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This Week You Need To Know

'Plamegate' Can Bring Down Cheney

by Michele and Jeffrey Steinberg

On July 22, in a special hearing called by a joint panel of Senate and House Democrats, on the criminal investigation of the White House role in the Valerie Plame case, a packed hearing room of press, Congressional staffers, and other government officials, heard testimony from leading retired intelligence professionals. The hearing, titled, "National Security Consequences of Disclosing the Identity of a Covert Intelligence Agent," was chaired by Rep. Henry Waxman (D-Calif.) and Sen. Byron Dorgan (D-N.D.).

And while the hearing was taking place, another bombshell was dropped on the White House: *Bloomberg* news service and the *New York Times* reported that Special Prosecutor Patrick Fitzgerald, who has been investigating the White House leaking of Plame's identity as a covert CIA agent since December 2003, is looking into "perjury" and "obstruction of justice" charges, because of statements coming from the principal figures identified as the leakers: Karl Rove and I. Lewis "Scooter" Libby, which have been contradicted by other witnesses in the investigation.

In 2004, the former counsel to President Richard Nixon, John W. Dean, wrote a book called *Worse Than Watergate*, about the lies and the liars involved in the faked intelligence used to start the Iraq War. Events in Washington over the last week, confirm that Dean is right....

[**...pdf version**](#)

Latest From LaRouche

LAROCHE ADDRESSES LYM IN TOLEDO

We Are Intervening To Change the Universe

Here are Lyndon LaRouche's (slightly abridged) opening remarks to a LaRouche Youth Movement cadre school in Toledo, on July 17, 2005.

Now, there's a fundamental problem in all teaching of political science and psychology, which is rampant in the United States, among other places, today. And that is, that we are so much influenced, in our culture, by the Anglo-Dutch Liberal system of thinking, the so-called Lockean-Cartesian system of thinking, that we no longer understand the essential principles of history, in which critical decisions at critical turning points in history, have to be made. People think of things in, as I said, a Lockean, mechanistic way, or in a Cartesian Flatland basis. They don't understand that history itself, is a

determining factor in history. That there is a dynamic relationship, or interrelationship, or interaction, between the quality of the individual human being—which is a uniquely human quality, of the ability to discover universal physical principles, which no animal can do—and the impact of a society, which is evolving on a scale which is determined by the cumulative effect of either discoveries of universal principle, including Classical artistic principles, or the suppression or absence of those principles once they have been discovered.

So that, what you have in dealing with a culture is, you have not a simple model of the type, say, this fellow Jerrold Post represents in his book on the subject of political psychology—which is a Cartesian system; it's a Cartesian "Flatland," on which he situates all history. He mixes up characters from different parts of history, and judges them on a single, contemporary, empiricist psychological standpoint, and takes into account nothing about the fact that history has been evolving, that cultures have been evolving, that the role of the individual in society is changing qualitatively as a result of these changes in culture. And that the individual intervention in society is one of the key ways in which culture is changed.

So, you have a truly dynamic model of society, of history, rather than what is usually taught, and generally accepted, in today's politics, as politics on a Flatland, merely of opinion.

What you have essentially, from a standpoint of law, is, you have a conception of society, which is based on positive law, not natural law: That is, the idea of society is based on the assumption you have a collection of individuals, like a new assortment of piglets. And they come together, and they find they're living in anarchy, as piglets tend to do. But, in order to become social, what they do is, they negotiate agreements, like contracts, social contracts. And they make up laws. They make rules, they make up choices of languages, by which they agree to regulate their interrelationships—or to violate them, and they often do.

But, that's the way society is organized, in their view of things. That's the conception of positive law. It's the conception for example of Associate Justice Antonin Scalia, with his idea of textualism: that the interpretation of the language of a particular agreement, and the nature of the radically conceived positive law, is law. Which is nonsense.

So, instead of looking at the question of effective law, the law which is characteristic of development of cultures, as being a body of scientific knowledge—it's actually natural law. The idea of natural law is based on the different quality of mankind, or the human individual, than of any other living species. So, the difference between man and animal, in terms of the effects of the cognitive potential of the individual, is the fundamental difference between man and beast. This is the foundation of natural law.

The Implication of Creativity

The other specific quality of natural law, which again is completely absent from most political blather, despite the religious fanaticism you hear about, the other factor, is the implication of creativity. Now, the characteristic that differentiates the human species from the animals, and other lower forms of life, is that the human being is capable of discovering universal physical principles. Now, the discovery is ambivalent, in the sense, that it is a discovery of something, a potentiality, which existed in the universe, before mankind discovered it. But, mankind's discovery of it, changes the universe, now that man is able to act on the universe, on the basis of discovery of these principles, which changes the universe. And more immediately, changes the way we interact in the universe on Earth, in particular—and as we're now moving into the Solar System, more and more.

So, we're intervening in the universe, to *change* the universe. The characteristic effect of the changing of the universe, is the fact that the human species, if it were a higher ape, would never have achieved a population level of more than several million individuals, living individuals, during the past 2 million years of known characteristics of the planet, and under the terms of the ice age cycles.

So therefore, the difference is, mankind is a willful creator of what Vernadsky defined as the Noösphere.

Now, the thing that defines this difference, is the ability of the individual human mind, to make a discovery which is equivalent to a *valid universal physical principle*, such as Kepler's discovery of universal gravitation. Which, as all of you now know: that Kepler recognized that the elliptical orbit of Mars—recognized it by a more precise—by dropping the assumption that it had to be essentially a circular orbit, and allowing a more careful examination of the evidence, of the normalized evidence of observation, to show that the orbit of Mars was actually elliptical; and then, looking at the characteristics of the elliptical orbit, discovered that there was a singularity, a physical singularity, in the universe, which is not accounted for by any of our assumptions about the individual observations that have been made on astronomical bodies.

This singularity, which defines implicitly the general notion of elliptical functions, and implicitly then goes on to imply higher functions than elliptical functions, were the basis of adding new singularities of the same general nature. This is the dynamic model. And since this model is premised, in practice, on the propagation of valid universal physical principles, or equivalent principles, discovered by the mind of *individuals*, this as defined by Dirichlet's principle, defines the nature of the human individual, according to Dirichlet's principle.

But the characteristic of that individual, the *efficient* characteristic of the existence of the individual in society, is not their reaction according to rules, to existing stimuli. The characteristic feature of human society, which differentiates itself from a troop of baboons, is the fact that these ideas, once discovered by mankind, ideas such as Kepler's discovery of gravitation, now act to *change the culture of human behavior*. And these ideas, which are transmitted from the mind of one individual into society, define the individual as immortal.

Now, take one other factor which has to be considered, to define what this means. Look at it from the standpoint of Vernadsky's definition of the universe as a dynamic system, rather than a mechanical system. He defines three phases of the physical universe, from the standpoint of experimental physical science: In the first case, following the rule of *Docta Ignorantia* of Nicholas of Cusa, Kepler for example, defines gravitation as a universal physical principle; and similarly Fermat defines least action—as opposed to shortest distance, Euclidean or Cartesian shortest distance—defines least action as a manifestation of the essential irony, the essential anomaly from the literal standpoint, of man's behavior in the universe.

So therefore, using that method, what is done by Vernadsky is to say: All right, let's look at the universe, or physical experimental experience, in light of the assumption that everything can be explained in terms of what we call "nature," non-living nature—excluding all considerations of life as such, as a principle. Making, in a sense, models of an assumption about the universe, saying, "Let's look at the phase of the universe, in which our investigation can assume safely, the absence of any principle such as life, which is not included in a mechanical sense, of the universe." And of course, that's not quite valid either, but anyway—the distinction is there.

The Question of Life

Now come along with the question of life. And you find that living processes are governed by an adducible principle, which is not found in any system of scientific investigation which is based on the assumption of abiotic systems. We call the result of this, the Biosphere. The Biosphere, however, is efficient, in terms of the Earth: It acts upon the Earth; it transforms the Earth, in such a way that the Earth as a whole has been and continues to be transformed by the action of life on the Earth, in the way we call the Biosphere. That is, the percentile of the total mass of the Earth has been transformed, from what is implicitly an early phase of domination by non-living processes, into increasing domination by the effects of action of living processes. For example, the oceans, the water systems, the atmosphere, and the general crust of the Earth,

the fossil layer which is a sort of an envelope of the Earth, including the atmosphere, are products of these processes. And this process of life acting upon the so-called abiotic domain, is the characteristic of the existence of the Earth itself.

Then, we operate on the basis of living systems. We assume, to investigate those living systems which can be explained in terms of life as such, as distinct from non-living processes. So, we have a different conception, the so-called Biosphere.

But then, we have something else: We have phenomena which are different than anything otherwise found in life. And this is the effect of human discovery of universal physical principles, on human behavior, in such a way that the fossil part of the universe, of the Earth in particular, is being transformed, in a way which does not fit within the confines of a Biosphere: which is what Vernadsky calls the Noösphere. Which indicates that there's a higher principle involved, a principle of cognition, of discovery of universal physical principles and similar kinds of principles of Classical artistic composition, which are social principles. And this, again, is a distinct principle.

Now, in the case of the living human being, the difference is focussed on a very curious set of facts: First of all, only living processes generate living processes. That's the simpler part of the thing. Only living processes, acting upon the abiotic domain, transform the abiotic domain in a way which is not possible within the principles of the phase-space called the abiotic domain; but creates a new domain, called the Biosphere, in which all living processes are governed by a *principle* which does not exist in mechanics. It does not exist in the simple mechanical conception of a non-living universe. That is, you can never get life, out of non-life. You can never devise a living process, out of a digital computer model. There are some people who try to do that. They are called "crazy." You can't do it. They're insane!

All right. Now you get, by the same problem, to the question of the Noösphere: Human beings, through discoveries of universal physical principle, and similar principle, transform the efficiency and effectiveness of man's action on the universe, to create an accumulation of effects, comparable to the Biosphere, or the fossil area of the Biosphere, a new set of fossil effects, which are caused by human creative only—and not by any form of life, otherwise.

We see the growth of the cities, the physical transformation of the surface of the Earth; man's exploration to an intervention in nearby areas of the Solar System. All of these things are effects, which are created by the action of human intelligence, which are not a part of the Biosphere. This defines the Noösphere, within which human activity lives.

Now, this change in the Noösphere, the raising of man above the level of the Biosphere, and development of the Noösphere, is the characteristic of *the human individual mind*. This becomes extremely interesting: The mind of the individual exists only in an appropriate form of living process, called a human being, a member of the human species. And there is no difference, racial differences in the characteristics of members of the human species. *All members of the human species belong to the same biological race*. That's one of the characteristics of human life. And the whole system doesn't work, unless you recognize that racialism is junk. And people who are trying to argue which race is better, are simply idiots. There is no scientific basis for it, and those kinds of prejudices, where they exist, actually destroy the effectiveness of the human mind of the victim who believes in them. Hmm?

But what you have, is, you have this condition, in which you say: Yeah, okay. Now human creativity exists outside and independent of the Biosphere, at least as a phase-function. Now, how's it do that?

Ah! There is something about the biology of the living human being, from its beginning as a fetus, which is *appropriate* to the intervention of a *higher order principle*, called cognition; or, what we manifest as cognition in the growing child and adult. But, this thing is there, from the moment of conception: Suddenly, you have something, a living being, which has a peculiar quality of being susceptible to infection, and takeover, in the sense of control, by a principle which does not exist otherwise in living processes. And that is cognition.

So, what happens is, this higher principle, just as life takes over the abiotic domain and creates the Biosphere, so the action of this universal principle, of discovery of universal principles, infects the universe in such a way, that wherever a biologically human entity comes into existence, this thing is infected by cognition. And it's infected by cognition in its development all the way through. We can not find, for example, in the case of the fetus, very simply, a place where you do not have a manifestation of human characteristics. For example, you know, a six-month-old premie, if born, and kept alive, has all the characteristics of a human being, including its cognitive potential. And we don't know how far back that kind of manifestation can be traced!

Immortality and Natural Law

So therefore, because of man's ability, to develop ideas which correspond to principles of fundamental scientific discovery, mankind's transmission of ideas, *from individual minds, into other individual minds*, gives the individual a potential *immortality*.

In other words, here you have this principle of cognition: It's individuated. It's individuated by its infection of a young fetus, which it has found appropriate to infect—this higher principle of cognition. And out of that, you get the transmission of ideas from one individual, to other individuals, *to change the practice* of human beings, upon the Biosphere and Noösphere, and the abiotic system as a whole.

So now, in the transmission of ideas, of this particular quality, ideas which correspond to those of universal physical principle, each person becomes implicitly immortal: That in death, the biological base, on which cognition, individual cognition functions, and sustains, has gone. But the effect, the effect of the ideas of principle, assimilated by and transmitted from the individual who just died, lives on. As we know from the study of the history of the development of physical science; as we also know from the history of great Classical art: That the transmission of ideas, developed uniquely within the mind of a scientist or artist as a discovery, as transmitted as a reexperienced discovery, to successive generations, sustains the *personality of the discovery, as existing in the universe*, even after the personality involved is biologically seemingly dead, and the body carried away.

So, this is the fundamental basis in modern scientific outlook, for defining natural law: That the human individual, who lives within the Noösphere, as defined, dominates the Biosphere, in turn, dominates the abiotic systems of the universe, as it infects the universe with this quality; and therefore, the principle of law, the fundamental principle of law, *is, necessarily*, the promotion of fundamental scientific creativity, of this form, as the basis of law.

That's natural law.

We form societies, that is, nation-states, and similar institutions, in order to accommodate this requirement. The most important requirement, is that we provide the individual who makes the discovery, or simply repeats it, the ability to transmit that discovery, of this kind of idea, across generations, across distance. The transmission of such ideas, ideas of culture and so forth which come from this, are called society, properly. The nation-state is the only form, which is suitable: Because we have different languages; different languages have the transmission, with certain implications, of different cultural forms, of what are otherwise universal ideas. So that the nation-culture is appropriate to the spread of these ideas, which correspond to the immortality of the individuals who first generate, or who replicate, the discovery of those ideas.

That's the natural law. Not some touchy-feely relationship among pigs in a barnyard, or human beings behaving like pigs in a barnyard, and discovering positive law principles, like those of Antonin Scalia, for managing their affairs. And that's where our problem is.

Now, the other aspect of the problem, the psychological and emotional aspect, is that most people in society, particularly

because of the influence of the current culture of empiricism, positivism, existentialism—these cultures are diseases, which destroy, or greatly weaken the human character of the human individual. And because of the prevalence of these cultures, you have crazy religious fanatics running loose, and similar kinds of problems, which are based on individuals' alienation, or estrangement, from the essential nature of the *immortality* of the human individual. And that's where our problem chiefly lies.

Our present system of government—not our Constitutional system, but the actual practiced system of governing, the behavior in society—is based on a degenerate culture, which does not admit the efficient existence of natural law, the efficient existence of those principles upon which *human* society's perpetuation depends. ...

Now, the world society, European civilization, globally, has been degenerating for about 40 years. We've now come to the point, that we've run out of the margin, for tolerating the condition of this degeneration. *We must change the direction.* ...

So we've come through a long cycle, since the death of Franklin Roosevelt, a cycle which in the first phase, emphasized cultural, but more manifestly economic security, stability, and actual net growth. Then you enter a second phase, coming out of the '64-'68 period, of the cultural paradigm-shift, in which we began to destroy, intentionally, the very foundations of our national and world economy. And now, we're at the point, where we have destroyed both. And we're now at the point, where the Earth says, "No more. You gotta go. It's time to depart. Get rid of the disease. Debride the disease, and go back to being human again." ...

So, we've come to the point that we've begun to recognize, that these phenomena, which have become characteristic of our society, over the period since the death of Roosevelt to the present time, that these factors of change, of downshift in culture, have now come to the point, that *we either get rid of them, or they get rid of us.*

And the problem we have, is, some people are still clinging to what they consider "their culture." The culture by which they willfully contributed to the destruction of their own society, and themselves.

That's it.

InDepth Coverage

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[The Case of A Vice-President's Mass Insanity](#)

[by Lyndon H. LaRouche, Jr.](#)

July 10-22, 2005

President George W. Bush, Jr.'s stubbornly repeated insistence, that U.S. government bonds are merely 'I.O.U.'s,' is, by itself, a typical, highly relevant, and clearcut example of the President's incompetence to continue to serve in that office. especially under presently onrushing world monetary-financial conditions. Unfortunately, the solution for that actual issue confronting the Congress is not as simple as that premise for the removal of the President might imply. Consider, for example, the shudder which would pass through the ranks of the Senate, and elsewhere, at the thought that the resignation of an ailing President Bush might bring VicePresident Cheney into the Presidency.

International:

Zepp-LaRouche Demands Germany Choose a Sovereign Solution

by Rainer Apel

German President Horst Köhler made it official in a special television address on July 21: Germany will hold Federal elections on Sept. 18. Setting aside the challenges which have been made to the Constitutional Court against Chancellor Gerhard Schröder's orchestration of a vote of no-confidence against his own government, President Köhler dissolved the Bundestag (parliament), and called for the elections to be held.

Last Chance To Save Iraq From Civil War?

by Muriel Mirak-Weissbach

Is there still a chance to prevent civil war in Iraq? That is the question prompted by reports of escalating violence, which reached a new highpoint over the July 16-17 weekend, when multiple attacks by suicide bombers killed more than 110 people and wounded 300. Despite these alarming developments, it is still possible to avert the worst, and to chart a new course which could lead the nation back to independence and sovereignty, under which conditions, it could seek a route towards national reconciliation. Whether or not this will occur, will depend on two factors: the withdrawal of U.S., U.K., and other foreign troops, beginning now; and the establishment of a regional security arrangement, which would include Iraq's neighbors.

National:

'Plamegate' Can Bring Down Cheney

by Michele and Jeffrey Steinberg

On July 22, in a special hearing called by a joint panel of Senate and House Democrats, on the criminal investigation of the White House role in the Valerie Plame case, a packed hearing room of press, Congressional staffers, and other government officials, heard testimony from leading retired intelligence professionals. The hearing, titled, 'National Security Consequences of Disclosing the Identity of a Covert Intelligence Agent,' was chaired by Rep. Henry Waxman(D-Calif.) and Sen. Byron Dorgan (D-N.D.).

- **Documentation**

White House Breached Security Eleven Times

The White House has breached Executive Order 12958, its own order on preventing, and punishing, leaks of classified information, especially in the context of the global war on terrorism. The specifics of the White House security breaches involving Valerie Plame Wilson are detailed in a July 22, 2005 fact sheet posted on the website of the House of Representatives' Government Reform Committee, Minority Office, headed by Rep. Henry Waxman(D-Calif). The Fact Sheet was released to a hearing of a joint panel of Senate and House Democrats on the topic of 'National Security Consequences of Disclosing the Identity of a Covert Intelligence Officer,' which was chaired by Waxman on July 22. The Fact Sheet is published here in full.

- **Documentation**

Adm. John Hutson (ret.): 'We Have a Serious Problem'

This is testimony given to the Senate Armed Services Subcommittee on Personnel, at its July 14 hearing, by retired U.S. Navy Adm. John D. Hutson, former Judge Advocate General of the Navy, and now the president and dean of the Franklin Pierce Law Center, Concord, N.H. Admiral Hutson's more extensive prepared testimony is available on the Senate Armed Services Committee website.

What's Behind Bush's Frenzy Over The Supreme Court Nomination?

by Debra Hanania-Freeman

When President Bush nominated Judge John G. Roberts of the U.S. Court of Appeals for the District of Columbia Circuit to fill the vacancy on the Supreme Court, in highly unusual live prime-time remarks on July 19, it brought to a close what is being called one of the most bizarre days in the recent history of the nation's capital.

GOP Senators Assert Congressional Control Over Detainee Policy

by Edward Spannaus

The White House is threatening to veto the Defense Authorization bill, if it contains a provision being drafted by three key Senate Republicans, which would assert Congress's Constitutional role in defining U.S. policy on detainees and interrogations in the war on terrorism. In a statement issued on July 21, the White House insisted that Congress must not legislate on these matters, over which the Executive branch wrongly claims to have exclusive authority.

Federal and State Revenue Rises Much Touted, But All Smoke

by Paul Gallagher and Mary Jane Freeman

Tax revenues of the Federal government in 2005 remain considerably below their level of four years ago, despite the considerable fanfare the George W. Bush Administration gave to its July 13 announcement of a 'shrinking budget surplus' and 'rising Federal tax revenues.' The high-profile announcement by Office of Management and Budget (OMB) director Joshua Bolton reflected a number of frauds—including the clearly too-high estimate of the FY 2006 deficit that OMB made in February, which made it easy to show a substantially lowered deficit estimate now. Also, OMB used a record Social Security surplus, over \$160 billion, to make the deficit estimate 'shrink' to \$333 billion. In all, it was basically a fraudulent 'intelligence estimate,' reminiscent of those of Dick Cheney.

- **Interview: Michael Obuchowsky**

Can't Build a Budget On Real Estate 'Boom'

State Rep. Michael D. Obuchowsky, who represents Vermont's Windham legislative district, spoke to Patricia Salisbury on July 13. EIR: You had a briefing on some aspects of the Vermont economy fairly recently. What did you learn?

Interview: Lourdes Alvarado-Ramos

VA Cuts Would Force Veterans on Medicaid

Ms. Alvarado is Assistant Director of the Department of Veterans Affairs in Washington state and the president of the National Association of State Veterans Homes. She was interviewed on July 20 by Patricia Salisbury.

Economics:

Germany Cannot Survive Under the Euro System

by Lothar Komp

Helga Zepp-LaRouche's call for Germany to return to the deutschemark (see International) has sparked broad debate about the question of national currencies. This article shows how the euro has deliberately destroyed the German economy, which is vital to Europe's well-being.

BRAC's Proposed Northwest Closures Would Gut Defense, Science, and Jobs

by Marcia Merry Baker

At the BRAC hearing in San Antonio, July 10, the protests against base-closing plans focussed primarily on the Texas installations at Red River Army Depot and the Lone Star Army Ammunition Plant, both in Texarkana, and the Ingleside Naval Station, near Corpus Christi.

BRAC Targets Another 'National Asset': Army Research Office in North Carolina

by Judy DeMarco

At the June 28 BRAC hearing in Charlotte, N.C., delegations from the Carolinas and West Virginia testified, giving major attention to the great value of the Research Triangle Park in North Carolina, in which the Army Research Office (ARO) is central. The BRAC proposal is to relocate the

Pentagon Base-Closing Plan Takes Down Northeast Submarine Industrial Base

by Carl Osgood

The Pentagon plan to close both the Portsmouth Naval Shipyard and the New London Submarine Base not only eliminates most of the active Naval presence in New England, but also takes down a sizable chunk of the U.S. submarine industrial infrastructure. Both facilities have played an important role in the development of the U.S. Navy's submarine capability since 1915. In that year New London was founded, and the Navy determined that it needed to start building submarines at Portsmouth. Both facilities are nuclear capable and both, if closed, would result in the loss of not only considerable infrastructure, but also a skilled workforce with institutional knowledge.

Britain Set for A 'Super-Enron'

by Mary Burdman

'The whole financial system is now even more fragile than ever before. . . . The U.S. housing market is the key to the world economy. I am constantly amazed about the 'creativity' of the lenders and the stupidity of the borrowers,' remarked a City of London investor, known for his accurate forecasts of the collapse of financial bubbles. He told EIR July 19: 'Consumerism is down in the U.K., and will be in the U.S. There are all sorts of low-quality lending going on. A lot of people are saying: 'the Fed will have to raise rates,' but this can not stop the problem. It is just a matter of time.

Interview: Yasmir Fariña Morales

Say 'No' to Privatized Pensions, Chilean Unionist Advises U.S.

In this interview, Ms. Fariña, president of the Chilean Public Employees' Group to Redress Social Security Harm, describes a lesser-known aspect of Chile's 1981 social security privatization, the same model that George Bush has tried to ram down the throats of the American people: the brutal way in which tens of thousands of state-sector workers were forced by Augusto Pinochet's military dictatorship and 'Chicago Boy' economics team to switch from the U.S.-style state-run 'pay as you go' system to the privatized AFP system, or else face the likelihood of losing their jobs.

Berlin Seminar:

Facing the Coming Crash Of the Financial System

EIR's June 28-29 seminar in Berlin brought together distinguished representatives of 15 nations, to discuss what had to be done to address the coming crash of the world financial system. In the keynote to the meeting, Lyndon LaRouche stressed not only the nature of the worldwide reorganization that was required, but made a sharp polemical point about the fact that it is from the United States, despite the character of the current occupants of the White House, that the positive change has to be initiated, and soon.

Dr. Clifford A. Kiracofe, Jr.

The New American Imperialism: Some Historical Light

Dr. Kiracofe is a former senior professional staff member of the U.S. Senate Committee on Foreign Relations. He presented this paper to EIR's Berlin seminar on June 28.

Jeffrey Steinberg

LaRouche's Role in Mobilizing the U.S.

Here are the spoken remarks of EIR Counterintelligence Editor Jeffrey Steinberg to the Berlin seminar, on the afternoon of June 28. He also submitted a written text, which was published in the July 25 New Federalist.

Jacques Cheminade

Give Europe a Vital Mission for the Future Jacques

Cheminade is the chairman of the Solidarity and Progress partry in France, and the long-time leader of the LaRouche movement there. He addressed the Berlin seminar on the afternoon of June 28.

U.S. Economic/Financial News

LaRouche Was Right: Investors Fleeing Hedge Funds

A report issued by New York-based Tremont Capital Management on July 17 confirms Lyndon LaRouche's warnings in May, that in the June 15-July 15 period, hedge funds globally would be losing capital as investors pulled out, due to the funds' money-losing strategies. Under the headline, "Investors Turn on Hedge Funds," CNN reported the Tremont finding that, "for the first time in recent memory" [since 1998], hedge funds were losing capital. A Deutsche Bank report of ten days earlier had estimated that, whereas \$120 billion in net capital flowed into hedge funds in 2004, only \$40 billion in net investment would occur in 2005. But the Tremont report shows a worse picture: After attracting \$25 billion in the first quarter of 2005, hedge funds globally suffered a net outflow of capital in the second quarter. This is because "funds suffered negative performance," especially with their hot-shot "convertible arbitrage" strategy of buying up debt of firms, while speculating against the stocks of the same firms.

Earnings Down, Ford Abandons Salvation Through SUVs

Ford reported a 19% drop in second-quarter earnings, compared to a year ago. MediaCorp noted July 20 that, "With fuel prices soaring, Ford and other automakers have seen a dramatic shift away from its most profitable sports utility vehicle (SUV) lineup." Ford's new solution is reflected in its announcement that it was cutting 250 jobs from its Jefferson County, Ky. pick-up truck plant, "which had been considered safe because of the popularity of its Super Duty trucks." These cuts will come on Sept. 30, when Ford stops producing its huge Excursion SUV.

And Ford is not alone: Market Watch reported that the cost of "credit-default swaps" on GM debt increased on July 20, in the wake of the announcement of GM's second-quarter losses. Market Watch explains, "credit-default swaps, or CDS, are derivatives that provide insurance against a company going bankrupt. Investors pay an annual spread, or premium, in return for a promise of a payment in the event of bankruptcy or a similar credit event." As of July 20, five-year GM CDS spreads stood at 650 basis points, which means that it costs \$6.5 million annually to insure \$100 million of GM debt against default. Market Watch compares this to the height of credit market disruptions in May, when spreads on GM CDS widened to as much as 1,100 basis points.

But not to worry. The Power Information Network (PIN) reports that, according to its aggregate of retail auto sales around the country, the Big Three's campaign to sell cars by giving employee discounts to all customers has been a smashing success, for sales have gone up in July. PIN is a service of J.D. Powers and Associates, a marketing-information unit of McGraw-Hill. How these increased sales-for-less will help the old plan of selling high-ticket items is not explained. This analysis is apparently from the school that believes you can fill up the Grand Canyon a shovelful at a time, and, likewise, that you can sell on a per-unit loss basis if you make it up in volume. Detroit's two major papers, located in the capital of the automotive real world, simply state the obvious from GM's announced losses: that they couldn't be saved by the enormous success of the discount program.

Top Companies Billions Short on Pension Payouts

Companies in the S&P 500 are still short \$164.3 billion in covering their expected payouts to pensioners, according to a Standard & Poor's report released July 18. In 2003, the deficit was \$164.8 billion. Of the 369 S&P 500 companies that offer pensions, 311 don't have enough money in their pension funds to cover their obligations. Ford Motor faces a deficit of \$11.7 billion; ExxonMobil \$10.1 billion; General Motors \$8.6 billion; Boeing \$6.7 billion; and IBM \$5.8 billion.

Hedge Funds Become Lender of Last Resort

Hedge funds have increased their focus on lending money to troubled cash-hungry companies, who cannot get funds from their traditional lenders, according to the *Wall Street Journal* July 18. By often resisting amending loan agreements, hedge funds make it more likely that borrowers will file for bankruptcy protection. Moreover, hedge funds often "short" the stock or bonds of the struggling company (betting it will fall), meaning the funds lack a vested interest in the borrower's survival. Hedge funds are triggering bankruptcy filings, in order to make their short positions worth more.

Hedge funds lending money "are dramatically changing the landscape" of bankruptcy filings, making workouts far more complicated, says one restructuring adviser.

Hedge funds now dominate the the market in "second-lien" loans, loans that give lenders certain rights over some of the borrowing company's assets.

Bankrupt Tower Automotive, for example, lists hedge funds, such as Silver Point Capital Fund, among its creditors. Silver Point was elected as agent for credit facility in December, two months before Tower filed for Chapter 11 bankruptcy.

Atlanta Paper Cautions on Hedge Funds

The *Atlanta Journal-Constitution* ran a survey article July 21 on the crisis in hedge funds, and moves to regulate them. While providing plenty of ink to the arguments of the hedge-fund managers, the article gives some indication of the emerging danger: "First came stocks, then houses. Now some financial analysts see another potential 'bubble' on Wall Street: hedge funds. The classic signs seem to be there: accelerating returns over a long period, a big run-up in the number of such funds—from about 500 to almost 8,000 in 15 years—and, more recently, investor anxiety, withdrawal of funds and the failure of some large funds." The article prominently quotes Bill Gross for Pacific Investment Management Co. (one of the world's biggest bond funds) cautioning in last year's PIMCO investment outlook, "It's not just the competition and costs that should spell the eventual demise of the hedge fund craze, it's the realization ... that hedge funds can be manufactured in everyone's back yard like a gallon of Kentucky moonshine with revenue stamps attached, no less."

After giving hedge-fund managers' views, the *Journal-Constitution* reports that, contrary to Alan Greenspan's wishes, the move toward greater government regulation of hedge funds appears unstoppable. The paper attributes this to the fact that when they began, the hedge funds were a rich man's game, but in recent years, they've been made available to smaller investors, and that attracted the SEC's attention.

Hedge Funds' Death Toll Rises, as Investors Jump Ship

At least five hedge funds have gone belly-up in Minnesota alone during recent weeks, the *Minneapolis Star Tribune* reported July 16. American Express Financial Advisors has shut down three of its six funds that total about \$1 billion, returning several hundred million dollars to investors. Red Sky, spun-off from AmEx Financial, shut down most or all of its operations on June 30. EBF & Associates, a Minnetonka-based flagship of the Twin Cities hedge fund sector, is shutting down a significant part of its business.

A Case Study in 'Real Estate Mania'

The *Wall Street Journal* July 20 ran a front-page profile of the sales tactics used by the top salesman at the California-based "Benchmark Lending Group, Inc." in pushing interest-only loans. Under the headline, "Easy Money: A Mortgage Salesman's Pitch," the *Journal* reports that Benchmark's founder is a former rock-band drummer; his lead salesman is a ne'er-do-well made rich from the 0.2-0.4% commission he makes on every loan he issues. The salesman scoffs at people

who pay down their mortgage loans month by month, as "just a way of transferring money to your heirs." Benchmark's clients are welders, flight attendants, and the like, who hear about the company from its radio ads, and call its toll-free number. Some customers are borrowing up to seven times their annual income. Many are given "low documentation" loans (no pay stubs or income proof required, just the customer's claim).

Benchmark has no interest in insuring the mortgages can be paid, because they don't keep the mortgages they issue. They turn around and sell them to Wall Street firms and bigger mortgage companies for about 1.5% of the value of the loan. Those firms then securitize them—i.e., pool them with other bad loans into bond-like instruments which they then sell to pension funds, insurance companies, and investors! Of the 2,176 loans they issued last year, Benchmark kept only seven.

Sixty percent of Benchmark's loans are one form or another of interest-only mortgages. Take the case of the company's favored product, its "Freedom Loan": you pay only two-thirds of the monthly *interest*, and no principal, for the first five years—with the unpaid interest then capitalized on your loan. After five years, however, your payment schedule drastically changes, as you face full payments on the much larger loan resulting from the capitalized interest payments. Benchmark's salesman brushes off competitors who dub this "the prison loan," as a slur by people who don't understand the business.

The *WSJ* reports that there are 2,994 "consumer-finance lenders" like Benchmark licensed to do business in California, and the number is growing.

With a housing sector characterized by this madness, Federal Reserve chairman Alan Greenspan displayed his usual "signs of froth" on July 20, telling the House Financial Services Committee that there is some "speculative fervor" in some local housing markets, the which has raised house prices to "unsustainable levels," and which if they decline, "would be accompanied by some economic stress."

Denver Housing Bubble Deflation Is Omen for Nation

The red-hot housing market in Denver is rapidly cooling, hit by massive jobs losses in the telecom sector, the *New York Times* reported July 17. Five years ago, median house prices were jumping at an annual rate of nearly 17%; by the first quarter of 2005, the increase had fallen to 3%, according to data released by Economy.com. Sellers are being forced to cut prices, and offer big incentives, as houses are sitting on the market longer. The city's deflating housing bubble, propped up by interest-only loans, "may foreshadow what could happen" in other red-hot housing markets.

These markets may not simply "cool off," the article warns, but could "actually melt and send prices plummeting." Rather than a "soft landing," speculation-inflated markets like Naples and Miami, Fla., and New York, could face "dramatic price decreases," argues John H. Vogel Jr., adjunct professor of real estate at the Tuck School of Business at Dartmouth College.

Delta Considers Bankruptcy, While Northwest Faces Strike

While the Chief Executive Officer and the Chief Financial Officer and of Delta Airlines reportedly oppose a declaration of bankruptcy, they are now being pushed by the rest of the board, and the CFO and COO have resigned, the *Wall Street Journal* reported July 21. Also, the Board announced that the supposedly "bankruptcy-proof" pensions arranged recently are not that at all, leading to fears that there will now be a flight of execs and senior pilots from the company, collecting a lump sum pension before the company declares bankruptcy. Delta reported \$388 million in second-quarter losses July 21, and expects \$2 billion in losses for the year.

Meanwhile, Northwest Airlines was released by a Federal panel from mediation talks with the mechanics union, and the mechanics plan a strike. There will be a 30-day cooling-off period, after which a strike, and/or a company imposition of

draconian conditions, including 2,000 layoffs and a 25% pay cut for those remaining—and/or a lockout. Northwest plans to outsource its mechanical maintenance if there is a strike.

Kodak To Cut 25,000 Jobs, Gutting Manufacturing Base

Eastman Kodak will eliminate up to 25,000 jobs over the next two years, gutting its manufacturing base. Photography giant Kodak is slashing another 10,000 jobs—20% of its global workforce (excluding acquisitions) by the middle of 2007, because of faster-than-expected drops in sales of consumer film and traditional photographic products, according to Bloomberg July 20. The world's largest photography company had previously announced 12-15,000 jobs cuts by the end of 2006. Since 1988, Kodak has gutted two-thirds of its workforce. One Kodak worker described the new jobs cuts as "a statement about globalization." Most of the new cuts—7,000 layoffs—will hit Kodak's massive, but rapidly shrinking manufacturing facilities, concentrated in Rochester, N.Y. As a result, Kodak will have slashed the value of its manufacturing infrastructure by two-thirds, to \$1 billion, down from \$2.9 billion in 2004. Kodak also reported its third straight quarterly loss, losing \$146 million for the April-June period.

HP To Slash Thousands of Jobs, Cut Medical Benefits

Hewlett-Packard Co. will slash 14,500 jobs and cut retiree medical benefits, in order to "save" \$1.9 billion a year. HP will trim its global workforce of 151,000 by 10% over the next 18 months. Most affected by cuts are the areas of information technology, human resources, and finance. Retained are the employees in sales, and research and development. Beginning in January, HP will freeze the pension and retiree medical-program benefits of current employees who don't meet defined criteria on age and years of company service. Instead, HP will add to its matching contribution to employees' 401(k) plans. "This is a triage," said Frank Gillet, an analyst at Forrester Research, one of many who say this restructuring is just the first of many before HP will "realize its potential."

World Economic News

People's Bank of China Ends Dollar Peg

The People's Bank of China adjusted the renminbi-dollar exchange rate by 2.1% July 21, and ended the renminbi peg to the U.S. dollar after a decade. The RMB will now trade at 8.11 to the dollar, rather than 8.28, where it had been set. The PBOC will allow very controlled "floating" of the RMB against the dollar and other currencies (yet unspecified) and the Bank will maintain a "basically stable" RMB exchange rate, the announcement said.

The PBOC announced that henceforth, "China will reform the exchange-rate regime by moving into a managed floating-exchange-rate regime based on market supply and demand with reference to a basket of currencies. RMB will no longer be pegged to the U.S. dollar and the RMB exchange rate regime will be improved with greater flexibility....

"The daily trading price of the U.S. dollar against the RMB in the interbank foreign-exchange market will continue to be allowed to float within a band of 0.3% around the central parity published by the PBOC" each day, "while the trading prices of the non-U.S. dollar currencies against the RMB will be allowed to move within a certain band announced by the PBOC."

"The PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation.... The People's Bank of China is responsible for maintaining the RMB exchange rate basically stable at an adaptive and equilibrium level, so as to promote the basic equilibrium of the balance of payments and safeguard macroeconomic and financial stability."

On the same day, Malaysia also ended the dollar peg of its currency, the ringgit, according to BBC.

EIR will be further evaluating this obviously very significant development.

Ibero-American Gov'ts Help To Bail Out Financial Bubble

The countries of Brazil and Mexico announced this week that they will be pre-paying billions of dollars in debt to the IMF. In a statement released on the evening of July 13, the Brazilian central bank said it expected to pay \$5.12 billion by July 25, which was not actually due until next year, under the pretext that Brazil is "enjoying favorable market conditions."

So, too, the Fox government in Mexico is buying nearly \$3 billion of central bank reserves to meet payments on all foreign debt coming due in 2006 and 2007, increasing the "domestic" debt in order to pay off foreign debt. Fox had announced this plan back in late May, at the same time that both Colombia and Peru were also pre-paying portions of their debt.

In contrast, the new government of Ecuador has won legislative approval for re-allocating its oil-profits fund away from debt pre-payment and towards social needs such as education and health infrastructure.

United States News Digest

Lautenberg, Waxman Demand Answer on Halliburton Retaliation

Representative Henry Waxman (D-Calif.), and Senators Byron Dorgan (D-N.D.) and Frank Lautenberg (D-N.J.) are challenging Secretary of Defense Donald Rumsfeld to answer for Halliburton's retribution against Lloyd Owen International (LOI), whose CEO testified against Halliburton three weeks ago. Alan Waller, who testified that his company delivered oil from Kuwait to Iraq for 18 cents per gallon, while Halliburton charged \$1.18 for the same gas, has now reported to the Senate Democratic Policy Committee that Halliburton on July 11 moved to block LOI's access to the military crossing between Kuwait and Iraq, essentially blocking LOI's ability to continue its delivery of 140 truckloads of fuel to the Iraqi government, since the civilian crossing takes hours to get through. Halliburton has the contract to run the military crossing.

Waxman, Dorgan, and Lautenberg wrote to Rumsfeld on July 21, noting the obvious security crisis if the fuel is cut off from the Iraqi government, and asking for answers to several questions, including: What contract is Halliburton operating under for the border crossing? Does Halliburton have a role in policy at the crossing? Does Halliburton have the power to retaliate against LOI or others? How will the obstruction of LOI's oil deliveries enhance U.S. security and reconstruction?

Army Pushing Wounded Soldiers Out the Door

A July 19 story by Scripps-Howard News Service concerns a soldier by the name of Rory Dunn, who was seriously wounded in Iraq in May 2004 when a bomb hanging from a tree destroyed the Humvee he was riding in. He suffered traumatic brain injury, severe damage to his sight and hearing, and was in a coma for almost six weeks. Yet, days after he came out of the coma, and before reconstructive surgery had even started or physical therapy begun, Army officials began to pressure him to sign discharge papers. "The Army tried to get rid of him," said Cynthia Lefever, Dunn's mother. "It was immoral and unethical. The Army owes these kids." Army officials deny that there's a rush to get soldiers out before they've received the care that they need, saying instead that there's a delicate balancing act between determining when a soldier can no longer perform assigned duties and when he's received optimal medical care. However, the issue has caught

the attention of Congress. "I think the Army underestimated the number of wounded," says Sen. Patty Murray (D-Wash.). "I don't know whether they are overcrowded or just trying to cut costs. No one is talking about it."

Bipartisan Effort To Defeat New Medicare Rule

Senator Ben Nelson (D-Neb.) was joined by Sen. Rick Santorum (R-Pa.), Chairman of Senate Republican Conference, Rep. Frank LoBiondo (R-N.J.), and Rep. Nina Lowey (D-N.Y.), in a press conference on July 21, to introduce legislation to block the ongoing attempts by the Bush Administration to restrict which patients could receive Medicare-covered intense rehabilitation in Inpatient Rehabilitation Facilities (IRFs). IRFs are an essential provider of post-acute hospital care for treatment of stroke, trauma, spinal-cord injury, brain injury, severe burns, knee or hip replacement, and neurological disorders.

The bill, S.1405, entitled "Preserving Patient Access to Inpatient Rehabilitation Hospitals Act of 2005," is meant to counteract Medicare's new policy of requiring IRFs to increase up to 75%, the number of patients they treat that have one of 13 specific conditions. Otherwise, they will not retain IRF status and receive adequate Medicare reimbursement. Patients without those conditions just don't get rehabilitation, which means some will never recover function and operate independently again.

"By limiting access, based on strict conditions versus medical necessity, CMS [the Centers for Medicare and Medicaid Services, the agency that oversees Medicare] is restricting a doctor's available treatment options, and jeopardizes the quality of outcomes for patients requiring IRF care," Sen. Santorum said at the press conference.

Reid Fights To Save VA Nursing Homes from Destruction

As the Congress nears completion of action on the 2005 supplemental appropriation for veterans health and the 2006 Veterans Administration budget, both revealed to have massive shortfalls, Senate Minority Leader Harry Reid (D-Nev), joined by Veterans Affairs Committee ranking member Sen. Daniel Akaka (D-Hi), and leaders of two national veterans' organizations, announced that he is putting forward a unanimous consent request calling for the Senate to amend the House-passed \$975 million emergency appropriation for fiscal 2005 to conform with the twice-passed Senate \$1.5 billion appropriation and send it back to the House for final passage. At stake is an end to the hiring freeze at VA hospitals nationwide, which has resulted in such atrocities as three-year waiting lists for surgery.

Also at stake is the very existence of the network of state-run nursing homes for veterans, which is threatened by an administrative change in eligibility rules. Alfie Alvarado, the President of the National Association of State Veterans Homes, told *EIR* that if the proposed eligibility rules are enforced, 85% of the 19,000 veterans in state homes nationwide would no longer receive a Federal per diem, and would, in effect, be kicked out of the facilities unless the states pick up the funding. In fact, Alvarado reported, the VA has made it clear that it intends to enforce this policy, whatever funding levels are voted by the Congress, and veteran advocates are attempting to get Congressional legislation forbidding such a move.

Bush Administration Wants To Abolish Pay Schedule

The Bush Administration wants to abolish the general schedule pay system by 2010 for the government's 1.8 million civilian employees, and to expand government-wide the kind of pay-for-performance systems being implemented at the Departments of Defense and Homeland Security. The Administration's draft bill, which it is circulating on Capitol Hill, was criticized by Federal employee unions. A representative of the American Federation of Government Employees (AFGE) said the proposal "is meant to erode Federal pay and future retirement security for middle-class Federal workers over time."

McCaffrey: U.S. Military Has No 'Surge Capacity'

Retired Gen. Barry McCaffrey told radio host Diane Rehm on July 19 that U.S. forces in Iraq are "stretched to the limit," and "will start melting down." The National Guard "is coming apart," he said, and we have a national recruiting problem, all because Rumsfeld is "denying what is in front of his eyes."

He came back to this for his closing statement, saying that if we have any other demand on our military—if, for example, Castro dies and we are hit with a wave of refugees, if there is a problem in Taiwan, or in Korea, we "lack the strategic surge capacity" to deal with any such crisis.

Base Closing Commission Slams Air Force Plan

The concerns communicated to the Base Realignment and Closure Commission (BRAC) about the Air Force plan for the Air National Guard took center stage, on July 18, as the Commission heard from top Pentagon and Air Force officials concerning the plan. The climax came when Commission member Adm. Harold Gehman (ret.) told Lt. Gen. Steven Wood, Air Force Deputy Chief of Staff for Plans and Policy, and other senior officers, that the plan appears to substantially deviate from the requirements of the base closing law, that the Air Force inconsistently applied military value criteria to its decisions, and that it appears to contain hidden policy issues, including an implicit decision that not every state will have an Air National Guard flying mission.

"It would be easy to just throw the whole thing back to the Defense Department," Gehman said, "but it would be irresponsible for us to do that." Rather than tossing out the whole plan, Gehman, as BRAC Commission chairman Anthony Principi had said at the outset, instead called on the Air Force, the Air National Guard, and the National Guard Bureau to come up with a better plan. These officials "have to help us with what appears to be an unworkable and unsatisfactory set of recommendations," he said. He called for a commissioner-level briefing from the Air Force to help the Commission to deal with the issues that he raised, a request that was seconded by Commission chairman Anthony Principi.

Governors Warn Bush About Extended Guard Deployments

The National Governors Association, meeting in Des Moines, Iowa on July 16 and 17, warned the Bush Administration about the dangers of extended National Guard deployments in Iraq, cautioning that the deployments leave states unprepared for natural disasters and other domestic emergencies, according to the July 17 *New York Times*. Incoming chairman of the NGA, Arkansas Governor Mike Huckabee, a Republican, warned, "If we had a major natural disaster, we would be stretched thin. I think all governors right now are worried about the long-term impact of long deployment and frequent deployment on recruiting and retention. It is a major topic of concern."

Ibero-American News Digest

'Invisible Hands' Move To Grab Ibero-American Pensions

The privatized pension systems of ten Ibero-American countries control assets averaging 10% of the GDP of each country involved—over 50% in Chile—and the sums under their control are projected to grow to over 30% by 2015, an amount comparable to most banking systems in the region today. But, at a July 14 press conference in Washington, D.C., a group of financial vultures calling themselves the "Latin America Shadow Financial Regulatory Committee" (LASFRC) released their proposal that governments loosen regulations which require private pension funds in Ibero-America to invest only in safe, and generally, national funds. Instead, governments must permit Ibero-American pension funds be turned over to foreign investments, and "new financial instruments" created "to help deepen financial markets" in the region.

Even as Fitch Ratings Service was issuing a new warning that collateralized debt obligations, mortgage-backed securities, and other such speculative instruments could set off an "event" which could bring down the funds, banks, and the markets at large, the LASFRC proposed that the private pension funds move into these very asset classes. The LASFRC proposed any and all receivables in the region—from farm crops and livestock, to future flows of university tuitions and health-care payments—be "bundled" into securitized bonds and sold to the pension funds. Other financial gambles proposed for the pension funds include mortgage securities, infrastructure finance bonds, and collateralized loan obligations. (The latter "complex structures," which transform risky corporate-sector loans into investment grade assets, don't exist in Ibero-America today.)

This committee of shady Invisible Hands—created in 2000 and meeting three times a year, once each year with its sister "shadows" of Asia, Japan, Europe, and the U.S.—will be presenting its recommendations to governments in the region over the coming days. LASFRC currently has 15 members, including such infamous looters of their countries as former central bank presidents Arminio Fraga (Brazil), Miguel Mancera (Mexico), Ruth de Krivoy (Venezuela) and Roberto Zahler (Chile); former Finance Ministers Roque Fernandez (Argentina) and Angel Gurria (Salinas's Mexico); and the ever-present Venezuelan former Inter-American Development Bank chief economist Ricardo Hausman (now a professor at Harvard).

A Case Study in Financial Looting: Brazil

When the Brazilian government of Lula da Silva announced it would not renew its accord with the IMF this past March, it marketed the decision as an act of sovereign independence. Far from it, as Brazilian economist Adriano Benayon documented in a May 11 article, published this month in *A Nova Democracia*, and titled "With or Without an IMF Accord: Colony of the World Financial System." As Benayon pointed out: Brazil pays the highest real interest rates in the world, 19.5% as of April 2005, a rate double that of the second highest, Turkey, and almost three times that of the third highest, South Africa. With its "domestic" debt offering the world's highest interest rates, foreign speculators flocked to buy Brazilian debt. Speculators made an even bigger killing, because the value of the Brazilian real rose, vis-à-vis the dollar, by 23% between Aug. 4, 2004 and May 10, 2005: an increase of 2.3% a month, or 31.8% a year. So, a speculator who bought Brazilian debt in August 2004, and sells it today, effectively makes a 50% profit, when the revaluation and the interest rate are combined. "Not bad," wrote Benayon.

This inflow of speculative capital beefed up central bank reserves sufficiently for Brazil to do without new IMF loans. "In other words," Benayon wrote, "the National Treasury exchanged this [IMF] credit, which is useless and damages the country, for even more harmful foreign speculative capital, with the difference that the latter costs us 50% a year, and interest rates on IMF loans were 6-7% a year."

U.S. Ambassador to Colombia: Free Trade, or Be Damned!

In a July 14 speech to nearly 1,000 financiers and businessmen in Bogota at the annual "Colombia in the Eyes of Wall Street" seminar, U.S. Ambassador William Wood warned that the U.S. would sign a free-trade agreement (FTA) with "those who are ready," while those not ready will be left in the dirt. Wood delivered his ultimatum immediately after the Colombian LaRouche Youth Movement interrupted the proceedings to ask him about LaRouche's proposals to reorganize a world financial system typified by Wall Street's alliance with the narcoterrorists (see last week's Ibero-American Digest).

The Bush Administration has been trying to force the Andean countries of Colombia, Ecuador, and Peru to sign a NAFTA-style free-trade pact with the U.S., but has encountered resistance. Although Peruvian President Alejandro Toledo—whose popularity has sunk to single digits in recent polls—has readily agreed to sign on the dotted line, despite furious mass protests across Peru, economic interests in both Ecuador and Colombia have been balking.

In particular, Colombian agriculture producers, who have been doing business with the U.S. under a long-standing agreement of preferential tariffs on many of their products, are protesting that the FTA with the U.S. will turn Colombia into a one-way dumping ground of cheap U.S. grains and other agricultural products. The result will be mass bankruptcies, and the conversion of tens of thousands of Colombia's growers into coca and poppy cultivators.

The imperious Wood informed his Colombian audience that the U.S. would not be renewing the preferential tariff agreement with Colombia (which expires in 2006), and that therefore, if Colombia does not sign the FTA, it will be "in the worst of all possible worlds," with neither an FTA nor the protective agreement.

Argentina's Foreign Minister Blasts *Wall Street Journal*

Argentine Foreign Minister Rafael Bielsa exposed the *Wall Street Journal's* dragon lady, Mary Anastasia O'Grady, following the vicious claim in her July 8 *Americas* column that the Kirchner government "is looking like the pre-9/11 Saudi Arabia of South America." O'Grady charged that President Nestor Kirchner himself was harboring terrorists, and could hardly be counted on by the U.S. as a reliable ally in the war on terror.

In an article published in *La Nacion* July 16, Bielsa explained the origin of O'Grady's rantings: Her viewpoint "in no way differs from that of the major neoliberal think tanks: the Foundation for Economic Education, the American Enterprise Institute, the Heritage Foundation, the CATO Institute, and the Atlas Economic Research Foundation," he noted. If you really want to know how she thinks, look at the subhead on her article, "Too Many Promises," appearing in the 2002 edition of the "Index of Economic Freedom" of which she is coeditor, he added. The subhead says it all: "How Latin American Constitutions Weaken the Rule of Law."

For O'Grady, Bielsa says, the bottom line is that "the rule of law ... begins and ends with the right to property, under which individual freedom is subsumed, and before which the state must relinquish all regulatory impulses which tend to restore fairness and humanize social relations."

Bielsa's dismissal of O'Grady stung the *Journal* enough that it responded with a July 20 editorial, which simply proves his point. Defending "classical liberalism," it denounces Argentina's "ruling Peronists" for their "different philosophy," based on "breaking contracts, destroying dollar holdings, freezing prices and marking down Argentine bonds to 34 cents on the dollar."

Financial Predators Demand Argentina Capitulate

The Union Bank of Switzerland is circulating a confidential report demanding that Argentina's Kirchner government immediately change its monetary policy, to combat inflation by raising interest rates, and cease its practice of intervening in the markets to maintain a stable exchange rate. Griping that the government is covertly maintaining a fixed exchange rate, UBS demands that Kirchner follow the lead of other "responsible" governments, and allow an immediate appreciation of its currency by at least 20% vis-à-vis the dollar.

The Swiss gnomes wail that everything Argentina is doing to combat inflation is wrong. Its real interest rates are too low, it complains. Why not follow the example of neighboring Brazil, UBS argues, which has correctly (and suicidally) responded to a much more modest increase in inflation by dramatically increasing its benchmark Selic interest rate?

The International Monetary Fund added its voice to UBS's lunacy on July 18, asserting in its official report on its "Article IV" review of Argentina's economy, that fighting inflation is the country's first priority, to be accomplished by raising interest rates, cutting public expenditures, and ceasing to maintain a stable exchange rate. Above all, the Fund warns,

unless Argentina aggressively imposes "structural reform," annual growth will drop to 2%, thus risking a new debt default.

"We will not raise interest rates any further," Finance Minister Roberto Lavagna answered on the "14 Days" cable TV show July 18. Lavagna and Kirchner met on the evening of July 18, and agreed that rather than any "drastic" measures to control inflation, they would resort to "moderate fiscal policy," and price agreements with different sectors of the economy.

Western European News Digest

Declining Population Leaves Europe to the Beasts

Wolves, wild boar, and brown bears are moving north and west in Europe into rural regions where the population has been fleeing to the cities. "Great swaths of Europe are surrendering to nature as human birthrates plunge and unemployment draws people into the big industrial hubs," The *Times* of London reported July 18. Farmers' sons are not staying on the farm, but leaving, and whole areas are returning to woodland.

Not only is the European population set to collapse—at present birthrates, Europe will lose 41 million people by 2030—but also, big areas in Eastern and Southeastern Europe are being abandoned, and now wildlife is coming back. Wolves, which had disappeared from eastern Germany around 1850, are back, having moved from the Carpathian Mountains in Poland to Germany. A million people have left eastern Germany for the West, and whole villages are dying out. Dr. Stefan Kronert, a researcher at the Berlin Institute of Population and Development, pointed to the area of "Prignitz, halfway between Hamburg and Berlin—people are leaving in droves and the region is becoming more and more like a nature reserve."

The situation is even more extreme in eastern Poland, where many villages have only old people and a few women and children. Everyone else has gone to the cities in Western Europe to work.

In Slovenia, the brown bear population has risen to 700. These bears had moved north to escape the war in Bosnia and Croatia. Now, the bears are moving from Slovenia to the Austrian province of Carinthia, the most depressed region of Austria. Wildcats and wild boar are also spreading.

Bush Appoints GOP Moneybags as Ambassador to Germany

The post of U.S. Ambassador to Germany has remained empty for almost seven months, as an expression of the Bush Administration's disapproval of the Schroeder government. On July 20 Bush finally named a new Ambassador, no doubt in hopes of a near-term election of Christian Democratic Union (CDU) chairwoman Angela Merkel. The previous U.S. Ambassador, Daniel Coates, left Germany in early February, after openly and repeatedly attacking the Schroeder government.

The new nominee, J. Robert Timken of Ohio, has no diplomatic experience and speaks no German, although he is of German ancestry, the *Akron Beacon Journal* reported July 20. He is, however, both a \$200,000 "Pioneer" of the Bush-Cheney 2004 campaign—making him one of the largest fundraisers for the campaign in Ohio—and a board member of Diebold Corporation. Diebold provided electronic voting machines throughout Ohio, and openly supported Bush-Cheney in 2004, its CEO speaking of "guaranteeing" Ohio to Bush. Timken is also the heir and current CEO of a 106-year-old family steel alloy and bearing company in Canton. His nomination still has to be confirmed by the Senate.

German Constitutional Court Rejects Arrest Warrant

The Constitutional Court in Karlsruhe refused to act on a European arrest warrant against a German citizen, arguing that German law stands above European law, and protects German citizens. This lead item in the European newspapers is an important ruling. The case involves the German/Syrian Mamoun Darkanzali—a 46-year-old businessman who became a German citizen in 1990, and who is "suspected" by Spanish authorities of being an important link to al-Queda in Spain and Great Britain, and of having close contact with Osama bin Laden.

The Court argued that the EU arrest warrant is not in question in and of itself. If a German citizen violates the law in a foreign country, he has to be held responsible. This is also the case in international terrorism and organized crime. Whoever is directly involved in criminal structures in a foreign country cannot count on the legal protection of German law.

In many press commentaries, among them a commentary in the Spanish daily *El Pais*, it is being emphasized that after the French and Netherlands' "No" to the European Constitution, this is a serious setback for the European Union—since it puts national law above European law.

London Considers Troop Withdrawal from Iraq

British Defense Secretary John Reid confirmed on July 17 the contents of a leaked government memo, which he had signed, stating that Britain is considering reducing its troop presence in Iraq from 8,500 to 3,000 by the middle of 2006, the *Baltimore Sun* reported July 18. Reid said the memo merely confirms the government's longstanding plan to train Iraqi forces and gradually hand over security responsibility. "It should come as no surprise that we are going through the thinking process of how we achieve that." Reid said that the reduction of British troops "is not going to be an event. That will be a process. I believe it is a process that could start, no more than that, over the next 12 months."

Lambsdorff Worried About 'Rhenish Capitalism'

In an interview in the weekly *Die Zeit* dated July 21, Otto Count Lambsdorff, former Economics Minister of Germany and now chairman of the European branch of the Trilateral Commission, said he is discontented even with neo-con CDU chairwoman Angela Merkel's campaign platform, because he finds "too much Rhenish capitalism" still reflected there. For Lambsdorff, even the Merkel CDU is still too "cozy" (*Kuschelkapitalismus*) to be able to carry out the drastic austerity he wants to see. Should Merkel become Chancellor with that platform, her first four-year term would see no monetarist progress from the red-green era, the Count growls.

He is also unhappy with the fact that the additional revenue from the increased value-added tax which Merkel wants, would not result in drastic decreases of the entrepreneurs' tax burden.

Italian Economist Responds to Zepp-LaRouche's Call on D-Mark

On July 19, Italian economist Nino Galloni, who participated in *EIR's* June 28-29 Berlin seminar, gave the following comment to Agenparl, the press service of the Italian Parliament. It was published under the title, "Those who want to defend the euro are not able to do it."

Agenparl interviewed Galloni on the program of Helga Zepp-LaRouche, chairwoman of the BueSo (Civil Rights Solidarity) party, and candidate for Chancellor in the German elections this fall. She declared herself committed, once elected, to unilaterally withdraw Germany from the Maastricht Treaty and from the European Monetary Union: "I know the positions of Helga Zepp-LaRouche are committed to an economic policy of true development, which today is heavily penalized by the absurdities of Maastricht," said Galloni. "For sure, the euro risks being wiped away if it does not distance itself from the image of spiralling price inflation, even in a situation of deflation, and from a currency at the service of

bankers and not the people.

"This image is partially deserved and partially not, but whoever wants to defend the euro is not able to do it in an appropriate way. On the contrary, both the social and economic situation, and the financial one, are gravely worsening, and the remedies proposed by the authorities are an aggravation of what has been the cause of the crisis. Helga Zepp-LaRouche proposes to go back to a logic of productive development, but at the same time she does not deny that the euro could have an important function at least as currency accounting unit."

Russia and the CIS News Digest

Putin Sends Forces to Southern Border After Bombing

Russian President Vladimir Putin told a June 19 cabinet meeting that he was asking for the immediate deployment of two new brigades of troops to the country's North Caucasus borders, Russian television reported after the latest terrorist bombing in the region. Earlier that day, a car bombing in northern Chechnya had killed 15 people. During his trip the previous week to the Caspian Sea region and Dagestan, a North Caucasus republic to the east of Chechnya, Putin had announced plans to fortify the border more strongly.

Putin Sends Forces to Southern Border After Bombing

President Vladimir Putin received Prime Minister R.T. Erdogan of Turkey on July 18 in Sochi, southern Russia, for talks ranging from economic cooperation, to the still-debated status of northern Cyprus. Russian media reported that the two leaders agreed to reopen the possibility of Russian contracts to supply Turkey with military helicopters; a previous tender was won by the U.S. company Bell Helicopter, but that deal fell through due to U.S. export curbs. *Vedomosti* newspaper reported that a bid by Russia's Alfa Bank to take over Turkcell, a major IT company, was also on the agenda.

In the energy aspects of the talks, the Russian side has pledged its readiness to step up investment in the Turkish oil and natural-gas industry. "We are ready not only to increase delivery of oil and gas to Turkey," Putin said, "but also to build large-scale underground gas-storage facilities, and to invest in gas distribution networks that are undergoing privatization." (Putin's Kremlin staff has been in the thick of operations to consolidate greater state control over Russia's own natural gas giant, Gazprom, which has considerable investment capability.) On the eve of the talks, Russian commentaries focussed on the prospects for Russia and Turkey to supply natural gas through the Blue Stream pipeline on the Black Sea floor, to "third countries"—meaning, almost certainly, Israel, but also, according to Putin, "Southern Europe." They also discussed the re-export of Russian electricity via Turkey to Iraq.

Russian Regional Economic Zones To Promote Technology

On July 13, the Russian Parliament finalized approval of a new Law on Special Economic Zones, authorizing tax relief for areas set aside for special types of economic activity. Unlike the free economic zones that abounded in the 1990s, which became instruments for looting Russia, and havens for organized crime, the new concept, proposed by the Ministry of Economic Development and Trade, and supported by many regional governors, promotes productive industrial development. By Sept. 15, the ministry will conduct a competition for special economic zone status. Most of the projects submitted for inclusion in new zones originate from the Volga Federal District—25 of them to be situated in Nizhny Novgorod alone.

The government of Tatarstan hopes to revive the Yelabuga Automotive Plant (YelAZ) project, started in the late 1980s and not finished, though the relevant infrastructure was prepared. Similarly, Karelia is promoting a special economic zone in

Kostomuksha, close to Finnish border, which has been on the drawing boards for seven years and is based on existing natural resources and industrial potential, but until now lacked the necessary federal legislation. Other projects have been proposed by the governments of Leningrad Region, Astrakhan Region, Kaliningrad Region, Dagestan, and Primorsky Territory.

Yakunin Plans Rail Modernization in Russia

Speaking July 15, Vladimir Yakunin, newly-appointed President of the state-run Russian Railroads Corporation, characterized the situation in Russian rail transport as unsatisfactory. He emphasized that the technical obsolescence of the corporation's physical assets "is close to the critical level." Russian rail transport risks becoming uncompetitive, due to its inefficiencies. Yakunin is introducing a number of improvements, he said, by changing the company's domestic and foreign economic strategies. Long-term contracts will be part of the picture, as well be the development of logistics centers in some regions, where the railroad company will take charge of integrating transport services.

Southwest Asia News Digest

Sharon's Disengagement Will Lead to Perpetual Conflict

Israeli Prime Minister Ariel Sharon seems to be waging a "two-front" war over the Gaza Strip. The first front is against the Palestinians. On July 16, Sharon ordered preparations for a large-scale military invasion of the Gaza Strip, to wipe out the "terror infrastructure" of Hamas. This followed a week that included a suicide bombing in the Israeli city of Natanya, where five Israelis died; and then rocket and mortar shells being fired at Israeli settlements within and bordering Gaza. This situation was further inflamed when Israel conducted two targetted assassinations, including the killing of a key Hamas operative in the Gaza Strip. Sharon's invasion appears to be on hold as he waits for a green light from Washington, which until now has restrained Sharon from invading, but only because Bush is desperate for the withdrawal from Gaza to function as a "victory" to offset the hell his war has created in Iraq.

Sharon's second front is against his own *Golem* (in Jewish folklore, a figure created out of clay, who turns against his maker, like Dr. Frankenstein's monster): the Israeli settlers, who are trying to stop the evacuation of 7,500 settlers from Gaza. In the same week as the Israeli military invasion, tens of thousands of settlers tried to march into the Gaza Strip to reach the Gush Katif settlements, in an attempt to block their evacuation. The attempt failed when the government closed the Strip to all non-residents (see report below). The settlers' antics have also included burning tires and putting spike-traps on Israeli highways, placing dummy bombs in bus stations with the slogan "disengagement will blow up in your face," and brutal attacks on Palestinians, including an attempt to lynch a 17-year-old Palestinian youth.

On the economic front, hundreds of workers from Israeli Military Industries stormed Sharon's office, protesting the fact that they had not been paid in months, while the government has been in the process of trying to privatize the company. Obviously under duress, Sharon retreated by immediately striking a deal whereby the government transferred 270 million shekels to the company in order to pay 2,900 workers, and the pensions of another 1,200. This conflict could be the most dangerous for Sharon, because working people and the poor are suffering from his economic policy.

All three of these conflicts result from Sharon's so-called unilateral disengagement plan, whereby he intends to evacuate all of the settlements in the Gaza Strip, plus four very small settlements in the northern part of the West Bank. But because it is unilateral, and refuses to move for the existence of a Palestinian state, it is a policy designed to continue the Israeli-Palestinian conflict.

The settlers' disruptions play into Sharon's hands. Despite the fact that many of these demonstrators are brainwashed

fanatics, some of whom are willing to kill Jews as well as Palestinians, they are receiving sympathetic coverage in the international media.

Writing in Israel's largest circulation daily, *Yediot Ahronot*, former Israeli Foreign Ministry director, Eytan Bentsur, warned that Sharon's unilateral disengagement plan will lead to the collapse of Israeli society. Bentsur, a former peace negotiator and strong advocate of a two-state solution, wrote that Sharon's disengagement policy offers benefits only "in the realm of promises and expectations—not an international binding agreement." He further asserts it is no substitute for "the dynamic of a resumed, full-fledged peace process."

Sharon has created a political situation where: "The government can get away with everything. There is no opposition. First the Labor Party, and now Shinui, did not function as a genuine opposition, almost to the extent of unconstitutional behavior." With the entire political class surrendering itself to Sharon's promise of disengagement, "corruption can go rampant and unchallenged, crime can remain undeterred, and the virtues of the very ethos of Israel, the welfare state, can dissipate at the expense of the cohesiveness of our society."

Who's Behind the Settlers' Gangs and Israeli Terrorism?

On July 5, Moshe Feiglin, the Israeli Likudnik who once proclaimed that "without Sept. 13 [the date the Oslo Accords were signed in 1993], there would have been no Sept. 11," was leading the paramilitary forces of Jewish settlers to turn the withdrawal from the Gaza Strip into a bloody confrontation, against both the Israel Defense Forces, and the Palestinians.

Feiglin, head of the Likud faction called "Jewish Leadership," in 1995, in opposition to the signing of the Oslo Accords, was the organizer of the violent mass protests that set the stage for the assassination of Israel's peace Prime Minister Yitzhak Rabin.

Feiglin is currently living in a tent at the Gaza settlement of Gush Katif, from where he has called for Israelis to invade the settlement en masse, in order to stop Sharon's withdrawal. For Feiglin and his followers, it is the Palestinians who should leave the occupied territories completely.

In concert with Feiglin, who just returned from a fundraising tour in the United States, the Yesha Council (governing body of the Jewish settlements in the Occupied Territories), announced plans for a massive march to Gush Katif, to begin on July 18. The marchers were to come from all layers of the "anti-disengagement" crowd: from young teenage girls, to thousands of settlers from the occupied West Bank, to hardened, Arab-bashing IDF reserve officers. But, the march did not go the way the settler camp wanted.

- An 'Army Within an Army' -

One of the most dangerous aspects of the settlers gangs are religious fundamentalists in the military, who have high levels of training. These soldiers have been goaded on by the statements and teachings of radical rabbis, such as Rabbi Mordechai Eliyahu, Rabbi Shmuel Eliyahu Avraham Shapira Beit El, and Chief Rabbi Zalman Melamed. The first two have been calling for soldiers to refuse their orders to evacuate settlers from the Gaza Strip. And, since the Israeli government has allowed separate training units in the army for ultra-orthodox Israeli Jews, the ideas of the radical rabbis have been easily drawn recruits.

Recently, two Orthodox soldiers in their early twenties were arrested for planting a "dummy bomb" in a highly secured Jerusalem bus station. As mentioned above, these "dummy bombs" carry the warning that "Gaza withdrawal can blow up in your face." The message is that these phony devices could be the real thing.

Israeli Defense Forces Chief of Staff Dan Halutz, who himself has been accused of atrocities against the Palestinians, wants to see the army programs such as the Hesder Yeshivas, in which recruits combine military service and yeshiva (religious) studies, that are under the jurisdiction of the radical rabbis be dismantled.

Former Israeli Justice Minister Yossi Beilin, a leading peace-camp member also wants the Hesder Yeshivas shut down. Beilin refers to the Hesder Yeshivas as "an army within the army."

- Radicals Declare 'Time for War' -

Between July 18 and July 21, the settlers' plan to invade Gaza with a mass march began to run into trouble, at which point, the head of the far right National Jewish Front organization, Baruch Marzel declared, "Let's hope that the Yesha Council will finally understand that there can be no dialogue with Sharon. It is time for war."

Marzel was reacting to the government move, in order to prevent the tens of thousands of protestors to go into Gush Katif, to deploy between 15,000-20,000 soldiers and police against the protestors.

The march was supposed to reach Gush Katif, which is a closed-off military zone. But, the farthest the demonstrators got was to Kfar Maimon, where they set up an encampment, which was then encircled and blockaded by the IDF and police. The most the blockade did was to have the demonstrators retreat. They would have stayed, but the town was unable to accommodate them because the blockade was so severe. It is reported in *Ha'aretz* that the blockade cut off food supply and water for long durations of the day.

The demonstrators used a new slogan geared at the neutralizing police and the IDF. Instead of saying, "Soldier, Policeman, Refuse the Order," the rebels said, "Soldier, Policeman, We Love You, We Love the IDF." Some rebels were speaking into megaphones: "We're not the enemy; we love you. Go fight the real enemy." The anti-withdrawal demonstrators may have been halted by the blockade for now, but when they return, they will be prepared to stay, adding portable toilets, and equipment that cuts fences, to the usual stocks of supplies.

- Violence Next -

But the repression of the march was no clear victory for the government. One senior army officer said, "Their goal now is to stay in the area for as long as possible, to pin large police and army forces down in Kfar Maimon and simply wear us out." The Yesha Council is now planning a second march, reported the *Jerusalem Post*, and Israeli security forces admitted, on July 21, that the cat-and-mouse games they have been playing with the protestors since July 18 are anything but over.

The call for the next mobilization is even more violent. Gonen Ginat, editor of the National Religious Party's newspaper, regards Sharon as not even human. And, Yesha Council leader, Pinchas Wallerstein agrees, and says, about the State of Israel. "The dictatorship is in a panic and note how it behaves. In my opinion, we are at the beginning of the end of this government."

Other statements by the protestors should not be seen a "anti-Sharon," but as "anti-government," as the settlement camp becomes more and more infuriated by the actions of the Israeli government. But, from those who are heavily under the influence of the radical rabbis, the word is that Sharon is a dictator, that he is no better than Hitler, and anyone what expels Jews from Israel are Nazis and "Judenrats. "

The march might have not met the expectations of the Yesha Council and the participants but another march is planned for

next week. Yesha Council Chairman Bentzi Lieberman said, "Tens of thousands came, and we created an all-encompassing platform, taking in all political hues, that came supported us." He said with pride that the anti-pull-out demonstrators succeeded in pinning down security personnel while infiltrating over 1,000 people into Gush Katif, "We could have broken down fences, but that would have risked lives."

Asia News Digest

'Afghan' Rebels Not All Afghans

A few Afghan rebels who were killed in Pakistan's tribal areas July 17 had Kazakh passports, Islamabad told the media. The Pakistani media say that there were native Uzbeks among the rebels.

From time to time, Islamabad and others have informed *EIR* that the "Afghan" rebels are not all Afghans. A large number of them are Central Asians. *EIR* has pointed out in the past that during the Soviet invasion of Afghanistan, anti-Communists from Soviet Central Asia (at the time, most of the "stans" were part of the U.S.S.R.) and anti-Communist Arabs were brought in by the CIA to help the Afghans to defeat the Soviet invaders. Following the Soviet withdrawal from Afghanistan in 1989, Arabs and Central Asians—well-trained and well-armed—remained in Afghanistan. Within Afghanistan, the Afghans fell out among themselves, and from this chaos emerged the Taliban. The Taliban leadership allowed the Arabs and the Central Asians to stay in Afghanistan.

When the United States invaded Afghanistan in the winter of 2001, Pakistan, with the approval of the United States, protected the Central Asians for future use against Russia, China, etc. Reports from sources indicate thousands of them live along the Pakistan-Afghanistan border.

Karzai Ally Lynched by Taliban

A close ally of Afghan President Hamid Karzai, Malik Agha Jan, was lynched in Zabol by the Taliban, as violence in Afghanistan intensifies. Agha Jan was a prominent tribal chief in the province. His murder, in the Pushtun heartland, is a sign of how far the situation has deteriorated in recent months, and how emboldened the Taliban have become. Agha Jan, along with his brother and two sons, were abducted on July 15. His relatives were released unharmed but Agha Jan was labelled an American spy and hanged.

President Karzai will be visiting London this week and is expected to take a high-profile stand against militant Islamic beliefs.

CFR: Myanmar Spreads AIDS

Continuing the U.S. line of attack on Myanmar for its "non-democratic government," the New York-based Council on Foreign Relations, in a study released July 18, said the heroin users and prostitutes in Myanmar have spread the HIV virus through large parts of Asia.

"With the exception of one serious outbreak in China, virtually all the strains of HIV now circulating in Asia—from Manipur, India, all the way to Vietnam, from mid-China all the way down to Indonesia, come from a single country," Laurie Garrett, author of the 67-page report, "HIV and National Security: Where Are the Links?" told a news conference.

The purpose of the report became evident in the conclusion, which said: "Burma (Myanmar) is a failed state, rife with civil

war and rival gangs of drug, gem and sex-slave smugglers."

U.S. Offers Civilian Nuclear Cooperation to India

During their talks in Washington on July 18, U.S. President George Bush offered the visiting Indian Premier, Manmohan Singh, an agreement to achieve full civilian nuclear-energy cooperation with India. This would mean India would be able to procure nuclear reactors from all over the world, and the fuel requirements would also be met by the reactor suppliers.

However, the accord needs agreement from the U.S. Congress to adjust U.S. laws and policies to make possible the cooperation. Congress does not allow nuclear reactors to nations like India, who are non-signatories of the nuclear Non-Proliferation Treaty (NPT) and also have developed nuclear weapons illegally.

In return, India has agreed to abandon its decades-old opposition to opening up the Indian nuclear-power plants for surveillance under the International Atomic Energy Agency (IAEA), the UN watchdog. In addition, India also agreed to work with the United States for the conclusion of a multilateral Fission Material Cut-Off Treaty (FMCT), refraining from transferring enrichment and reprocessing technologies to countries that do not agree to international efforts to limit their spread. FMCT has not been ratified internationally yet.

Free Aceh Movement, Indonesia To Sign Peace Treaty

Following talks in Helsinki, negotiators for the Free Aceh Movement (GAM) and the Indonesian government have reached a tentative agreement to end the more than 30 years of war in Aceh province in North Sumatra, the *Washington Post* reported July 17. Speaking for the Acehnese delegation, Damien Kingsbury, an Australian academic who is serving as a member of the Aceh delegation at the Helsinki peace talks, said the main sticking point in the talks was the political role of the GAM. The parties are to meet again in Helsinki in August to formally sign the agreement, thereby ending a war that started in 1976.

Controlled Revaluation Will Benefit China

The Chinese revaluation of the renminbi was a controlled affair. High-level Chinese financial sources have told *EIR* that such a controlled revaluation would be beneficial to China, and the reasons for that are clear.

The 2.1% adjustment, making the renminbi slightly more expensive, will make Chinese exports a bit more expensive, and this could have a gradual "cooling" effect on the overall situation which has seen Chinese exports, and its foreign exchange reserves soaring so far this year. Imported oil will also cost slightly less. In addition, purchasing foreign assets will also be cheaper, another way for China to lower its huge—U.S.\$711 billion—fund of reserves. The U.S. trade gap with China hit a record \$162 billion in 2004, and the National Association of Manufacturers is saying the deficit will hit an astonishing \$225 billion this year.

But any further appreciation of the renminbi will be gradual, nothing compared to the 40% rise of the euro against the dollar over the past three years, for example.

China and Japan To Build Power Plant in Vietnam

For the first time, China and Japan are cooperating on building a power plant in a third country: Vietnam. Marubeni and Dongfang Electric will build two 300 MW coal-fired plants in Vietnam, a 50-billion-yen (about \$450 million) project.

Lien Chan Calls for Taiwan-China Talks

Lien Chan, former leader, and now honorary chairman of the Kuomintang (KMT), was in Washington July 17-18 to attend the annual International Democratic Union conference, the *Taipei Times* reported July 20. During his address to the conference, Lien Chan spoke about how the KMT's historic trip to China created conditions for better relations between Taiwan and mainland China.

Lien also discussed how the world can assure cross-Strait peace: "The international community needs to encourage President Chen Shui Bian to resume cross-strait talks. He pointed out that the international community can help by persuading the DPP administration to, at a minimum, avoid any unwarranted provocations and resume dialogue with the other side of the Taiwan Strait as soon as possible for the good of mankind."

ASEAN To Hold First Summit with Russia

The annual summit meeting of the Association of Southeast Asian Nations will take place in Vientiane, Laos this year from July 25-29, according to the *Manila Times* July 16. Highlights of this year's summit will include the signing by New Zealand, South Korea, and Pakistan of ASEAN's agreement on cooperating against terrorism, a Thai official announced on July 16. In addition, ASEAN will launch the first ASEAN-Russian summit on July 25. ASEAN member states include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Fourteen other nations also participate in the ASEAN Regional Forum, which is the region's main security forum, including the U.S.A., China, Japan, North and South Korea, and Russia, the European Union, Australia, India, Canada, and Pakistan. East Timor will attend for the first time this year.

However, the scandal this year is the absence of U.S. Secretary of State Condoleezza Rice, who insists that more pressing matters will keep her away. The U.S. will be represented by her deputy Robert Zoellick.

Africa News Digest

Clinton Brings Anti-AIDS Fight to Lesotho

Former President Bill Clinton has taken his fight against HIV-AIDS to Lesotho (a tiny nation within the geographical borders of South Africa), where an AIDS holocaust is occurring. The Clinton Foundation just opened a pediatric clinic in Maseru. One-third of Lesotho's approximately 2 million people are infected with HIV/AIDS; 22,000 are children. Of all those infected, only 11% receive anti-retroviral drugs to combat the disease. In 1995, the average lifespan in Lesotho was 62 years. Today, ten years later, it is 37. As Clinton pointed out, this is totally unnecessary, since although there is not yet a cure, treatment exist for HIV/AIDS, which can significantly extend life expectancy. This treatment has been withheld from the people of Africa, by the Anglo-Dutch imperial policy of genocide, which aims at depopulating the continent in the interest of raw-materials looting.

Rice Moots U.S. Ambassador to Sudan; Mrs. Greenspan Provokes Incident

U.S. Secretary of State Condoleezza Rice, in Dakar, Senegal, on her way to Sudan July 21, "held out the possibility of sending an ambassador to Sudan for the first time since 1997, in a sign of improving relations after the installation of a new government," according to Reuters. She told reporters it would depend on Khartoum ending the Darfur conflict, and in that regard, "We have gotten some help from the Sudanese government, but by no means enough."

Then, in Khartoum later in the day, at the meeting between Rice and President Bashir, despite an apparent agreement that U.S. press would be allowed into the meeting, Sudanese security initially denied them entry, in a tense situation in which there was already some minor pushing and shoving. Finally, U.S. press were admitted on condition that they ask no questions—photo opportunity only. According to her own testimony, the no-questions policy inspired Andrea Mitchell of NBC (wife of Fed chairman Alan Greenspan) to provoke the Sudanese in this charged atmosphere. AP reports:

"Can you tell us why the violence [in Darfur] is continuing?' Mitchell asked, as a Sudanese official said, 'no, no, no, please.'

"Can you tell us why the government is supporting the militias?' she asked.

"After getting no reply from el-Bashir, she asked, 'Why should Americans believe your promises?'"

Guards wrenched her arm behind her and forced her out of the room at that point, as State Department official Jim Wilkinson shouted, "Get your hands off her."

Sudan's Foreign Minister, Mustafa Osman Isma'il, later telephoned Rice to apologize while she was in the air en route to Darfur. Rice had demanded an apology.

The London *Guardian* on July 22 claimed that, "The scuffles, though minor, were a diplomatic disaster for the Sudanese government."

EIR notes that Washington is split between those who wish to make Sudan into an obedient client and those who want to overthrow the government and break up the country. Rice and the CIA leadership are among the former. Mr. Greenspan may be among the latter, who rule the roost in Congress.

Sudan's New Cabinet To Include Southern Leaders

The Sudanese Council of Ministers held its final meeting July 17 in Khartoum, AFP reported July 17. An interim constitution had been signed July 9 that provided for dissolving the government. John Garang, head of the Sudanese People's Liberation Movement, was sworn in as First Vice President on that occasion. The new government including Southern leaders is to be formed by Aug. 9 at latest.

Garang met with Islamist leader Hassan al-Turabi for two hours July 19 to discuss "means of developing the memorandum of understanding signed between them in 2001 which led to Turabi's imprisonment" by President Bashir, according to ArabicNews.com July 21. ArabicNews continues, "Following the meeting ... the two leaders stressed 'support for the Sudanese peace agreement without any hesitation,' despite the reservation of [Turabi's] People's Congress on the main items of this agreement."

Garang received U.S. Secretary of State Condoleezza Rice at the Republican Palace July 21, according to the Sudan News Agency SUNA. SUNA reported that "First Vice President John Garang de Mabior has called on U.S. to make available the aid it pledged in Oslo donors conference and support efforts for finding a solution for Darfur problem."

Garang announced July 20 that he would leave Khartoum for Rumbek in the South on July 22, to take up his duties as President of Southern Sudan. He said, "we have had good ties in the Presidency institution [in Khartoum] and we will go on creating further relations."

Garang To Spend \$1.5 Billion on Infrastructure Annually

John Garang's Sudan People's Liberation Movement (SPLM) plans to spend \$1.5 billion on infrastructure annually, thanks to the oil-revenue-sharing agreement that is part of the North-South peace accord, *Los Angeles Times* reporter Edmund Sanders, wrote from the new southern capital of Rumbek July 21. Sanders says, "The giant development plan ... is drawing an army of would-be investors, speculators, and contractors ... to Rumbek." Sanders adds, "international donors are preparing to pump more than \$2 billion into southern Sudan" in addition, but that is a lump-sum figure, not an annual one.

Sanders quotes a "Western diplomat with years of experience in southern Sudan," who said, "It's turning into a world of cowboy contractors looking to make a quick buck." And Sanders quotes SPLM executive committee member Costello Garang Ring Lual saying, "The interest is bigger than the readiness."

But Obede Kudu, an SPLM information officer, said that investors and contractors will be required to submit written five-year proposals, including proof of financial backing, to a board that will review bids.

Concerning oil, Chevron, Royal Dutch/Shell, China National Petroleum, Petronas (Malaysia), and Oil & Natural Gas Corp. (India) have all had preliminary talks with SPLM officials.

Garang Proposed Water Policy in 1981 Doctoral Dissertation

While the water policy in the cited "giant development plan" for southern Sudan is not yet known, John Garang made a crucial water-policy proposal in his 1981 doctoral dissertation, written at Iowa State University. "If the Sudan plans to realize the objective of becoming the 'Breadbasket of the Middle East,'" Garange wrote, "then clearly modern agricultural development must be introduced into the Southern Clay Plains," the greater part of southern Sudan. "The Jonglei Canal ... provides necessary conditions for drainage and irrigation without which modern commercial agriculture cannot be viable in the area," he added.

His argument was that, while irrigation is necessary in the Southern Clay Plains, much less irrigation water per hectare is needed there than in the existing commercial agricultural areas in the North, because there is more rainfall in the South.

Average annual rainfall in the Southern Clay Plans ranges from 800 mm to 1,000 mm. By comparison, the Gezira commercial agricultural district in the North (a triangle with apex at Khartoum, whose sides are the White and Blue Nile), has an average annual rainfall gradient running from only 200 mm at Khartoum to 600 mm further south.

Any increase or decrease in available Nile water must be shared equally between Sudan and Egypt, he said, in accord with the 1959 Nile Waters Agreement.

Zimbabwe Seeking Loans To Prevent Further Collapse

A Zimbabwean team led by its Foreign Minister was in South Africa July 18, reportedly seeking a \$1 billion loan to buy gasoline, seeds, fertilizers, agricultural infrastructure, and food, but also to stave off expulsion from the IMF. The team met with South Africa's Finance Minister and central bank governor.

Zimbabwe owes the IMF \$2 billion, and \$290 million had to be paid by July 20 to avert expulsion. Expulsion would have profoundly negative consequences, according to a high-ranking South African official who spoke to *City Press* (Johannesburg), News24 reported July 17. In a foolish world, expulsion could indeed have negative consequences for an

individual country that has been deliberately isolated. (Meanwhile, 80% of Rwanda's budget comes from foreign sources; the figure for Uganda is 52%, and for Zambia, 40%.)

George Charamba, spokesman for Zimbabwe's President Robert Mugabe, told the South African Broadcasting Corp. July 20 that Zimbabwe was also seeking lines of credit from Malaysia and China.

One of South Africa's conditions is that the Zimbabwe government stop the demolition of squatters' shacks, under the rubric of "urban renewal," that have been home to hundreds of thousands. A temporary end to the demolitions has now been announced.

In Zimbabwe, gasoline has again become unavailable, and most retail outlets no longer have salt and soap.

This Week in History

July 26 - August 1, 1932

Hoover Orders Army To Disperse World War I Bonus Marchers

As the Great Depression deepened, President Herbert Hoover funnelled \$2 billion into Wall Street banks and firms through the Reconstruction Finance Corporation, while refusing to give any relief to the desperate Americans who were losing their jobs, homes, and farms. He finally granted a few million dollars for work relief, but it was a mere drop in the bucket.

Hoover's advisers, who included Secretary of the Treasury Andrew Mellon, assured him that a "hands-off" policy would soon solve the Depression. It was a direct application of Charles Darwin's evil theories of natural selection—the resulting suffering and death might seem difficult, but the outcome would be a healthier economy. Those who survived the time of trial would be the "fittest." Hoover, although dubious about this extreme solution, also disapproved of massive government intervention, especially any relief which might be seen as a "dole."

The veterans of World War I, the former members of General Pershing's American Expeditionary Force to Europe, had been promised by Congress that they would receive payment on their "adjusted compensation certificates" in 1945. Why, wondered the veterans, in their desperate economic situation, could they not receive their bonus payments immediately? In the spring of 1932, a group of World War I veterans from Portland, Ore. decided to travel to Washington, D.C., to lobby Congress to move up the date of their bonus payment.

They were led by Walter W. Waters, a sergeant in the late war, and now an unemployed cannery worker. The group rode freight cars and arrived at East St. Louis on May 21. Officials of the Baltimore & Ohio Railroad refused to let them board a freight train for the East, and eventually, the National Guard was called out to load them onto trucks and ship them out of the state. But national coverage of the event attracted other veterans to the march, and by June some 20,000 or so veterans, many with their wives and children, were camped in a "Hooverville" on the Anacostia Flats within sight of the U.S. Capitol.

A delegation of veterans marched to the White House and asked to meet with the President, but Hoover refused. He met with heavyweight wrestling champions and members of the Eta Epsilon Gamma Sorority during that time, but not with the veterans. No member of the administration met with the veterans, but the head of the District of Columbia police, Brig. Gen. Pelham Glassford, tried to make them welcome. He provided them with makeshift housing in empty government buildings, and allowed them to camp on Anacostia Flats. Through the Army, he obtained, presumably with Hoover's

approval, tents, cots, and food supplies. He ordered his men to treat the veterans humanely, and made the rounds of their campsites on his motorcycle, offering them encouragement.

Representative Wright Patman (D-Texas), had introduced a bill in the House to authorize immediate payment of the bonuses, and it was passed on June 15. The veterans waited on the Capitol steps on June 17 to hear the results from the Senate, but Hoover lobbied hard for the bill's defeat, and it failed to pass. At this point, many of the dispirited veterans returned home, but a substantial group, estimated between 2,000 and 8,000, stayed on, despite Hoover's offer of railroad fare home. Some of them, in increasingly desperate circumstances, did not have homes to go to.

The veterans who stayed continued to conduct marches around the capital city, some of which were completely silent "dead marches" around federal buildings. On July 11, President Hoover vetoed the Garner-Wagner Relief Bill, which would have provided some aid to the unemployed. On July 23, the veterans picketed the White House. This was too much for Hoover. He told General Glassford of the D.C. Police that if his forces couldn't prevent such "outbreaks", the Army would be called in.

Chains went up at the White House gates, extra guards patrolled the grounds, day and night, and the nearby streets were closed to traffic. Hoover's advisers began to talk about "revolutionary plans" by the supposedly large numbers of Communists and criminal elements within the veterans. In fact, they questioned how many of the bonus marchers were actually veterans.

On July 28, General Glassford reported to the veterans that he had been ordered by "the highest authority" to move them out of the buildings they occupied on Pennsylvania Avenue. Because Glassford had treated them well, the veterans started to move out on their own. Then, one of the D.C. policemen stumbled and his revolver went off as he hit the ground. Another policeman reacted to the shot by thinking the veterans had fired, and he shot into the crowd. Two veterans subsequently died.

The District of Columbia Commissioners then sent a message to President Hoover, saying they could no longer guarantee the peace. Hoover, who was just starting his Presidential campaign against Franklin D. Roosevelt, ordered Gen. Douglas MacArthur to clear the veterans out of the empty government buildings and drive them back to the Anacostia Flats. That afternoon, MacArthur deployed cavalry with drawn sabers and infantry with fixed bayonets up Pennsylvania Ave. Their equipment included tanks, water cannon, and tear-gas cannisters. The troops used both water and tear gas to drive the veterans and their families back to Anacostia Flats. Then, apparently exceeding his orders, MacArthur ordered his men to break up the encampment, sending men, women, and children, some carrying their few possessions, fleeing into the night to take shelter on the roads of Maryland. The encampment subsequently was burned.

An eleven-month-old baby, a victim of the tear gas, died that night in a hospital. When newsreels of the action were shown in American theaters, the crowds hissed and booed. President Hoover, although reportedly furious with MacArthur, took full responsibility and stated that "A challenge to the authority of the United States Government has been met." General MacArthur declared that the "bad looking mob" had been "animated by the essence of revolution." The Justice Department issued a report which said that Communists and criminals had been the masterminds behind the veterans' demonstrations.

Franklin Roosevelt, still Governor of New York, saw newspaper photos of the rout of the veterans, and told Rexford Tugwell that Hoover should have sent out for coffee and sandwiches, and talked to the veterans' delegation. He recanted his former high opinion of Hoover from the days when Hoover was called the "Great Humanitarian" and the "Great Engineer," and said that the army should never have become involved. Roosevelt concluded that "There was nothing left inside the man but jelly; maybe there never had been anything."

Roosevelt was elected President that November, and by the spring of 1933, there was another Bonus Army encamped in

Washington. But as the veterans said, "Hoover sent the Army; Roosevelt sent his wife." FDR had the marchers put up in an under-used army fort, where they were given food and medical care. Eleanor Roosevelt came to check on their living conditions, and stayed to have a meal and sing World War I songs with them. President Roosevelt offered them all jobs in the newly formed Civilian Conservation Corps, and 90% of the men accepted. The veterans voted to disperse, and those who wanted to return home were given free railroad passage.

Like Hoover, Roosevelt opposed the early payment of the veterans' bonus. In 1936, Congress actually passed a \$2 billion payment to the veterans over his veto. Did that mean that Roosevelt, compared to Hoover, was just a smoother operator, or was something else involved? Roosevelt was dedicated to the concept of the general welfare, and was not a prisoner of ideology, as Hoover had been. In the preface to his 1934 book, "On Our Way," Roosevelt gives us a sense of his outlook. The President briefly reviewed the past year of 1933, and stated that, "The time called for and still calls for planning. This book describes the nature and the purpose of the many factors that were necessary to the working out of a national plan for improvement. In spite of the necessary complexity of the group of organizations whose abbreviated titles have caused some amusement, and through what has seemed to some a mere reaching out for centralized power by the Federal Government, there has run a very definite, deep and permanent objective.

"With regard to the individual excellence of each one of them, I can only repeat what I have often said—that the individual parts in this planned program are by no means inflexible or infallible. In some respects we may have to change the method; in others, we may not have gone far enough. Time and experience will teach us many things."

In 1933, Roosevelt made many speeches about cutting the national deficit and government spending. He even rescinded all the previous bills about veterans' benefits from various wars and then sponsored a new one which cut benefits. But, at the same time, he directed the Administrator of Veterans Affairs to "conduct a careful study of the effects of these new regulations so that if any injustices or inequalities were found, or if the reductions appeared in some particulars to be too severe, prompt remedial recommendations were to be made to me." The study did indeed show that the cuts were too severe, and twice during 1933, and again in 1934, Roosevelt issued Executive Orders that restored money to the veterans.

President Roosevelt also made a speech before the American Legion in October of 1933, where he stated that, although soldiers wounded in battle would be treated at government expense, once they had returned to civilian life, they would receive no special treatment just because they had once been soldiers. Again, Roosevelt changed his mind over time, and during World War II he made extensive plans for veteran benefits after the war, including the "G.I. Bill of Rights," which would ensure that the neglect and lack of services visited upon the veterans of World War I would never happen again.

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