There is growing recognition among economic policymakers in China, that the whole globalization 'processing trade' is

not benefitting the real Chinese economy," he said, citing the statements of Guo Shuqing, former head of China's State Administration of Foreign Exchange (SAFE), who warned in March that China "should gradually reduce the preferential treatment to exports and seriously review our foreign investment policy." Most Chinese exports are of low added-value, from foreign-owned and controlled firms, he said. Exports of relatively higher added value, and particularly of Chinese inventions, are a "persistently low" proportion of the total. "This kind of export growth is not sustainable," Guo had warned.

"China cannot just simply oppose the up-valuation of the RMB against the dollar, the situation is much more complicated than that. China needs a real reform of its current policy, because now, it is forced to accumulate huge amounts of dollar reserves, and this is not to China's benefit," the Beijing economist told *EIR*.

## **China: Savings Can Be Alternative to Foreign Investment**

China's own huge savings deposits can be an alternative to dependence upon foreign investment, stated an article in the *China Business* newspaper, Xinhua reported May 25. Although foreign direct investment (FDI), has contributed a lot to China's rapid economic development, it also brings economic losses. At this time, about US\$500 billion in FDI go into China, about 40% of GDP. Over-dependence upon FDI can lead to an "enormous cost" of opportunity to China.

The alternative is for China to use its own citizens' savings deposits. At end-of-year 2004, total savings—urban and rural—amounted to over 11.95 trillion yuan (about US\$1.44 trillion). This was 1.59 trillion yuan (US\$192.6 billion) more than 2003.

FDI profits end up in foreign countries. Currently, the annual profits of FDI in China are about US\$50 billion—and this amount is not gained by the Chinese economy, *China Business* noted. Plus, the FDI flows can cause China deficits both in current and capital accounts, because these large profits are sent abroad. In addition, the focus of FDI into the coastal areas and industrial sectors, is exacerbating the imbalance of China's economic structure.

## **Stark Economic Divide Persists Between Rural/Urban India**

India's rural-urban economic divide is still "as stark as ever," despite the "boom" in household spending in urban areas, according to a report by the National Sample Survey Organisation, based on a 2002 survey, *The Hindu* reported May 26.

There has been only "marginal" improvement in living conditions in rural India. This includes a "substantial increase in dependence on electricity" in the past decade, but it is still the case that just 53% of rural households have access to electricity, compared to 36% in 1993. In the cities, electricity is the main source of lighting for 92% of houses, up from 81% in 1993.

## **Taiwan President Chen Is in a Bind**

President Chen Shui-bian has no words on the future of cross-strait relations, Taiwan News online reported May 22. Some regard opposition leaders Lien Chan's and Soong James' trips to Mainland China as treasonous, but a clear majority of the people in Taiwan want to maintain the status quo, which means neither independence nor reunification. The opposition party did President Chen a favor, when they showed that they are willing to put strengthening cross-strait relations at the center of politics in Taiwan, and President Chen is not in a position to do that. Chen finds himself having to take a more moderate stance and tone down his talk of independence from the Mainland, giving signals that he knows cross-strait ties must improve, but there is a problem.

Chen's chief of staff, Yu Shyi Kun, has been in Washington this past week. Yu has asked Washington to give Chen time to deal with the "pro-independence diehards."

## This Week in History

**May 30 - June 5, 1937**

### FDR's Plan for National Infrastructure Development

On June 3, 1937, President Franklin Roosevelt recommended to Congress that it pass legislation providing for Federal planning and development of the nation's natural resources, and that this comprehensive effort be coordinated by seven regional authorities. This was not a mere academic proposal for better administration—it was part of Roosevelt's knock-down-drag-out fight in 1937 against the Tory faction, which wanted to stop the New Deal programs and go back to *laissez-faire*, free trade, and unregulated speculation.

Although Roosevelt had been reelected in 1936 by a large margin, the international speculators and financiers moved quickly to counter the economic programs that were bringing America out of the Great Depression. Roosevelt could see the warning signs early in the year. During a White House press conference on April 2, he announced the fact that the prices of raw materials had gone up too high, threatening the large, long-term infrastructure projects, such as bridges and concrete dams, that the government was building.

Roosevelt particularly cited the price rises in cement, steel, and copper. "I am concerned—we are all concerned—over the price rise in certain materials that go into durable goods primarily. For example, we all know that there are a great many mines in this country—copper mines that can turn out copper at a profit at five and six cents. Even the high-priced mines, like Anaconda, can probably make a profit at eight and nine cents. Yet today copper is selling at 17 cents or more, pushing up thereby the prices of all kinds of articles into which copper enters, and of course it does enter into a very, very large field of articles of all kinds."

Roosevelt also cited the \$6 a ton increase in steel prices. When asked by the press if the price increases were far above what they should have been, Roosevelt answered: "I think that the price increase of ordinary steel was much larger than was justified by the increase in the pay of the workers; it was probably somewhere between twice and three times the amount that went to the workers."

Compounding the problem that massive profit-taking and speculation on raw materials was driving up the cost of building needed infrastructure, was the fact that Treasury Secretary Morgenthau was pressuring Roosevelt to cut funds to the Public Works Administration. Morgenthau justified the cuts by pointing to the industrial production index published by the *New York Times*, which had risen to 110, and therefore supposedly indicated that large infrastructural projects were no longer needed. He was wrong, and the cuts resulted in an economic collapse and spiraling unemployment.

The opposition to the New Deal, an opposition of such ferocity that it would even wittingly cause another collapse, was made up of oligarchical interests who knew Roosevelt's policies were the death knell of their beloved feudal system. One Roosevelt thrust that drove them to frenzy was his May 24, 1937 proposal for legislation establishing minimum wages and maximum hours.

In his proposal to Congress, Roosevelt wrote that "to protect the fundamental interests of free labor and a free people we propose that only goods which have been produced under conditions which meet the minimum standards of free labor shall

be admitted to interstate commerce. Goods produced under conditions which do not meet rudimentary standards of decency should be regarded as contraband and ought not to be allowed to pollute the channels of interstate trade."

One of the rudimentary standards of decency involved not using child labor. In 1918, the Supreme Court, with Justice Oliver Wendell Holmes writing the dissenting opinion, had invalidated a statute prohibiting the interstate shipment of goods made by child labor, under conditions considered sub-standard by the Congress of that day. As Roosevelt later wrote, it was not until 1941 that the Supreme Court overturned that decision. "It has established the power of the Congress to outlaw child labor and the chiseling of workers' wages, and the stretching of workers' hours beyond modern American standards.

"There has been established at last the definite principle, which is essential to any self-respecting democracy, that the Congress has the right to impose decent standards of wages and hours in any factory which manufactures merchandise passing through the channels of commerce from one State to another. In this way, backward States, which are willing to permit their children to work instead of going to school, and are willing to subject helpless labor to intolerable working hours and starvation wages, will not be permitted to send their merchandise into other more enlightened States, which are willing to respect the minimum standards of a free laboring class."

Just ten days after he asked Congress for minimum-wage legislation, Roosevelt submitted his plan for creating seven regional authorities which would report to the Federal Government on maintaining and expanding the nation's natural resources, a mandate which included flood control, forest management, the prevention of erosion, and hydro-electric projects. The President particularly stated that, "The water-power resources of the nation must be protected from private monopoly and used for the benefit of the people."

The seven regional authorities listed were, first, "the Atlantic Seaboard; a second for the Great Lakes and Ohio Valley; a third for the drainage basin of the Tennessee and Cumberland Rivers; a fourth embracing the drainage basins of the Missouri River and the Red River of the North; a fifth embracing the drainage basins of the Arkansas, Red and Rio Grande Rivers; a sixth for the basins of the Colorado River and rivers flowing into the Pacific, south of the California-Oregon line; and a seventh for the Columbia River Basin."

As Roosevelt wrote in November of the same year, "We have reached a stage in the depletion of our natural resources where we should allot a definite portion of each year's budget to this work of husbandry. Our present machinery for carrying out such purposes, however, is geared to methods of which the rivers-and-harbors legislation of many years ago is an example. We spend sporadically—on a project here and a project there—determined upon without relation to the needs of other localities, without relation to possibly more important needs of the same locality, and without relation to the national employment situation or the Federal Budget.

To avoid waste and to give the nation its money's worth from the national funds we expend, we must, like any business corporation, have a definite building and operating plan worked out ahead of time—a planned order in which to make expenditures so that we may keep our working force employed, and a planned coordinated use of the projects after completion. And because relative values of local projects should be appraised before they come to Washington, first by those with local knowledge, and then by regional conferences, we must have some kind of local and regional planning machinery and coordination to get full value out of the final appropriations authorized in Washington—money value and human value."

At the end of his message to Congress, Roosevelt stated that, "For nearly a year, I have studied this great subject intensively and have discussed it with many of the members of the Senate and the House of Representatives." The shining example of such comprehensive planning was the TVA, yet its very success had made powerful enemies. One of them was a committee chairman from the South who lobbied for the dismissal of TVA director David Lilienthal, because he had had

the temerity to allow a black woman to take a government test for a TVA clerical position.

Roosevelt assured the chairman that Lillienthal had done such a good job that he would be most happy to name him head of the Columbia River Basin Authority, thus removing him from the TVA. The catch was that Congress would have to vote out the funding for the Columbia River project to make this possible. The chairman was unmoved, and the feudalist Liberty League's well-financed propaganda against so-called "socialist planning" succeeded in stopping Roosevelt's comprehensive resource development program.

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