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To All U.S. Government Institutions:
'Times That Try Men's Souls': Bush Must Telephone Medvedev
by Lyndon H. LaRouche, Jr.

The world is running out of time, right now!

Russia's President Medvedev has uttered a proposal for immediate, emergency consultation among the U.S.A. and Russia and others, on a general international meeting for emergency measures to deal with the presently onrushing general monetary-financial breakdown-crisis. Since none among the proposals uttered so far, from the Executive Branch or the Speaker of the House of Representatives, have any competence for dealing with this onrushing breakdown-crisis of the present international monetary-financial system, it is of the greatest urgency that there be initiating joint action, co-sponsored by Russia, as a member of the Russia-China-India, Eurasian party and the U.S.A. as the representative of the international Dollar system on which the present world system depends....

In-Depth articles from EIR, Vol. 35, No. 38

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U.S. Economic/Financial News

U.S. Industrial Production Plummets Again in August

LaRouche on Pelosi Auto Plan: 'Dracula Rides Again'

U.S. Commercial Lending Seizes Up

U.S. Industrial Production Plummets Again in August

Sept. 15 (EIRNS)—According to the Federal Reserve today, U.S. industrial output plunged 1.1% in August, the biggest drop since Hurricane Katrina three years ago. The decline was much worse than the 0.3% decline expected by "economists." Industrial production has fallen 1.5% in the past year and 2% since the peak in January. Declining motor vehicle production accounted for about half the drop in output in August, MarketWatch reported. Manufacturing output declined 1% in August. Capacity utilization—"a gauge of inflationary pressures stemming from industrial bottlenecks"—dropped by a full percentage point to 78.7%, the lowest in nearly four years.

LaRouche on Pelosi Auto Plan: 'Dracula Rides Again'

Sept. 18 (EIRNS)—Nancy Pelosi, Speaker of the U.S. House of Representatives, said that she plans to unveil a \$25 billion loan package to U.S. automakers next week, according to Dow Jones wires. The package had been urged upon her yesterday in a meeting with the CEOs of Detroit's "Big Three" automakers—the rocket scientists who have largely destroyed one of America's premiere industries. The program likely will be added next week to a stopgap government funding bill.

Lyndon LaRouche commented: "Dracula rides again. What is needed is what I proposed earlier. Stop this crap and get on to it. Where were they in the year 2006? Where were they when the auto industry was still alive? What they are doing is seeking a bride in the undertaker's parlor."

The program embraced by Pelosi includes nothing which would make the auto industry profitable by strengthening the American economy, like converting its machine-tool design capacities to rebuild railroads and infrastructure—the program posed to Congress by LaRouche PAC. Dow Jones reports that the Pelosi loan program, to be included in a 2008 energy bill, authorizes Congress to provide \$25 billion in low-cost loans for retooling older plants to make hybrids and other fuel-efficient vehicles; cars built at a retooled plant must be 25% more fuel efficient than the vehicles previously built there.

U.S. Commercial Lending Seizes Up

Sept. 18 (EIRNS)—Yesterday saw a record \$90 billion net withdrawal from U.S. money market funds, bringing the total volume from \$3.44 trillion in nominal assets, down to \$3.35 trillion, as investor/speculators sought flight into safer bets. Putnam Investments LLC closed its \$12.3 billion institutional Putnam Prime Money Market fund yesterday and plans to return all cash to investors, after they besieged Putnam to redeem their money. Putnam was valued yesterday at \$1 a share, below which, investors are losing. Also this week, Bank of New York/Mellon Corporation had to inject money into its Dreyfuss money market fund, to stay above \$1; and Bank of America Corp did likewise for its subsidiary Columbia Management. The losing funds each had some loser positions in Lehman Brothers Holdings, but money market funds are losing overall. There is nowhere in the crash to "make money."

Money fund marketeers are the biggest players in commercial paper—three-month or shorter-period loans to commercial borrowers—which itself saw a drop in volume over the week ending Sept. 17, of \$52.1 billion, out of a total U.S.

commercial paper volume in the range of \$1.76 trillion; this is the biggest percentage drop in 26 years. Yesterday, commercial lending all but seized up. A few big operations, e.g., Ford Motors, and Sears, managed to borrow, but only at a premium. Ford paid 7.5% yesterday for a short-term loan, which until recently, would have been 3.3% or less.

Not just Wall Street, but "Main Street" is finding no availability of loans. Small businesses are in a jam for "normal" loans to bridge payroll, rent, etc.

Global Economic News

Credit Default Swaps: 'Damocles Sword Over Financial Sphere'

Britain Faces Unprecedented Budget Deficit

Credit Default Swaps: 'Damocles Sword Over Financial Sphere'

PARIS, Sept. 15 (EIRNS)—The French economic daily *Les Echos* reports today that most financial experts are even more worried about the future of credit default swaps (CDS) than about the future of banks, calling it "another Damocles sword hanging over the financial sphere." This, after the International Swaps and Derivatives Association (ISDA) declared the nationalization of Fannie Mae and Freddie Mac a "credit event." This decision is expected to have grave consequences on those CDS covering the risks of the debt of the two agencies. Showing how insane the system is, the fact that Freddie and Fannie now have Federal backing, means that, in theory, the risks incurred by their debt has largely decreased! This means that those selling the risk protections (i.e., the CDS) have to adjust their prices by liquidating their positions, implying mega-losses.

CDS don't appear in ordinary accounting procedures, since they are derivatives traded over the counter (OTC). As a result, nobody really knows how big this bubble is. The *Financial Times* admits that the minimal volume of CDS stands somewhere between \$200-500 billion. That's big enough to make a CDS collapse to be considered as another "systemic risk." Even worse, the CDS collapses would seriously endanger the credibility of the rest of what officials estimate as at least \$600,000 billion worth of derivatives.

Stricken by panic about the bankruptcy of Lehman Brothers—which owns a vast chunk of CDS derivatives—New York bankers organized a two-hour special trading session on Sunday, Sept. 14, in an attempt to walk out of this minefield. *Les Echos* quoted the director of the pension fund Pimco as saying that, "That is an extremely rare event."

Bloomberg yesterday ran the full statement of the ISDA: "ISDA confirms a netting trading session will take place between 2 pm and 4 pm New York time for OTC derivatives. Product classes involved are credit, equity, rates, FX and commodity derivatives. The purpose of this session is to reduce risk associated with a potential Lehman Brothers Holding Inc. bankruptcy filing. Trades are contingent on a bankruptcy filing at or before 11:59 pm New York time, Sunday, Sept. 14, 2008. If there is no filing, the trades cease to exist. These trades are subject to a protocol which is being distributed by ISDA. Traders should execute the protocol and return to ISDA."

Britain Faces Unprecedented Budget Deficit

Sept. 19 (EIRNS)—The public sector deficit of Great Britain could reach £100 billion according to *The Independent*. This would be the largest "black hole" in the deficit since World War II. In June alone, net borrowing by the public sector was £10.4 billion, putting the deficit so far this year at £60 billion, up from a forecast £43 billion. This does not include the

bailout of Northern Rock, which cost the government £100 billion pounds, nor does it factor in any future bailouts by the Bank of England of the much larger trouble banks such as HSBC or Barclays, now that Britain's own real estate bubble is bursting.

United States News Digest

HBPA Supporter Now Detroit's Mayor

U.S. Army Commander Warns Against Any Iran War

Democrats Back Rangel; Motion To Force His Resignation Defeated

Former Ambassador Calls for Dialogue with Iran

Obama Won't Fund Democratic Senate Campaigns

HBPA Supporter Now Detroit's Mayor

Sept. 19 (EIRNS)—Ken Cockrel, who as City Council president supported a resolution in support of Lyndon LaRouche's proposed Homeowners and Bank Protection Act of 2007, was sworn in as interim mayor of Detroit this week. He replaces Kwame Kilpatrick, who is headed for jail.

This news item ran on the LaRouche PAC website (www.larouchepac.com) on March 26, 2008:

"The nine-member Detroit City Council unanimously passed Lyndon LaRouche's Homeowner and Bank Protection Act on March 25, 2008. The resolution was offered by Council President Kenneth V. Cockrel, Jr. The LaRouche Youth Movement and LaRouche Political Action Committee presented the HBPA in meetings with Council members, in public input sessions, and in mass leafletting of LaRouche initiatives. The Detroit City Council previously passed the LaRouche-authored legislative resolution for the Emergency Recovery Act, which called for retooling the U.S. automobile industry to build infrastructure."

U.S. Army Commander Warns Against Any Iran War

Sep. 19 (EIRNS)—An anonymous U.S. Army commander told *The Independent*, a British daily, that an Israeli attack on Iran "would destabilize the entire region and open a new battlefield which could have damaging effect on Iraq and Afghanistan." Described as a senior officer in the heart of U.S. military policy-making, he said Israel's air exercise showed there was a real threat, but that "a diplomatic solution is the only logical answer to this."

Democrats Back Rangel; Motion To Force His Resignation Defeated

Sept. 18 (EIRNS)—Five Republicans joined Democrats, in a 226-176 vote, to defeat a motion by House Minority Leader John Boehner (R-Ohio) to strip Rep. Charles Rangel of his chairmanship of the U.S. House Ways and Means Committee. Every Democrat, except the five on the Ethics Committee (who voted "present"), voted against Boehner's motion. The five Republicans who voted no included: Reps. Wayne Gilchrest (Md.), who was defeated in the Republican primary by a pro-war candidate; Walter Jones (N.C.); Ron Paul (Tex.); Dana Rohrabacher (Calif.); and Jim Ramstad (Minn.) Six more

Republicans voted "present." Eight Democrats and 12 Republicans did not vote.

Boehner's resolution would have also required the Ethics Committee to launch an investigative subcommittee to begin a formal probe of New York Democrat Rangel. The Ethics Committee handles more minor ethics questions by reviewing them and issuing advisory opinions. Rangel requested the opinions of the Committee on what he called unclear areas, such as whether a Congressman could use his official stationery to urge support of public institutions, such as Rangel did for City College of New York.

Rep. Gene Green (D-Tex.), the new acting chair of the Ethics Committee, since the untimely death of Rep. Stephanie Tubbs Jones (D-Ohio) in August, said that the Committee will meet next week to begin investigating Rangel, according to *The Hill*.

The vote is a defeat for Boehner, who is acting for financier interests in trying to oust Rangel. Boehner threatened Republicans on Sept. 16, that if they voted against his motion, they could kiss their committee assignments goodbye. Lyndon LaRouche observed that these attacks on Rangel would not be occurring, if Speaker Pelosi had not made it known that she wants Rangel out.

Former Ambassador Calls for Dialogue with Iran

Sept. 17 (EIRNS)—"U.S.-Iranian Relations: The Diplomatic Cost of Not Talking," is the title of an op-ed in today's *Washington Times* by Edward Djerejian, former U.S. ambassador to Israel and Syria, and the founding director of the James Baker III Institute at Rice University.

Djerejian notes that the Iranians have engaged in discussions with the United States on Iraq, but that they want a broader dialogue. The U.S. is strong enough that we can afford to offer Iran a broad strategic dialogue, which might begin with discussions of Iraq, Afghanistan, Arab-Israeli peace, Gulf security, and Lebanon, before getting to the question of Iran's nuclear program. There are at least three different factions in Iran with regard to the nuclear issue, and a sophisticated approach by the United States would take this into account, Djerejian contends.

Obama Won't Fund Democratic Senate Campaigns

Sept. 16 (EIRNS)—The Obama campaign, finding itself strapped for cash for its own losing campaign, is letting Democratic Congressional campaigns go down the tubes.

Washington's *Politico* today reports that Obama's campaign is so strapped that it turned down a direct appeal from Senate Majority Leader Harry Reid (D-Nev.) for financial assistance for campaigns which could boost the Democratic majority by four to seven seats. Senators Reid and Chuck Schumer (D-N.Y.) had hoped at one point to get as much as \$10 million from the Obama campaign, since 23 GOP seats are up for reelection this year, as compared to only a dozen Democratic seats, opening a "once in a generation opportunity," in their view.

So far, the Obama campaign is said to not only have given no money, but it has not even planned any joint fundraising events with House or Senate Democrats.

Ibero-American News Digest

[Brazilian: Read LaRouche To Understand Global Crisis!](#)

Ibero-Americans Recall Success of FDR's New Deal

South American Presidents Defuse Bolivian Destabilization

Ecuador Might Suspend Foreign Debt Service

Brazilian: Read LaRouche To Understand Global Crisis!

Sept. 19 (EIRNS)—Reading Lyndon LaRouche's textbook *So, You Wish to Learn All About Economics?* is the only way to understand what's behind the blowout of the global economy, writes Brazilian commentator Leandro Diniz e Silva, in an article published in the Sept. 19 daily *O Globo*. Other economists who focus only on "monetary" issues, "ignore the totality of the physical economy," Diniz states. But LaRouche's book proves definitively "that mere regulation of the monetary sector is not now, never was, and never will be efficient for dealing with any economy, anywhere."

"According to LaRouche," Diniz underscores, "the physical economy is the only one capable of serving as the basis for the solid growth of societies. He clearly shows that no economy is sustainable, unless a considerable portion of its production is converted into technology for the production of capital goods, machine-tools, and equipment."

LaRouche shows that usury should be banned, or taxed to the maximum, Diniz asserts. "To leave the economy in the hands of unscrupulous networks that manipulate entire markets for their own monetary profit, is not even admissible for any sane person charged with the care of his nation's economy."

Ibero-Americans Recall Success of FDR's New Deal

Sept. 20 (EIRNS)—As the global financial system crashes, an increasing number of Ibero-American commentators are recalling how Franklin Delano Roosevelt's New Deal lifted Americans out of the Great Depression. Although none of them really grasps that today's crisis is a systemic one, the implication in their commentary is that something akin to what FDR did is needed today.

"It's time for a New Deal II—Drop-by-Drop Liquidity Won't Do It," was the headline in the Sept. 18 edition of Brazil's *Monitor Mercantil*, quoting Luiz Gonzaga Belluzzo, economics professor at the National University of Campinas (Unicamp). Slamming the Bush Administration for responding to the crisis by injecting more liquidity into the economy, Belluzzo asserts that U.S. authorities must instead make a "monstrous intervention," directing credit lines into productive sectors of the economy, just as Roosevelt did with his New Deal. "The [U.S.] government has to impose conditions, control and direct credit. There's no other way. The private sector won't do this," he argued.

In an article published in the Sept. 17 edition of Argentina's *Página 12*, historian Mario Rappoport offers a totally academic accounting of the conditions that led to the Crash of 1929 and the Great Depression, but notes that Roosevelt's New Deal, with its cheap credit and massive construction of public works, "prevented the American way of life from becoming the road to disintegration and decadence" in the United States.

South American Presidents Defuse Bolivian Destabilization

Sept. 16 (EIRNS)—The South American Presidents Club met on an emergency basis in Santiago, Chile on Sept. 15, under the aegis of UNASUR (Union of South American Nations), and acted to defuse the British-sponsored destabilization of

Bolivia, including regime change.

Bolivia was wracked by mob violence in the weeks prior to the Santiago meeting, provoking fears of a civil war that could potentially engulf the entire continent. The region's Presidents had been consulting with each other and with Bolivian President Evo Morales constantly, but decided to hold the emergency session in Chile as the situation threatened to veer out of control on Sept. 12. Chilean President Michelle Bachelet is currently serving as UNASUR's president pro-tem.

UNASUR's final communiqué "expresses their fullest and firmest support for the Constitutional Government of President Evo Morales ... [and] warns that their respective governments energetically reject and will not recognize any situation that implies an attempted civil coup," or "compromises territorial integrity."

It is hoped that this intervention might help rein in Venezuelan President Hugo Chávez, whose antics have only benefitted the British war script for the continent. Chávez has said more than once that he will not stand idly by, should Morales be overthrown or killed, warning that he would send Venezuela's Armed Forces into Bolivia. On Sept. 12, the general commander of Bolivia's Armed Forces, Gen. Luis Trigo, issued a statement in the name of the entire military high command, warning Chávez, by name, that no foreign troops or forces would be permitted to set foot in Bolivia. The Venezuelan President then brazenly responded that General Trigo should worry more about U.S. intervention, and prove his loyalty to Evo and Bolivia.

Ecuador Might Suspend Foreign Debt Service

Sept. 18 (EIRNS)—Speaking Sept. 17 at Milagro University, Ecuadorian President Rafael Correa warned that he would consider suspending payment of the foreign debt, should the current global financial crisis worsen, or the oil price drop significantly.

It's worth recalling that during the Depression of the 1930s, every nation in South America, with the exception of Argentina, declared a debt moratorium.

Correa misidentified today's systemic meltdown as "the United States' financial crisis," making the same mistake that many other world leaders have made. But he vowed that were Ecuador deeply affected by it, the "variable of adjustment" would be the foreign debt, rather than any of the important social programs or investments in infrastructure projects which his government considers to be a priority.

Western European News Digest

Attali: Financial Tsunami Advances on France

Soros Stages Demonstration Against Italy

New Bretton Woods: Others Join Tremonti Call

ATTAC Shifts, Endorses Keynes' Version of NBW

Attali: Financial Tsunami Advances on France

Paris, Sept. 18 (EIRNS)—Jacques Attali, the economist and former gray eminence of the Mitterrand presidency, said, on a talk show, *Le Figaro/Orange*, that the "tsunami continues to advance, and nothing is less sure than that it is not going to come to our shore, contrary to what many think." Attali said the present crisis is "ruled by the same mechanisms as in 1929: People were allowed to become indebted in fictitious values." He added that the coming victims, beyond the banks, the insurance companies, and the real estate sector, will be local governments, including in France, "where 1/3 of the debts are subprime."

Continuing on the parallel to the 1929 crisis, Attali warned of three potential dangers: "the denunciation of plots, such as the stigmatization of the Jews, prior to the war; a great inflation to make the debts disappear; and military tensions to force people to accept more austerity and taxes."

Soros Stages Demonstration Against Italy

Sept. 17 (EIRNS)—George Soros's Open Society Institute (OSI) activists, led by Soros himself, staged a demonstration against the Italian government yesterday in Brussels, at an EU-sponsored conference on continental integration. The pretext is a recent bill introduced by the Italian government, that mandates that fingerprints be taken for any person—independent of nationality or race—who cannot produce an ID document. ID documents are mandatory in all European countries. Soros's statements were supported by EU Commission chairman José Manuel Barroso. However, EU Justice Commissioner Jacques Barrot attacked Soros: "Soros either ignores the facts, or is in bad faith." Barrot said that the Italian law "is in line with European laws."

OSI activists protested with hisses and boos, against an Italian government official, Eugenia Roccella, when she began to speak. The activists wore T-shirts with "against ethnic profiling" slogans. Soros then took the microphone to say: "I am deeply worried because of the ethnic profiling in Italy. I fear that this could become a standard in Europe. Those measures should be illegal."

New Bretton Woods: Others Join Tremonti Call

Sept. 19 (EIRNS)—Italian Economics Minister Giulio Tremonti brought the fight for a new Bretton Woods (NBW) to the national industrialists association yesterday. At a conference of Confindustria in Rome, Tremonti repeated everything he had said about the crisis and the NBW in an interview with the Milan daily *Corriere della Sera*, published the same day, adding an attack against economists. The head of the association, Emma Marcegaglia, painted a gloomy economic picture, saying Italy is already in a recession. She supported Tremonti's idea to have the European Investment Bank (EIB) finance large infrastructure projects.

That same day, the financial daily *Il Sole 24 Ore* (owned by the Industrialists Association) ran an article entitled "We Need a New Bretton Woods To Change Rules," written by an economist at the neoliberal Bocconi university in Milan, Donato Masciandaro.ce."

On Sept. 17, the Swiss daily *Corriere del Ticino* ran an article by economics commentator Alfonso Tuor, calling for "a new Bretton Woods to establish the world economic, financial and commercial rules."

ATTAC Shifts, Endorses Keynes' Version of NBW

Sept. 18 (EIRNS)—Directly contrary to Lyndon LaRouche's proposed New Bretton Woods system, three economists of the "scientific" council of the left-wing group ATTAC, Cossart, Harribey and Plihon, published an opinion column in *Le Monde*, which rejects the Bretton Woods system founded by Franklin D. Roosevelt, which was based on American System

principles, including the development of the formerly colonial countries; instead it endorses the British System proposal made in 1944 by John Maynard Keynes, which was fortunately rejected at the Bretton Woods conference. In their column, after uttering their habitual critique of the speculative financial system, they concluded with this: Hence, a new Bretton Woods is indispensable. But not any New Bretton Woods, but Keynes' main proposal, which was formulated in 1944, for a world currency and compensation union.

This one-world-currency line is a radical shift from ATTAC's May 19, 2008, call for a New Bretton Woods, which specified that the strengthening of national regulation was the foundation for any reform of the international monetary system.

Russia and the CIS News Digest

Putin: New Policy, Not Bailout!

Rice Wins Clown-of-the-Week Prize for Speech Chiding Russia

NATO Council in Anti-Russian Provocations

Russia Against Further Iran Sanctions

Ukrainian 'Orange' Government Collapses

Putin: New Policy, Not Bailout!

Sept. 22 (EIRNS)—Russian Prime Minister Vladimir Putin called for a new international financial architecture rather than bailouts, in a press conference in Sochi, the Russian Summer capital, on Sept. 20. Putin had been holding discussions with French Prime Minister François Fillon there, Itar Tass reported.

"We all need to think about changing the architecture of international finances and diversifying risks. The whole world economy cannot depend on one money-printing machine, Putin told the final press conference. "This is a very serious issue that should be addressed in a calm, attentive and working manner, without haste, together with our colleagues from Europe and America," Putin said. "This issue should be considered not in a confrontational way, but very benevolently, in order to find the most acceptable ways for the development of the world economy and world finances."

Rice Wins Clown-of-the-Week Prize for Speech Chiding Russia

Sept. 19 (EIRNS)—Secretary of State Condoleezza Rice gave a speech on Russia yesterday at a German Marshall Fund event in Washington, for which she deserves the award for clown of the week. She read the riot act to the Russians, saying that they had better not try to isolate themselves from the international community. Their fate is in their hands. She held forth with a description of the "success" of U.S. policy in Latin America, China, Central Asia and elsewhere, adding that Russia should engage with the rest of the world, where there is so much prosperity!

One day later, however, Secretary of Defense Robert Gates warned against those who are pushing confrontation with Moscow. Speaking in England after a NATO conference, Gates said that "Russia's current actions ... do not represent the existential and global threat that the Soviet Union represented," and that their military "remains a shadow" of the Soviet

armed forces. He said that "Russia's policies are born of a grievance-based desire" to deal with the nations on their border which were once in the Soviet Union, rather than "an ideology-based effort to dominate the globe." Gates said we avoided confrontation with the Soviet Union, and should not change that policy now.

NATO Council in Anti-Russian Provocations

Sept. 15 (EIRNS)—The NATO Council of ambassadors of the 26 member-states began a two-day meeting of solidarity with Georgia in Tbilisi today, although Georgia is not a member, and openly defying protests by Moscow against this premeditated demonstration of anti-Russian views. In yet another provocation, NATO Secretary General Jaap de Hoop Scheffer told the *Financial Times* that the de-escalation deal on Georgia worked out between French President Nicolas Sarkozy, in his capacity as rotating president of the EU, and Russia, is "not acceptable," because of the Russians are being allowed to "maintain their troops on South Ossetian and Abkhazian territory."

While Sarkozy and the EU have said that they will be willing to restart EU-Russia partnership negotiations following Russia's withdrawal from Georgia, Scheffer declared that "NATO would stand by its decision to suspend regular meeting of ambassadors from NATO and Russia as long as Russian troops remained in the two breakaway regions."

If British asset and Georgian President Mikheil Saakashvili had hopes that he would be officially invited to join NATO at this meeting, however, it did not happen. While he and Scheffer did sign a Framework Document for a NATO-Georgia Commission, Scheffer did not commit to offering him a Membership Action Plan (MAP) at the summit in December. NATO itself has not issued an official communique, and Scheffer simply urged "patience" for Georgia.

Russia Against Further Iran Sanctions

Sept. 20 (EIRNS)—The Russian Foreign Ministry made clear today that Russia is against any further sanctions against Iran, after a meeting of the P5+1 (the Permanent Five members of the UN Security Council, plus Germany) group in Washington on Sept. 19. "On the Russian side, we underlined the necessity of continuing efforts to include Tehran in a constructive dialogue aimed at launching a process of talks," the ministry said in a statement. "In this context, we spoke against the development of extra measures by the UN Security Council." According to wire reports, the U.S., Britain, France, and Germany are pushing for harsher sanctions against Iran for its insistence on developing its uranium enrichment capability.

Ukrainian 'Orange' Government Collapses

Sept. 16 (EIRNS)—The Speaker of the Ukrainian Supreme Rada (parliament) today announced that the ruling coalition was dissolving. The move was not unexpected, as the rift in the coalition had deepened for several weeks. President Victor Yushchenko ordered his party to leave the coalition, when his coalition partner, the bloc led by Prime Minister Yulia Tymoshenko, working together with the opposition Party of the Regions, sought to pass legislation to limit the powers of the President.

An underlying problem is the differences between the two parties with regard to Russia. Yushchenko has clearly associated himself with George Soros's agent and Georgian President Mikheil Saakashvili, in condemning the Russian action in South Ossetia, and in pushing hard for NATO membership. Tymoshenko, however, does not intend to go that route. She stopped a measure supported by Yushchenko that would have condemned the Russian "aggression," and she has resisted the President's attempt to impose restrictions on the Russian Black Sea Fleet, moored at its base in Crimea, which Russia leases from Ukraine.

The parties have 30 days in which they must pull together some workable coalition, or else there will be new elections. During the interim, Tymoshenko is still the prime minister, and has said she will continue conducting the work of the government.

Southwest Asia News Digest

[Livni Wins Razor-Thin Victory in Kadima Primary](#)

[Peres on Iran: War Must Not Be an Option](#)

[Fundies and Likud Fascists Behind UN Rally vs. Iran](#)

[IAEA Report on Iran; U.S. Threatens Further Sanctions](#)

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[More Arrests in Turkey's Ergenekon case](#)

[Ergenekon Link to U.S. Consulate Attack](#)

Livni Wins Razor-Thin Victory in Kadima Primary

Sept. 19 (EIRNS)—Israeli Foreign Minister Tzipi Livni won the leadership race for the head of the Kadima Party, beating Shaul Mofaz. While Mofaz, a former chief of staff and defense minister under former Prime Minister Ariel Sharon, is considered a hardliner, Livni is believed to support peace negotiations with Syria as well as the Palestinians.

Livni's election could prove to be a Pyrrhic victory, since it was won by just 431 votes, about 1%. Even this was seen as a result of manipulation, because the media has been accused of releasing exit polls throughout the day, even before the polls closed, that claimed a 12% margin in Livni's favor. Mofaz conceded defeat, and announced he was withdrawing from politics and therefore will not support her in the next election. This has serious implications for her support within Kadima, where Mofaz had the backing of the right wing of the party who were mostly, like Mofaz, former Likud members. Such a division could lead to a split in the party if elections are held.

Livni now has to form a new government which could be very difficult, and if she fails, new elections will have to be held. In the meantime, Ehud Olmert remains as caretaker prime minister. Labor Party chairman Ehud Barak, according to Ynet, wants a unity government with the Likud to be formed, while Likud chairman Benjamin Netanyahu is calling for new elections, which he believes he would win.

Peres on Iran: War Must Not Be an Option

Sept. 19 (EIRNS)—On the eve of his departure to New York to attend the opening of the United Nations General Assembly, Israeli President Shimon Peres ruled out war as an option in dealing with Iran's nuclear program.

"War should never be an option, or even the first option," Peres said. "We must first try every other operation." Peres then

called for strong economic sanctions against Iran, saying, "We have to go to the most sensitive area," which he says is the economy. This is the message he will bring to the UN.

Fundies and Likud Fascists Behind UN Rally vs. Iran

Sept. 20 (EIRNS)—"End Times" Christian fundamentalists and fascist neocons are trying to build up steam for a British-designed Israeli and/or U.S. strike against Iran before the Bush Administration leaves office.

On Sept. 22, the National Coalition To Stop Iran Now, sponsored by the ultra-right/organized crime-linked Conference of Presidents of Major Jewish Organizations, will rally in New York, ostensibly to ban Iranian President Mahmoud Ahmadinejad from speaking at the UN. (This is the rally which attracted so much media attention when Hillary Clinton refused to attend (after which the organizers then dis-invited Sarah Palin.) But the real reason is not to block Ahmadinejad's speech, but rather to create an "outcry" against Iran, fire up the Christian Right, and push Congress to adopt resolutions against Iran, so that Dick Cheney can launch the British empire's war against Iran.

The UN rally is part of an international propaganda campaign to get an Iran War. According to well-informed Israeli sources, the war-mongers around Cheney tried—unsuccessfully—to engineer the Kadima Party election in favor of Gen. Shaul Mofaz—one of Cheney's closest allies internationally (see news item in this Digest). Mofaz has been demanding for the last year that the U.S. strike Iran to eliminate its nuclear program.

To give the advantage to Mofaz, there were secret trips made (separately) to Israel by Dick Cheney and Condoleezza Rice in the weeks before the Sept. 17 election, reported *EIR*'s Israeli sources. Cheney met with Likud head, fascist Benjamin Netanyahu, Defense Minister Ehud Barak of the Labor Party, and Mofaz, but shunned both Kadima candidate Tzipi Livni and outgoing Prime Minister Ehud Olmert.

Also involved in the propaganda is the International Christian Embassy in Jerusalem (ICEJ), backers of the Israeli extreme-right terrorists, which has produced a web-based video that accuses Iran of planning a new holocaust against the Jews. The ICEJ has collected 55,000 signatures for the UN to sanction Iran at the UN Security Council, and will be prominent at the rally in New York.

The pressure for a war against Iran before the Bush Administration leaves is meeting heavy resistance from the U.S. military, from Defense Secretary Robert Gates, and from a strong faction inside the intelligence community. But there is still a "50/50" chance that the insanity factor will prevail, and the Administration will attack Iran.

IAEA Report on Iran; U.S. Threatens Further Sanctions

Sept. 15 (EIRNS)—The United States is threatening further sanctions against Iran following the release of the latest report by the International Atomic Energy Agency (IAEA) to the IAEA Board and to the UN Security Council; the report itself is under seal, although various news organizations claim to have it.

Wire services say the IAEA report charges that Iran has blocked the IAEA investigation, and quote a UN/IAEA official as saying that "we've arrived at a gridlock" and a "dead-end."

But the Israeli newspaper *Ha'aretz* states that the IAEA has not been able to come up with any evidence to contradict what Tehran says about its program. The IAEA insists that Iran prove a negative, saying that without more Iranian cooperation, "the IAEA will not be able to provide credible assurances about the absence of undeclared nuclear material and activities in Iran."

The United States, however, warned of further sanctions. "This report shows once again that Iran is refusing to cooperate with the international community," said White House spokesman Gordon Johndroe. "The Iranian regime's continued defiance only further isolates the Iranian people. We urge Iran to suspend its uranium enrichment and reprocessing activities or face further implementation of the existing United Nations Security Council sanctions and the possibility of new sanctions."

Iran's chief delegate to the IAEA, Ali-Ashgar Soltanieh, said there is nothing for the IAEA to investigate regarding alleged weapons programs. "The Americans did a lousy job with the CIA and associated terrorist groups that work with them," AP reports him saying—a reference to Iranian charges that the U.S. intelligence obtained from the Mujahideen e-Khalq (MEK/MKO) terrorist group, concerning Iranian weapons programs, was forged.

Renewed Push in Congress on Iran Embargo Bill

Sept. 20 (EIRNS)—A pair of bills is now pending in the House and Senate that call for a petroleum embargo of Iran, combined with interdiction and inspection of ships. A real danger is that the bills, which have 275 co-sponsors in the House and 50 in the Senate, could be attached to something like a must-pass budget bill and rammed through with little notice.

Five co-sponsors in the House have withdrawn their names under constituent pressure and/or realizing the war danger embedded in the resolutions. The latest to withdraw was Rep. John Lewis (D-Ga.) on Sept. 8; the others are Danny Davis (D-Ill.), Steve Cohen (D-Tenn.), Tom Allen (D-Me.), and Lacy Clay (D-Mo.).

No new official action has been taken on either House Concurrent Resolution 362, introduced in May, and referred to the House Foreign Affairs Committee, or on Senate Resolution 580, introduced in June and referred to the Senate Foreign Relations Committee. The bill was debated during a contentious House Foreign Affairs Committee hearing on U.S. policy toward Iran on July 9, when a number of Republicans and Democrats charged that the bill could trigger war. Both the American Israel Public Affairs Committee (AIPAC) and the Anti-Defamation League (ADL) are reportedly lobbying heavily for the bills behind the scenes.

More Arrests in Turkey's Ergenekon case

Sept. 19 (EIRNS)—There have been more arrests of members of the Ergenekon criminal intelligence network that has been linked to coup attempts and acts of terrorism in Turkey. In a sweep by police in Istanbul, Ankara, and Izmir, Turkish police arrested 19 people, including 6 Army officers. The officers including two lieutenants as well as students at the military academy. Levent Temiz, the head of the ultra-nationalist youth movement of the National Movement Party known as Ulku Ocaklan, who is suspected to have been involved in assassinations and terrorism, was among those arrested.

The Ergenekon has ties to military and intelligence networks and was the subject of a 2,500 page indictment by the Turkish prosecutor. Eighty-five people have been arrested, including the former head of the Gendarmes, a top retired military army commander. The network has its roots in the Young Turk organization founded by the British intelligence services in 1908 to penetrate the Ottoman Empire.

Ergenekon Link to U.S. Consulate Attack

Sept 20 (EIRNS)—Turkish police have determined that one of the participants in the July attack on the U.S. consulate in Istanbul was linked to the Ergenekon ultra-nationalist crime network. According to wiretapped telephone discussions,

Erkan Kargin, one of the terrorists killed in the attack, held telephone discussions with more than one of the Ergenekon suspects now under arrest. According to a report in *Zaman*, Kargin was in contact with an Ergenekon cell which was trying to infiltrate the Isamilaga religious community in Istanbul, according to unnamed police sources.

Asia News Digest

'China Must Guard Its Banks'

China Realizing Gravity of Crisis

South Korea, Japan Scramble To Dodge Lehman Bullet

AIG Fallout: Panic Spreads Across Asia

British Agent Anwar Identifies His Controllers

'China Must Guard Its Banks'

Sept. 17 (EIRNS)—China has to be stricter about foreign ownership of domestic banks to ensure its financial stability, wrote Bank of Communications (BoCom) chairman Jiang Chaoliang in the most recent issue of *Chinese Cadres Tribune*. This is a publication of the Central Party School, the think tank of the Communist Party. The BoCom is China's fifth-biggest bank. Britain's HSBC has a 19% stake in BoCom, and the two banks had discussed HSBC potentially taking a 40% stake if regulators agreed, the *Guardian* reported today.

But Jiang stated that China has already opened its financial markets too widely, and must maintain the current limits on foreign ownership of domestic banks—20% for any single foreign investor, and combined investors cannot exceed 25%. "In future, China should not ease up on the proportion of foreign equity in Chinese banks," he wrote.

China Realizing Gravity of Crisis

Sept. 17 (EIRNS)—"The collapse of Lehman Brothers has made the [Beijing] government realize the gravity of challenges that China faces—such an external-reliant (or export and foreign investment-driven) economy. The decision-makers need to shift the focus to promoting growth and protecting employment," the *Shanghai Daily* quoted Prof. Sun Lijian of Fudan University. "With the vigor of developed markets reeling from the United States subprime mortgage crisis, China can't escape the negative influence with just fiscal policies only," he said.

China Daily today quoted Ma Hongman of Shanghai University of Finance and Economics, saying that while the immediate crisis precipitated by the collapse of Lehman Brothers would have a limited direct impact on China's real economy, the effect on China's macro-economic policy will be very important. Ma said that the "latest adjustment by the central bank suggests a turnaround from the earlier tightened monetary policy to a more positive one."

South Korea, Japan Scramble To Dodge Lehman Bullet

Sept. 15 (EIRNS)—As Lehman Brothers was filing for bankruptcy, South Korean and Japanese banks were frantically trying to decide how to protect themselves. South Korean government officials and bank CEOs are holding an emergency

meeting tomorrow. On the agenda: the \$720 million state investment in Lehman, about \$390 million in equity related derivatives issued by Lehman in Korean banks, as well as \$318 million in Lehman's securities and loans.

The state-owned Korean Development Bank, whose director was formerly the head of Lehman's operations in South Korea, and who has been trying to buy out Lehman (despite the government's repeated refusal to touch the insolvent wreck), is still at it. KDB announced today that, depending on how the U.S. handles the bankruptcy, they are still interested in buying the remains.

One Japanese bank listed in Lehman's bankruptcy filing was Aozora, which had extended \$463 million to Lehman as of July 2. Aozora released a statement: "Whatever may appear in a filing by Lehman in terms of gross exposure will be very different from what we have net of our hedges and net of our collateral."

Others include Mizuho (\$382 million), Shisei (\$231 million), UFJ (\$185 million), Sumitomo Mitsui (\$177 million), and Chuo Mitsui (\$93 million).

AIG Fallout: Panic Spreads Across Asia

Sept. 18 (EIRNS)—AIG was born in China of the investment firm CV Starr, which was founded in 1919, and served on the British side of the U.S. fight against the British over the role of China throughout the 1930s and '40s. AIG, which was formed in 1967, spread across Asia as the leading insurance company there, helped overthrow President Ferdinand Marcos in the Philippines, and much more. With AIG's demise, there is panic spreading across Asia. Here is a snapshot:

* AIG is a 50% partner of China's biggest insurer, China America Insurance Company (with People's Insurance Company of China), and owns 19.9% of PICC. PICC stock tumbled this week.

* American International Assurance (AIA, an AIG unit) was the first foreign insurance company allowed to open up in China, in 1992, and is the largest life insurer in Hong Kong, with 26% of the market and 2 million policies. So far this week, 2,000 policy holders in Hong Kong have cashed in their contracts. Another AIG subsidiary in Hong Kong, American Insurance Underwriters (AIU), is in deep trouble, as many large building contractors have rushed to change their AIU reinsurance policies to other firms.

* In Singapore, where there are 2 million policyholders, the offices were open past midnight yesterday cashing in policies, and had to limit people in the queue to 500 today, so that their employees could get some sleep—2,000 cashed out so far. AIA Singapore took out a full-page ad in the *Straits Times* newspaper today, telling policyholders that it had "more than sufficient capital and reserves to meet all obligations," and that investors' funds were "segregated" from AIG.

* In Taiwan, 1,200 customers have cashed out of AIA.

* AIA is Thailand's largest insurer, with 4.2 million policies. There is no word on cash-outs there, only defensive statements about the company's solvency, but AIG Retail Bank of Thailand, which opened in March 2007, received a \$410 million liquidity injection from AIG (amazing how easy it is when Uncle Sam gives you \$85 billion).

AIG's PhilAmLife is the Philippines' largest insurer, but so far it is only reporting how safe it is, isolated from AIG.

AIG owns three life insurance and three non-life insurers in Japan, which are reported to be looking for a buyer or buyers.

British Agent Anwar Identifies His Controllers

Sept. 19 (EIRNS)—Anwar Ibrahim, the asset of British agent George Soros, is trying to bluff his way into the premiership in Malaysia, claiming he has a list of government members of Parliament who have pledged to jump ship and join the opposition, giving them a majority in the Parliament. With a flair not seen since Sen. Joe McCarthy in the Red Hunt days, Anwar has refused to reveal the list, while making demands for Prime Minister Abdullah Badawi to step down. The Prime Minister has simply called him a liar.

Anwar has no qualms about revealing his sponsors among the world's hedge funds and speculators, and what they expect from him if he were to take over. In a press conference, he protested Badawi's accusation that he has had an "adverse impact on the nation's economy" as being "entirely without basis." He continued: "I have met with the key fund managers in the region, representing over US\$1 trillion in assets, and on multiple occasions they were unanimously in support of comprehensive reforms in Malaysia, including judicial independence, a free media, a more professional police force and anti-corruption agency, investor-friendly laws, and assurances on the non-interference of politicians in the governance of Bank Negara. These are policies Pakatan Rakyat [Anwar's party] has promised to implement."

Africa News Digest

Three Zimbabwe Parties Sign Power-Sharing Agreement

Financial Cartel Shows Contempt for Zimbabwe's Leaders

London Orchestrates Elimination of Mbeki

Three Zimbabwe Parties Sign Power-Sharing Agreement

Sept. 17 (EIRNS)—Zimbabwe's three main political parties signed an agreement in Harare on Sept. 15 (Zanu-PF, led by President Robert Mugabe; the Movement for Democratic Change (MDC), led by Morgan Tsvangirai, strongly supported by the City of London-based financial cartel; and the MDC-M, a split-off from the MDC, led by Arthur Mutambara). The agreement gives executive power to Tsvangirai as prime minister, but not absolute power, while Mugabe will remain President, with reduced power.

The agreement provides that, of 31 cabinet ministers, 15 will be nominated by ZANU-PF, 13 by the MDC, and 3 by MDC-M. Mugabe will preside over the Cabinet, but Tsvangirai will preside over meetings of a Council of Ministers that is substantially the same in membership as the Cabinet.

According to David Coltart, a white MP and a member of the Mutambara faction who spoke at the Woodrow Wilson Center in Washington, D.C. today, a compromise so favorable to Tsvangirai was not what the Southern African Development Community (SADC) heads of state wanted. But after Parliament assembled (with SADC encouragement) and elected an MDC-Tsvangirai member as speaker, SADC opinion shifted.

All three parties were driven toward an agreement by the disastrous economic conditions facing the country which makes food aid an urgent matter. Eight years of economic warfare against the Zimbabwe government, spearheaded by the IMF and the British government, wrecked the Zimbabwe economy. Poverty has driven a wedge between the Zanu-PF and the population.

The land reform unilaterally carried out in 2000 was endorsed in the agreement among the three parties, which calls for a "comprehensive, transparent and non-partisan land audit" to eliminate any cases of multiple farm ownerships by the Zimbabwe elite.

On this issue of land reform, former Prime Minister Tony Blair's Labour government reneged on the British commitment at the Lancaster House talks which led to the independence of Zimbabwe in 1980, to resolve the issue of the redistribution of land that had been given to European settlers in what was then British-ruled Rhodesia. Under British rule, the African population was confined to reserves, where the land was of inferior quality.

Coltart emphasized today that Tsvangirai will get the credit for international support and aid to Zimbabwe, and this will increase his power. He emphasized that Tsvangirai alone will reap the peace dividend, because the "international community" will provide investment and aid in proportion to the amount of power that he actually exercises. It is widely reported that London will do its best to control Zimbabwe through the leverage provided by the urgent need for food and other aid.

The agreement provides for the drafting of a new constitution within 18 months, followed by a referendum. There has been no agreement on when thereafter an election will take place. Tsvangirai wants the election to follow immediately; Mugabe's camp wants the election at the five-year interval provided for under the present constitution.

Financial Cartel Shows Contempt for Zimbabwe's Leaders

Sept. 18 (EIRNS)—The *New York Times* today expressed the contempt of financial circles for the Zimbabwe leaders who made a power-sharing agreement, by demanding that the sanctions against Zimbabwe be kept in force, despite the agreement. The three parties that signed the agreement on Sept. 15 had won seats in the March election. The *Times'* editorial states that "Washington and the European Union are right to keep their sanctions in place until it becomes clearer whether this agreement can produce real change or is just another devious maneuver."

The Harare agreement states: "The Parties hereby agree that all forms of measures and sanctions against Zimbabwe be lifted in order to facilitate a sustainable solution to the challenges that are currently facing Zimbabwe," and that, "The Parties hereby agree that no outsiders have a right to call or campaign for regime change in Zimbabwe."

High-level Zimbabwe sources commented to *EIR* today that the EU and U.S. policy exposes that they have a different agenda, that is not in the interests of Zimbabwe sovereignty, and the rebuilding of Zimbabwe.

London Orchestrates Elimination of Mbeki

Sept. 20 (EIRNS)—The City of London-based financial cabal launched a bare-knuckle assault over the last week against South African President Thabo Mbeki, with the intention of driving him from office. This morning the ruling African National Congress (ANC) announced, during a three-day meeting of its national executive committee, that Mbeki had been asked to resign as President, only months before the end of his second term next year. Mbeki said that he will formally tender his resignation Sept. 23.

As *EIR* reported early this year, after the targeting of Kenya for destabilization, and the effort led by London to turn the Presidential succession in Zimbabwe into a chaotic regime-change scenario, the cartel's primary target was South Africa, the economic powerhouse of Africa.

The absence of Mbeki, considered the architect of modern South Africa, will be felt over the entire continent. He enraged

the British empire because of his consistent attack on London's campaigns to reduce all of Africa to a collection of territories instead of sovereign nation-states. His intervention at the EU summit on Africa in Lisbon last December, prevented the continent-wide endorsement of the EU free-trade policy that EU Trade Commissioner Peter Mandelson, a close associate of former British Prime Minister Tony Blair, had wanted to ram through.

Mbeki consistently intervened to sabotage destabilization operations throughout Africa. In addition to Zimbabwe, he also intervened in Sudan, Ivory Coast, and Democratic Republic of Congo.

Such a crushing blow can not be explained from internal South African politics. In fact, key domestic opponents of Mbeki, including arch-rival Jacob Zuma, who replaced Mbeki as president of the ANC thanks to backing provided by networks controlled by London, were against pushing Mbeki out of the national Presidency. They feared that such a move would trigger a chaotic election period that would not be to their advantage.

Zuma, considered most likely to be the President after the next election, sometime from February through June next year, knows that the financial cartel which ran this operation considers him completely expendable. If he continues his populist campaign about improving the lot of the large, poor segment of the population, it cannot be ruled out that he will not be the next ANC presidential candidate, due to opposition from London. He has played a useful role for the London cartel in tripping up Mbeki, but the cartel has so much dirt on him that he could be gone in the blink of an eye.

The traditionally British-controlled South African judiciary played a critical role in the operation to get Mbeki. The pretext for the ANC assault on Mbeki by the nominally Zuma-allied wing which is now in control of the party, was a Sept. 12 ruling by High Court Judge Chris Nicholson, who made an unsubstantiated assertion that Mbeki "may have" colluded with prosecutors against Zuma, who as former deputy president, was fired for his involvement in a corruption scandal.

A former judge, Willem Heath, also sought to increase the pressure on Mbeki, by charging that Nicholson's findings were tantamount to *prima facie* evidence of violations by Mbeki of the state's prosecuting authority. Heath had been a lawyer for Zuma when he was being prosecuted for corruption.

Press outlets in South Africa, owned or controlled by London, also played a key role in ramming through the fast-moving attack on Mbeki.

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