

EIR

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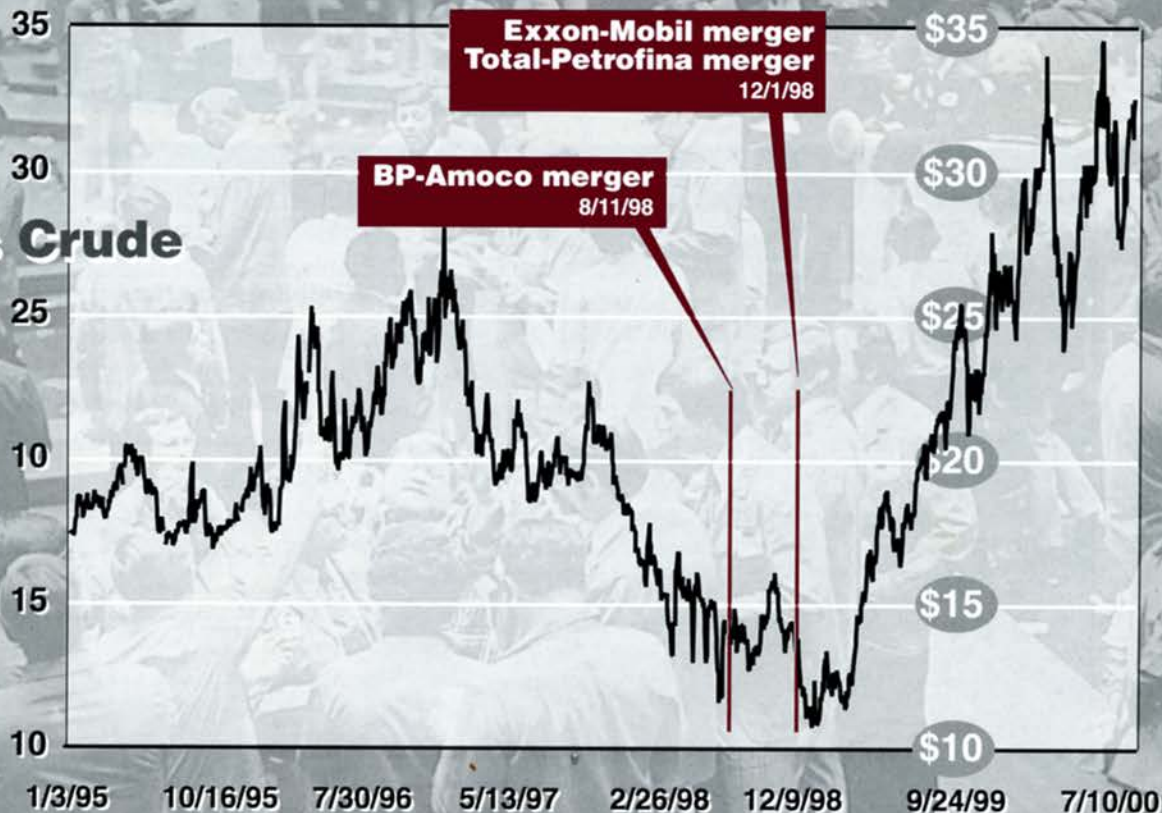
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New Charges That Diana Was Murdered
Wall Street Coup vs. Fujimori, Peru
LaRouche: Government Oil Deals Needed

Third and Final Energy Hoax: You're Buying 'Paper Oil'

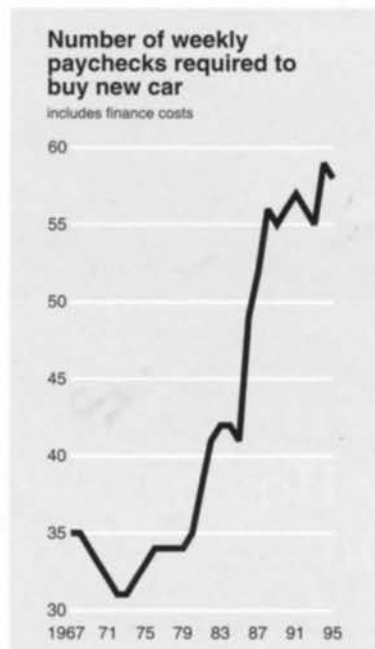
Oil Price, West Texas Crude

(\$ per Barrel)



EIR Doesn't Print What's Popular, But Prints The Truth

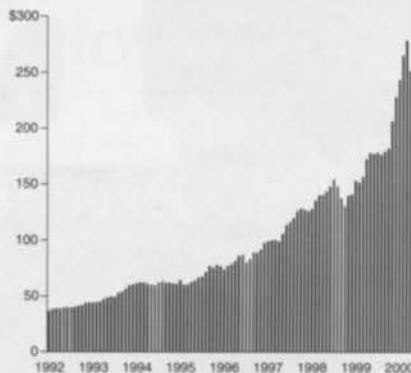
The Truth About The Real Economy



The Truth About Their Policies

The Truth About The Bubble

Stock Market Margin Debt, 1992-2000
(billions \$)



LaRouche: Call Them 'The Baby Doomers'



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*World Wide Web site: <http://www.larouche.com>
e-mail: eirns@larouche.com*

European Headquarters: Executive Intelligence Review Nachrichtenagentur GmbH, Postfach 2308, D-65013 Wiesbaden, Bahnstrasse 9-A, D-65205, Wiesbaden, Federal Republic of Germany
Tel: 49-611-73650. Homepage: <http://www.eirna.com>
E-mail: eirna@eirna.com Executive Directors: Anno Hellenbroich, Michael Liebig

In Denmark: EIR, Post Box 2613, 2100 Copenhagen ØE, Tel. 35-43 60 40

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From the Associate Editor

We go to press as dramatic events are occurring: The U.S. Treasury Secretary has done a Summers-sault, reversing his position that the declining value of the euro was not a matter of concern to the U.S. government, and instead announcing on Sept. 22 that the U.S. Federal Reserve was joining with the European Central Bank and the central banks of France, Japan, England, and Canada to support the European currency, “because of their shared concern about the potential implications of recent movements in the euro for the world economy.”

The truth of what *EIR* has been saying should now be obvious: The financier oligarchy—the same people who’ve been telling the mickeys that we are in a fabulous economic boom, and that the stock market will keep going up forever—are scared out of their minds.

We provide an exclusive picture of what is really going on:

The oil price explosion, as Lyndon H. LaRouche notes, is the current “spearpoint” of the global financial crisis. In *Economics*, we publish LaRouche’s ten-point program on what governments must immediately do, to ensure the energy supplies that their nations require. William Engdahl explains the manipulations that are behind the price rise. We also have an interview with LaRouche on Venezuelan radio, broadcast on the eve of the OPEC summit there.

Also in *Economics*, John Hoefle analyzes the wild situation on the derivatives markets, as Chase Manhattan buys up J.P. Morgan & Co. And Richard Freeman exposes how the U.S. Consumer Price Index has been rigged so as to gouge the living standards of all those whose wages, pensions, or benefits are pegged to that lying index.

It is the insanity of the Anglo-American financier oligarchy that is behind the recent startling developments in Peru, where President Fujimori announced that he will call elections in which he will not be a candidate. LaRouche’s comments are on page 31.

It is now widely recognized, that the soaring oil price has nothing whatsoever to do with OPEC, or any lack of oil (we have plenty of oil), but is rather the result of speculation. What does this do, then, to the gospel of Economics 101, that the “law of supply and demand” governs economic processes? LaRouche and *EIR* have been telling Americans for years that this is all bunk. Now, they’d better pay attention.

Susan Welsh

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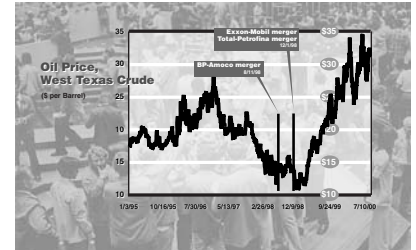
Three years after the Paris car crash that claimed the lives of Princess Diana, Dodi Fayed, and Henri Paul, Mohamed Al Fayed filed a Federal civil suit in Washington, D.C., demanding that the U.S. government turn over all classified documentation that could shed light on the causes of that tragic event.

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Will 'Paper Oil' Blow Up the Global Economy?

by William Engdahl

With a speed that has stunned all but the most observant industry insiders, oil has exploded onto the world political and economic arena in a crisis not seen since 1973, when Henry Kissinger rigged the “Great Oil Hoax” (blamed on the Organization of Petroleum Exporting Countries [OPEC] oil boycott) and thereby triggered the first “oil shock” of 400% price increases which plunged Europe and much of the world into deep recession or worse.

All of the storm and fury, however, is largely a circus side-show diverting from the fundamental problem now unfolding. The world is swimming in surplus oil. OPEC has raised its output quota four times since April 1999 (see **Figure 1**), the latest on Sept. 10, when its members agreed to pump another 800,000 barrels per day beginning on Oct. 1. The market reacted to the news with a steep price rise!

Once again, the currencies of the recently ravaged East Asian economies — Thailand, the Philippines, South Korea — are in sharp fall. This time the culprit is not global speculator George Soros and leveraged hedge funds. It is the staggering rise in the price of imported oil. Oil, sold in dollars, is putting a foreign currency drain on emerging countries similar to that of 1973-79.

Most attention, though, has been on the situation in the Group of Seven (G-7) economies, most especially the United States and the European Union (EU). In continental Europe and Britain, huge convoys of angry truckers have been blocking oil refineries across the continent, bringing economies to a halt, to protest soaring diesel prices.

The impact on European economies of the oil price is far more dramatic even than in the United States, owing to the

fact that oil is sold in dollars and imported into the EU, where the euro currency has lost 27% against the dollar. This gives European industry and consumers a double whammy, comparable to the devastation of the 1973 oil shock.

Reflecting a growing climate of political panic, on Sept. 20 French Finance Minister Laurent Fabius called for an emergency G-7 meeting with leading oil-producing countries during the Sept. 22-24 Prague International Monetary Fund annual meeting. Saudi Arabia has signalled its willingness to join such talks.

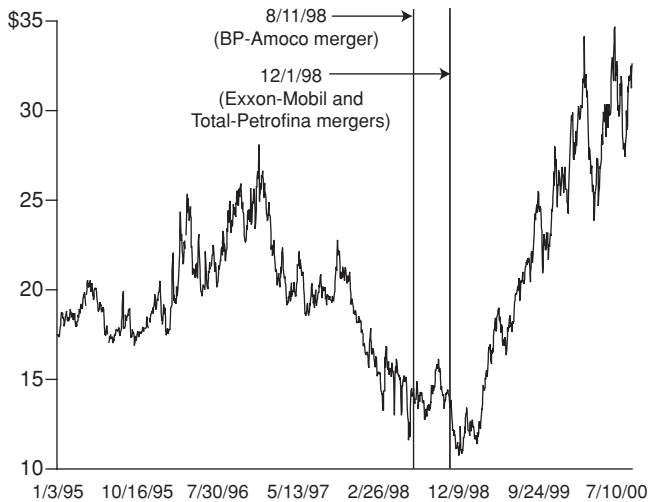
On the same day that Fabius issued his call, the French convened an emergency meeting of EU transport ministers to deal with the spreading crisis, as crude oil futures prices soared \$4 per barrel over the past days to \$37 per barrel. The meeting ended in chaotic disarray, as no consensus emerged. France called for others to follow its lead, and cut Europe's staggering fuel taxes, on average some 60-76% of the price of an EU gallon of gasoline at the pump. But the EU Commission is threatening to impose stiff sanctions on France and other countries that follow this example, further adding to the political chaos.

Richardson: 'Dangerously High' Prices

U.S. Energy Secretary Bill Richardson is calling energy prices “dangerously high,” promising to use “all options” to control the situation. He neglected to elaborate what he has in mind. President Clinton told reporters that he is considering a scheme to take 2 million barrels from the government's Strategic Petroleum Reserve, to be converted into heating oil for the coming winter to prevent shortages. That, however,

FIGURE 1
Oil Price Skyrocketed in Wake of Big Mergers

Oil price, West Texas crude
 (\$ per Barrel)

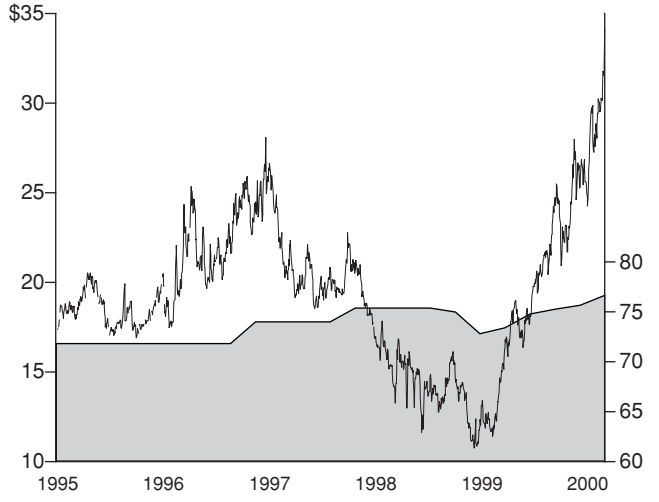


Source: *Wall Street Journal*.

FIGURE 2
Oil Price Soars, Regardless of Production Level

Oil price, West Texas crude
 (\$ per barrel)

World Oil Production
 Millions of Barrels Per Day*



*Yearly average, 1995-1998; quarterly average, 1999-2000 Q3.

Source: U.S. Department of Energy; International Energy Agency

would only rob 2 million barrels from the private production of refineries. The government has no refineries, and therein lies the bottleneck.

Vice President Al Gore, earlier in the Summer, blamed OPEC for not pumping enough crude. This was election fraud: Presently, the world is producing some 1-2 million barrels per day more than it consumes.

The exploding price inflation, which today for specific reasons is concentrated on the world's largest traded commodity, oil, reflects the beginning phase of a sea-change shift of assets of global financial interests. This shift, is a move out of bloated stock and other financial assets, into hard commodity assets. As U.S. economist Lyndon LaRouche has repeatedly warned in recent months, this is the opening shot of the kind of hyperinflation that struck Germany's Weimar Republic in 1923.

In remarks on Sept. 20, LaRouche (see accompanying article) insisted that only government-to-government emergency measures, to take back control of oil supplies from financial speculators and giant oil cartel groups, can address what is becoming a colossal national security problem, not only for the United States, but also for most nations dependent on energy imports.

'Paper Oil Is Speculators' Paradise'

As OPEC has repeatedly charged, oil prices are rising, not because there is too little oil, but because there is too little

refining capacity in key markets, combined with out-of-control derivatives speculators manipulating the market.

The politically opportune finger-pointing at OPEC as the cause, by U.S. and EU politicians, is irrelevant to the point of absurdity. More alarming, even were OPEC to pump more oil, is the energy price and the crisis of refined product supply crisis are set to escalate dramatically in coming weeks and months, barring the kind of emergency actions indicated by LaRouche, by the United States and other nations.

That action, however, would require the U.S. President to admit the true scale of the unfolding emergency, something which could have severe political repercussions on his Vice President's Presidential ambitions, but, just as readily, if he did something sensible, would improve the Administration's political standing. As well, it would require EU governments to rescind key provisions of the Maastricht Treaty which severely limit budget deficits, in order for them to cut energy taxes, and provide emergency relief to the economy. Neither looks terribly likely at present.

Several aspects of the crisis, must be comprehended. The structure of the world oil market, the process by which a barrel of oil produced in, say, the Persian Gulf, gets to a refiner in, say, Philadelphia, where it is converted into gasoline, diesel, or heating oil for market, has fundamentally changed since the fall of the Shah of Iran in 1979.

In the relatively stable days of the 1960s up to the October

TABLE 1

Most of Gasoline Price Doesn't Come From Crude Oil

	Three Parts of the Price of Gasoline		
	Crude Oil	Taxes	Refining, Transport, and Distribution
United States	38%	33%	30%
France	15%	71%	14%
Italy	16%	70%	14%
Germany	18%	64%	18%
Britain-U.K.	12%	68%	20%
Canada	30%	38%	32%
Japan	19%	41%	40%

Source: Venezuelan press, week of 9-11-2000.

1973 Arab-Israeli War, oil was one of the most predictable commodities in the world. It was produced mostly by OPEC members, usually by government-owned companies such as NIOC in Iran, or Aramco in Saudi Arabia. Those OPEC government companies then made long-term supply contracts with the “Seven Sisters” oil multinationals or other larger independent oil companies. The big oil companies such as Exxon or Shell all owned their own tanker fleets which transported the contracted oil to their own refineries, whether in Aruba, Philadelphia, Houston, Rotterdam, or Hamburg.

Contracts were typically either state-to-state, say Saudi Arabia to Brazil, or, more often, they were state to private company, say Saudi Arabia to Mobil or Exxon. They were years-long, fixed supply and price agreements. Thus, if oil prices fluctuated even a few pennies per barrel, it was news. The third way to buy oil in the pre-1973 period was a tiny market, dubbed the “Rotterdam Spot Market,” for the largest oil port in Europe. Here, on average, less than 3% of world daily oil output traded hands in small cargoes, often when another contracted supplier could not take delivery and it was free to be sold.

“The oil market today has totally changed from 20 years ago,” commented a senior oil tanker industry source from Fearnley’s Research in Norway, in a discussion with *EIR*. “Today, between the day a given tanker is loaded with oil in, say, Dubai, and the time it is finally offloaded at, say, a U.S. or Rotterdam refinery, that oil cargo could be sold 15-20 times or more.”

“Derivatives have made this possible,” he stressed. “The price you read for Brent or WTI [West Texas Intermediate] crude in the daily papers today is no physical, actual price of oil on that day. It’s the futures or derivatives contract price one or two months away, on either the London International Petroleum Exchange where Brent contracts for North Sea oil are sold, or on the Nymex in New York, where WTI contracts are traded. It is all derivatives or futures prices we speak

about, and that can swing wildly depending on any credible rumor, especially in a tight market like today.”

Speculative Rumors and Swindles

Oil prices shot up \$2 in one day in mid-September, on reports that Iraq had charged Kuwait with illegally stealing its oil from the Neutral Zone area, the same issue that triggered the 1990 Iraq invasion of Kuwait. Since the price is actually the futures contract price, and a tanker of oil loaded in the Persian Gulf takes on average 60 days to offload on the U.S. East Coast, rumor and “perception” can play a huge role in speculative buying or selling of oil futures. It is a speculator’s dream.

Fearnley’s analyst elaborated, “You only saw the first oil trader come in 1974 or so with Phibro Co. There were virtually no traders then. In the end of the 1970s and the 1980s, the

LaRouche: Bring Oil Price Inflation Under Control

The following memorandum was issued by Lyndon H. LaRouche, Jr. on Sept. 19.

1. The following statement constitutes a preliminary statement of policy “On the Subject of Emergency Action by Governments to Bring the Present Petroleum-Price Inflation Under Control.”

2. Broadly, the current global inflation in petroleum prices threatens to be the detonator of a chaotic breakdown in many, if not all of the economies of the world. The actions proposed here to deal with that emergency situation will not solve the more general problem of the world’s financial and monetary systems at large, but will contribute an important, and perhaps decisive step in that direction.

3. The underlying cause of the crisis, of which the petroleum-price crisis is but the presently leading political-economic consequence, is a general hyperinflation in financial asset-prices, which is now being expressed, at increasing rates, as a hyperinflation in commodity prices now following a trend similar to that suffered by Weimar Germany during the interval March-November 1923.

4. For sundry, converging, and relatively obvious reasons, the most brutal effect of that upward spiral of financial hyperinflation is being expressed in devastating rates and magnitudes of rises in the costs of petroleum. The increasingly desperate effort to secure inflows of financial assets into the U.S. dollar sector, has seized upon several

market changed dramatically. Oil multis got out of the tanker business, especially after the *Exxon Valdez* debacle. State-to-company contracts vanished. Today the market is dominated almost entirely by traders. This has made things far more volatile, because that's where traders make profit."

In a \$10 million lawsuit filed in U.S. Federal Court in the Southern District of New York on Sept. 13, the large U.S. oil refiner Tosco Corp. charged that a group of oil speculators in London, led by Arcadia Petroleum, a subsidiary of the Japanese Mitsui Trading Group, and Glencore, of Zug, Switzerland, created a deliberate market "squeeze," using derivatives or oil futures contracts, traded on the London International Petroleum Exchange. Tosco alleges that Arcadia Petroleum effectively took control of the Brent North Sea oil market for the two weeks between Aug. 21 and Sept. 5, just four days before the OPEC meeting. It did so by buying more

futures contracts (i.e., agreements to buy at a future date) than the entire Brent North Sea market supplied in the month of September.

Brent is the "benchmark" crude which sets the price for all the major oil-producing Atlantic countries, from Nigeria to Angola to Libya to the entire North Sea. It is a small market and, given the huge volume of derivatives traders in the London Brent futures market at the IPE, Tosco claims that Arcadia artificially pushed prices \$3.33 higher in two weeks.

"The paper oil market today allows the kind of thing Arcadia did," remarked a senior oil trader at a large London bank. "The Brent market was set up years ago. If a trader focusses his positions into a one- or two-week period, like Arcadia, taking futures positions on tens of millions of barrels, you gain huge profits if spot or so-called dated Brent prices rise versus the futures price. Arcadia ensured that, by

combined factors, as the opportunity to increase asset-price accumulations from hyperinflationary trends in the delivery prices of petroleum products.

These factors include: recently increased concentration of ownership of major oil companies through mergers and acquisitions, the increased role of the spot market in petroleum deliveries, the significance of denomination of deliveries in U.S. dollars, and an intensity of speculative activity, especially in the form of financial derivatives, in this area which threatens to bring the per-barrel price of petroleum to between \$40 and \$50 per barrel, soon, and not much later, much higher.

5. No ordinary means could bring this problem under control during even the short term. Only drastic measures taken in concert between and among sovereign national governments, could bring the petroleum-price crisis itself under control. Any other proposal would be a childish delusion. For the immediate future, either such governmental action will be taken, or the eruption of international chaos within the weeks ahead were the likely result.

6. The appropriate action, which must be led by the U.S. government, must aim at immediate emergency cooperation among the governments of principal petroleum-exporting and principle petroleum-consuming nations.

7. These governments must: a) Declare a general strategic emergency in the matter of stability of flows and prices of essential energy-supplies of national economies; b) Establish contracts, directly between and among governments, of not less than twelve months government-scheduled deliveries of petroleum from exporting to consuming nations; c) Define reasonable prices for these contracts; d) On the grounds of a global strategy emergency in petroleum prices and supplies, these governments must set priority on processing of such contracted petroleum

flows through relevant refiners to priority categories of consumers in each nation, causing other stocks to be shunted to one side in the degree that these priority deliveries must be processed first.

8. Such action will, obviously, collapse much of the current hyperinflationary trends in petroleum. That will have a significant political effect, in the form of reactions from the speculators currently gorging themselves on the suffering of national economies suffering zooming speculative prices of petroleum. We can not permit the cupidity of a powerful few speculators to destroy enterprises essential to the national interests of nations, and to the relations among those national economies. That opposition to urgently needed measures must be resisted on grounds of overriding national strategic interests.

9. This proposed action will not cure the more general hyperinflationary trend in progress. It will only bring a most critical segment of this speculative inflation under control; but it will set standards of cooperation now urgently needed, for dealing with the general international banking and related crises about to strike the world as a whole during the weeks and months immediately ahead.

10. There are many details of the current speculative marketing of petroleum contracts which require closer scrutiny and related assessment. That investigation should proceed; it is urgent. However, those representatives of governments who understand the politics of oil, must play a leading role in implementing the general measures I have indicated, now, without delay. After a thirty- to ninety-day initial period of operation of the proposed agreements, secondary and tertiary features of the problem will be clearer, and, most important, governments and others will have developed the mechanisms needed for further courses of action.

paying a huge cash premium for 5 of the 22 cargoes produced that period for Brent. It lost money on that part, but that forced panic buying by exposed speculators, which gave Arcadia huge profits on the other 17 cargoes it had in futures.”

He continued, “Tosco sees the price it has to pay jump from \$32 per barrel to \$36 in days, for no reason. The problem is, this is derivatives; this is an unregulated market. Arcadia, so far as I can tell, broke no laws; there are none — it’s the free market. This is the largest commodity market in the world, and there are huge profits to be made if you don’t care about the effects.”

Underscoring the speculative factor, on Sept. 20 OPEC President Ali Rodríguez of Venezuela released a report charging that \$8 of the price of every barrel of oil today is the result of such speculative futures manipulation by oil traders. OPEC charges that “bottlenecks in the refining industry, speculation in the futures market, [and] manipulation of the Brent market due to dwindling volumes of crude,” are the real cause of the exploding oil prices over the past 15 months.

According to industry sources, today the world’s leading oil traders are owned by some of the world’s largest banks and financial houses, the same speculative forces of global finance which brought the world to the brink of financial collapse in September 1998 with the failure of Long Term Capital Management, heavily involved in derivatives. The top oil traders, who control gasoline and heating oil prices, include the Wall Street firms: Morgan Stanley; Goldman Sachs’s J. Aron & Co.; Citigroup-Travelers’ Phibro; Glencore of Zug, Switzerland; Mitsui’s Arcadia; the Dutch-Swiss Vitol; Elf-Total-Fina of France; and Deutsche Bank, through the derivatives operations of its Bankers Trust.

These financial traders, and not the major oil companies, are the prime buyers of oil from OPEC, North Sea, or other major oil producers. Their interest is in maximizing speculative paper profits on their derivatives trades in oil, not in maintaining reliable energy prices for the world economy.

An Un-Refined Emergency

A second factor which oil speculators such as Arcadia or Phibro are using to send prices of gasoline and heating oil through the roof, are, as OPEC points out, the “bottlenecks in the refining industry.” The worst refining bottleneck is in the largest market for oil consumption, the United States. Here, the crisis is set to detonate into its most severe phase, just as Americans go to the polls to elect a new Congress and President, in early November.

One consequence of the huge oil company mergers of the past several years has been the hiving off of oil refining from the direct ownership of the oil giants. Today, four super-giant firms virtually monopolize the world oil and gas market. One is American — Exxon-Mobil of Plano, Texas; two are British — Royal Dutch Shell and BP-Amoco-Arco; one is French — Elf-Total-Fina.

When the Clinton Administration foolishly gave the green light to the unprecedented concentration of economic power in so few private hands, it made a few colossal blunders, which have been largely responsible for aggravating the present crisis to the breaking point. A lollapalooza was the demand by the Federal Trade Commission, as a condition to approve the mega-mergers, that the new companies divest their refining capacity to other companies. One of the benefactors was Tosco, which became one of the nation’s largest refineries, by acquiring the facilities of Mobil as well as BP-Amoco.

As an example, instead of the large oil company refiners of a decade back, today the U.S. East Coast is dominated by four new companies — Tosco, Valero, Coastal Corp., and Sun.

But the fact that the refiners do not have their own oil any more, as when they were part of Shell or Exxon, is only part of the problem. A far bigger problem is the critical lack of U.S. refining capacity, amid soaring energy demand of recent years.

In 1981, according to a study in the Sept. 21 *Oil & Gas Journal*, the United States had a total of 300 refineries. Today, it has only 150. Total refining capacity is 15% less than in 1981, yet demand is not. Moreover, in October, refineries have announced, they must close some 10% of total refining capacity, in order to conduct necessary repairs and maintenance, since no refiner wants to risk fire or explosion from faulty maintenance. That shutdown will hit, just as the peak season for U.S. heating oil consumption begins. In recent weeks heating oil prices in the U.S. East Coast market have gone up by over 30% from a year earlier, as consumers pre-buy at near-panic pace, to prepare for Winter amid press reports of looming shortages.

U.S. inventory stocks of high-sulfur distillate, used for heating oil, were 20% lower in August 2000 than in August 1999, which itself was a dangerously low stock level. In a frantic bid to avert a heating oil shortage, U.S. refineries since August have been running at full-throttle, between 95% and 98% of capacity.

An industry rule-of-thumb, is that a company decides to add new refinery capacity when the utilization level reaches 75%. Because of cartelization, hiving refining off to smaller companies, and the general energy deregulation of recent years, the state of U.S. refining capacity today is approaching national emergency status. Were the dimension of this national infrastructure gap to become widely known, it would reveal a critical lack of policy attention by the Clinton-Gore Administration, to a problem which could be seen several years back.

In this situation, all the oil in the fields of Saudi Arabia, even if enough tanker capacity existed (another critical infrastructure shortage), could not prevent the next explosion of fuel prices in the United States, Europe, and other parts of the world economy this Winter. A wonderful thing, the unregulated free markets. Or are they?

LaRouche Outlines Step to New Bretton Woods

On the eve of a crucial meeting of the heads of state of the Organization of Petroleum Exporting Countries (OPEC), taking place on Sept. 26-27 in Caracas, Venezuela, Radio Mágica in Caracas turned to Lyndon LaRouche for commentary and forecast. The OPEC Presidents and their ministers have been denouncing speculation in “virtual oil” as the cause of the skyrocketing price of oil. Venezuela’s oil minister, Alí Rodríguez Araque, stated on Sept. 21 that “speculation can only be minimized by agreements between producers and consumers, but . . . I don’t know if the governments where this occurs, are prepared to intervene.” This was the core issue of the questions to LaRouche on Sept. 21, from Radio Mágica, one of the largest FM stations in Caracas. The interview was conducted by the well-known Venezuelan journalist and former ambassador, Román Rojas. The full exchange follows:

Rojas: Hello, friends. Today, we have in the Radio Mágica studio with us, by telephone hookup from Washington, D.C., the great American economist Lyndon LaRouche, who is an intellectual of great value, worldwide, because of his proposals to deal with the crisis. His writings are known here in Venezuela through the magazines *Executive Intelligence Review* and *Resumen Ejecutivo*. How are you today, Mr. LaRouche?

LaRouche: I’m feeling frisky, and in a fighting mood.

Rojas: As usual. What’s the latest fight you’re involved in?

LaRouche: Well, first of all, we’re in the worst hyperinflation since Weimar Germany of 1923, in which the skyrocketing increase in the price of petroleum is a leading feature. I’m trying rather urgently to get the President of the United States to take certain measures.

Rojas: Mr. LaRouche, in terms of European countries, some people are saying that the cause of the rise of the petroleum prices is not so much because of the producer countries, but the tax question. Is this a positive factor in this current situation?

LaRouche: No, it’s not. The key problem here is that you have a concentration in the international spot market, of control over speculation against future deliveries. You also have the complication of the insanity of the U.S. oil companies, in not building up refining capacity. Plus the fact, that those who are speculating against the futures market in petroleum, are

part of a, probably, \$3 trillion a year rate, currently, of looting other countries, to try to prop up a sick dollar.

My problem in this, is that the people around the President believe that they have to try to prevent a collapse of the dollar from occurring. The fact is that there is nothing they can do about it. The collapse of the dollar is inevitable for sometime in the weeks immediately ahead. And you have people like Larry Summers, the Treasury Secretary of the United States, who is trying to postpone the collapse until after the November general election.

My warning to the government and others is: Look, stop this nonsense! You can’t save the dollar this way! What you must do right now, is act on the petroleum crisis to bring that under control. The solution is obvious to people in Venezuela who understand this problem.

What we have to do, is return immediately to the government-to-government annual contracts we used to have as a system, 20 to 25 years ago. In other words, the governments must give priority to nation-to-nation agreements on delivery of petroleum, and override all other deliveries. And since you’re going to have a refinery crisis in the United States this coming month, the United States must not only import petroleum; it must now import refined product from countries which have idle refinery capacity. We must also agree among these nations on some kind of a price-pegging for one-year contracts, to cover the situation.

Now, some people will argue that doing that, would collapse the present financial speculation market. But since the market is going to collapse anyway, catastrophically, the most important thing is: Don’t worry about the collapse, but prepare to deal with it by doing sensible things on this petroleum issue right now.

The world economy depends, more than any other single factor in the short term, on reliable energy supplies at reasonable prices. And I believe that the oil-exporting countries can agree with countries in Asia and Europe, and the United States, that such agreements are in the mutual interest of all parties. I believe, for example, that the Saudis would agree. Iran would agree. We have 5% of the world’s refinery capacity tied up, blockaded, in Iraq. That should be turned around. So, what we need are some governments with clear heads, and resolution to take action, and we can begin to bring this crisis under control.

Rojas: What are the steps that have to be taken on the global financial crisis?

LaRouche: Well, what we have to do, essentially, is go back to the protectionist model of the 1950s, but at least the protectionist model that was in effect through 1971. And the countries and national economies involved, must agree on organizing long-term trade agreements, including organizing private, long-term contracts on delivery and supply of commodities, and also on establishing stable price levels which protect both the exporting and importing countries. In other words, we

have to do very much like what was done between 1945 and 1958, in terms of emergency agreements, and get this whole business under control, to prevent an economic and social catastrophe. What we'll have to do is freeze and reorganize large parts of the outstanding financial assets and debts.

As a matter of fact, if we do not do precisely that, very soon, in the weeks ahead, this planet is going to go into a New Dark Age for decades to come. If you allow the currencies to blow out and financial systems to break down, without state-to-state agreements to bring this under control, you'll have a chain reaction of chaos which will cause a large-scale depopulation of the planet, for economic reasons.

So this is the time when we need really strong leaders, like Franklin Delano Roosevelt, who can take the kind of actions the situation demands. I don't think that Bill Clinton is an FDR, although he's an intelligent person. But I would hope that he would act like a Roosevelt, at least for the period of this crisis. I think that's the best chance for civilization at this point. That's why I'm fighting to accomplish this.

Rojas: Mr. LaRouche, there was recently a summit meeting of the 12 Presidents of South America. In what direction should that process move?

LaRouche: I was very happy with that. This coincides with the kind of thing I proposed in 1982, which was named "Operation Juárez." And we also did some special studies of South America and Central America in that period, which were looking in the same direction that Peru's President Fujimori, for example, presented in the Brasilia conference.

My general view is that there should be a regional agreement among the leading states of Central and South America, to form a group not too much different from what was proposed for the ASEAN-Plus-Three group. My objective is to create a situation on this planet where we have a new kind of replacement for the Bretton Woods system. So we need groups of nations which are strong enough as groups, to participate with the authority of a great power, with the other great powers, in running a new kind of Bretton Woods system very much like that of the 1950s, but this time with the developing sector of the world fully represented. And therefore a strong federal agreement among the states of Central and South America, is one of the essential building blocks of that new kind of Bretton Woods.

Rojas: Mr. LaRouche, Thank you very much.

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New Asia Crisis Hits as AMF Talks Delayed

by Kathy Wolfe

Asian stocks and currencies took a deep dive the third week in September, but the "Asia Crisis II" now hitting, as in 1997, is part of a new global financial meltdown, with Europe's euro and South American currencies also in free fall. South Korean, Thai, Indonesian, Hong Kong, Shanghai, and Tokyo stock indices dropped 21%, 20%, 20%, 17%, 10%, and 7% over September, and are down 20-40% for the year. Their currencies are also falling fast against the dollar, with the Japanese yen down almost 3% during September and the Thai, Indonesian, and Filipino currencies down by 10-12% on the month. Multibillion-dollar bankruptcies, such as Kumagai Construction, which announced non-payment of \$4.2 billion in loans to Tokyo banks on Sept. 18, and Seoul's Daewoo Motors, which had \$6.9 billion in stock dumped by Ford Motor Co. on Sept. 15, are reported daily. Non-performing bank loans in Japan, China, and Korea alone now approach \$2 trillion.

Blamed are rocketing oil prices, falling markets for Asian computer chip exports, the same vague charges of "crony capitalism" which triggered the 1997 blowout, and any "excuse *du jour*" which Wall Street and the City of London may provide. In a single day, Sept. 22, the Seoul market plunged 7.1%, Taiwan sank 4.5%, and Tokyo dropped 3% when New York and London investors yanked funds home after reports that Intel Corp. will post only a 3% income rise, rather than 5%, for the third quarter, weakening computer stocks. On Sept. 18, the Seoul market fell 8% when Ford summarily decided to dump the Daewoo stock. On Sept. 10, Moody's downgraded the national bonds of Japan to below the level of IBM paper, an action which even Japan's staid octogenarian Finance Minister Kiichi Miyazawa called "nonsense."

All these explanations, notably the oil price hike (see article, p. 4), are *nonsense*. The physical economies of Japan, Korea, and China have some of the best heavy machinery and machine-tool production on earth. Their shares are enormous bargains at these prices.

In fact, today's "Asia crash," with the new European and South American crisis, is being provoked significantly in order to strengthen the U.S. dollar. Wall Street and the City of London are hysterical about the threat of a dollar meltdown, and are pulling funds from all possible fronts, to increase flows into dollar markets.

Meanwhile, finance ministers from Japan, Korea, and China, meeting Sept. 9-10 in Brunei on the sidelines of the

Asia Pacific Economic Cooperation (APEC) forum, are still “working on” their May 6 “Chiang Mai Initiative (CMI)” to form a joint Asian currency support fund, Asian officials told *EIR*. “We hope to have something by the time of the APEC heads of state meeting in November, but it’s going much too slowly,” one official said. The U.S. Treasury, he said, is “breaking elbows” to stop the formation of an Asian Monetary Fund (AMF) by China, Korea, Japan, and the Association of Southeast Asian Nations (ASEAN-Plus-3). Unless the AMF is formed soon, however, and made completely independent of the International Monetary Fund (IMF), Asia will end up like Europe, whose collapsed currency, the euro, now depends on U.S. Federal Reserve market support to keep it alive.

Biggest Bubble of the Century

In reality it is the U.S. dollar which is totally rotten, with \$400 trillion in dollar-denominated global derivatives and financial speculation resting on the tiny U.S. “services only” economy which is, industrially, a junk heap. With America’s current account deficit projected near \$450 billion this year, world leaders point out daily that, on that basis, \$1.3 billion a day in “dollar welfare” must be pulled in from the rest of the world.

A Japanese official told *EIR* on Sept. 18 that it is open talk in Tokyo and Seoul that there would be a 1971-style crash of the U.S. dollar going on now, if not for the obviously manipulated rise of the oil price. Since the Aug. 26-27 Jackson Hole, Wyoming bankers conference, where the dollar’s vast indebtedness was noted, “it has been obvious to most foreign observers that the U.S. dollar is the biggest ‘bubble’ currency of the century, in terms of its total dependence on foreign hot-money inflows into the U.S.,” the official said (see *EIR*, Sept. 8, p. 4).

“Since the 1970s when the dollar first collapsed under Nixon, we have seen the response: have a Mideast war, or have some other oil shock, as in 1974 and 1978,” he went on. “When these things happen, it creates a large artificial demand for dollars, which otherwise would not exist. Countries such as Japan, Korea, China, Brazil—most countries in the world—must buy oil in dollars. A rising oil price means that billions of additional dollars must be bought as the means to buy oil. Importers borrow this money in dollars as trade credits, and then there is interest on that, in dollars. Then we must buy futures contracts, including derivatives, also in dollars, to protect against continued oil price rises. Demand for perhaps hundreds of billions of dollars or more, is being added, just to move the same volume of oil.”

The official added that what is being done to the euro right now, which will greatly worsen as the oil price rises, “reminds me very much of what was done to the Korean won in 1997. There is little economic reason for it, but a great deal of profit for certain Wall Street financial institutions.”

The official was very alarmed by the merger announced on Sept. 13 of the Chase Manhattan and J.P. Morgan banks,

whose combined bank will hold some \$24 trillion in speculative derivatives, some 57% of the \$42 trillion in derivatives held by U.S. banks as of June 30. “Japan has been heavily criticized by the U.S. for our Ministry of Finance ‘convoy system,’ under which we have merged weak banks into stronger ones to avoid letting the weak ones go under. But has the U.S. now secretly adopted the convoy system? Or could it be they face a ‘double LTCM’ now” (in reference to Wall Street’s \$50 billion Long Term Capital Management crash), which they are having to bail out? Any hint of such trouble could also be quite negative for the dollar and so, of course, they have to avoid such hints at all costs.”

State of Shock

South Korea’s stock, bond, and banking markets meanwhile are in a particular crisis, with newspaper headlines such as “Markets in a State of Shock” appearing daily. The main Seoul stock index fell 8% in one day, Sept. 18, to 580, smashing through the 600-point threshold to the lowest level since March last year, after Ford Motors cancelled its \$6.9 billion takeover bid for Daewoo Motors. “Ford had wanted to bring down the price,” one Samsung Securities analyst said bluntly, noting that since Ford’s action now has collapsed the entire market, Daewoo shares will certainly be far cheaper in a week or so. “This may just be a strategic tactic to get the government back to the negotiating table,” he said.

The government announced on Sept. 22 that it would have to inject \$35 billion into the banks to prevent foreign investors from dumping bank stocks, after the banks were left with so much bad paper from the Daewoo fiasco and the general month-long stock market slide.

The bond markets also collapsed, with interest the government is now forced to pay on bonds rising to 8.03% and interest on corporate bonds rising to 9.01%, despite the fact that the Korean central bank is issuing funds at around 4% to the markets.

Korean companies, including blue chips like Samsung Electronics, are taking a beating across the board, no matter how valuable their underlying plant, equipment, and operations may be. Foreign auto companies generally have been seeking to lower stock prices in order to buy up several auto-makers in Korea, which is the second-largest car market in Asia after Japan. General Motors Corp. and DaimlerChrysler are also interested in Daewoo and Samsung Motors, and have just bought large companies in Japan.

The stock market capitalization value of South Korea’s 30 largest *chaebol* conglomerates has plummeted by \$69 billion this year alone, “which is far, far too oversold,” one Seoul stock analyst said. “Most of these companies are now selling much too cheaply for the true value of their underlying capacity.”

In Japan, major contractor Kumagai Construction on Sept. 18 asked creditor banks to simply forgive the enormous sum of \$4.2 billion in debt, out of a total of \$10 billion in bank

loans it has, as the \$4.2 billion simply cannot be paid, the company said in a release. In return, they offered to cut 30% of the workforce, or 2,000 employees, and have senior management resign. Japan's construction sector has been devastated by cancellation of projects all over Asia. Kumagai's main banker, Sumitomo Bank, is being asked to waive \$2.3 billion and Shinsei Bank \$1 billion, with the rest to be forgiven by 13 other creditors. Shinsei recently lost \$1 billion in the \$6.3 billion crash of Sogo Department Stores.

War over the AMF

Most of the 20-40% declines in Asian stock markets this year have occurred since the July 31 Okinawa Group of Eight summit, at which the U.S. Treasury and the British Exchequer flatly denied Asian finance ministers' demands, mediated by Japan, for regulation of "hot-money" dollar speculation and hedge funds. As *EIR* reported on Aug. 18 (p. 5), the Okinawa G-8 communiqué instead endorsed the current speculative IMF-centered system.

The Sept. 10 communiqué issued by finance ministers from the APEC forum similarly endorsed the IMF again, but reflected more of the fight which has been coming from the Asian side, one official told *EIR*. "The Okinawa Communiqué read like a surrender document, but the APEC Communiqué reads like a war report, so you know there are two sides in the fight," he said. The 37-point APEC communiqué has "some of our language," he noted, including a critique of globalization which "may also increase economies' susceptibility to external shocks and social dislocation." Item 13 also emphasizes that "regulation should be considered" for hedge funds and hot-money speculation if it becomes clear "that the Okinawa result of no regulation isn't working," he added. The official also pointed out that item 18 welcomes the Chiang Mai Initiative by name, although placing the idea within the context of continued world dominance by the IMF.

The U.S. Treasury, however, has delayed creation of the CMI's proposed \$200 billion pooling of foreign exchange by Japan, China, Korea, and the ASEAN allies. The pool was to be used independently by Asian nations to support each other's currencies in case of attacks just like those now in process. The United States, however, is demanding that the CMI cash be put under IMF control, such that any country needing to defend its currency would first have to go to the IMF for cash, and get an IMF "conditionalities" regimen. After that, the country could then go to its CMI allies and get cash from the CMI pool as a "second line of defense," in Treasury's terminology. "This would mean we would have to submit to IMF economic dictats as part of Chiang Mai—when our whole purpose was to get away from the IMF," one irate official told *EIR*. The United States has put so much pressure on Japan in particular, one source told *EIR*, that the Japanese Finance Ministry is considering supporting the "IMF second line of defense" folly. Meanwhile, the region's currencies are burning down again.

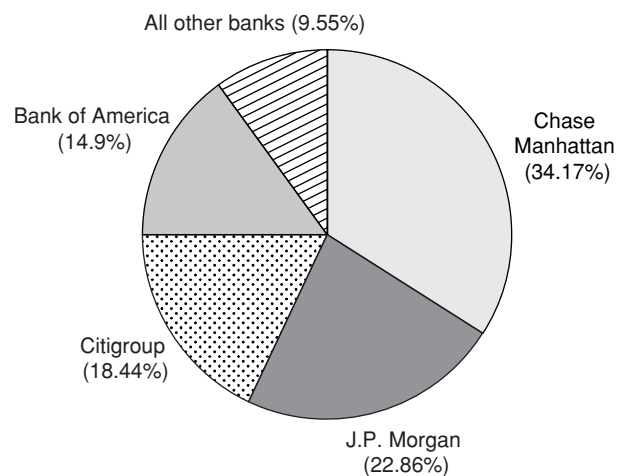
Chase-Morgan Merger Is a Derivatives Disaster

by John Hoefle

Lyndon LaRouche once observed of a major financial merger, that it was like two staggering drunks attempting to remain upright by leaning on each other. That image comes quickly to mind with the blockbuster—or, perhaps, bubblebuster—announcement on Sept. 13, that Chase Manhattan Corp., already the largest derivatives institution in the world, was buying J.P. Morgan & Co., the second-largest U.S. derivatives holder. While presented to the public as the combination of two strong banks to create an even stronger one, the likelihood is that both banks are using the merger to hide some of their dirty derivatives laundry. This deal is damage control, of the sort which itself does more damage than good.

The derivatives exposure of J.P. Morgan Chase & Co., as Chase will be known after the purchase, is extraordinary. As of June 30, 2000, Chase had \$14.4 trillion in off-balance-sheet derivatives, while Morgan had \$9.6 trillion in derivatives. Combined, the new Morgan Chase will have a whopping \$24 trillion in derivatives, or 57% of the \$42 trillion in derivatives officially held by U.S. bank holding companies (**Figure 1**), and more than one-third of the derivatives held by all U.S.

FIGURE 1
Concentration of Derivatives at U.S. Bank Holding Companies



Source: Comptroller of the Currency.

financial institutions, including commercial banks, investment banks, and insurance companies, many of which are themselves vastly overexposed (**Table 1**).

Super Tear, Oops, Tier

The joint press conference held by Chase and Morgan to announce the merger (Chase is buying Morgan for some \$33 billion, mostly in stock), was filled with the usual perception-management superlatives, a class of statement rarely confused with the truth.

“This merger is a breakthrough for J.P. Morgan and Chase that will position the new firm as a global powerhouse,” said Morgan chairman Douglas A. Warner III, who will chair—but not run—the new bank.

“This transaction combines the most comprehensive group of clients with extensive financial and intellectual capital. . . . Our new firm will have leadership positions across a broad array of businesses in growth markets,” added Chase chairman William B. Harrison, Jr., who will run Morgan Chase as president and chief executive officer.

That the deal represented perhaps the most dangerous concentration of financial toxicity in world history, was somehow overlooked in the press conference and the resulting media coverage.

The deal was, naturally, given significant, and shamelessly friendly, play in the major Wall Street-controlled press outlets such as the *New York Times* and the *Wall Street Journal*. The *Journal* (known in some circles as the *Urinal*) even went so far as to name what it asserts will become the “super tier of global players. In the banking sector, there will be Citigroup, J.P. Morgan Chase, Credit Suisse First Boston, and Deutsche Bank. In the investment banking world: banks Goldman Sachs Group, Morgan Stanley Dean Witter, and Merrill Lynch. Among insurers, American International

Group, Germany’s Allianz, and AXA of France top the list.”

But the super-tier shows signs of turning into a super tear. The mergers of recent years have created a class of giant banks in the \$700-800 billion asset range, with three Japanese banks set to merge into the world’s first trillion-dollar bank—if they survive that long. Of course, a trillion dollars isn’t what it used to be, and when the hyperinflation really gets rolling, trillionaires will be commonplace. As the old joke goes: The good news is that you’re worth a trillion dollars; the bad news is that a loaf of bread costs \$2 trillion, if you can find one.

One Disaster after Another

With the banking crisis of the late 1980s, spurred by the collapse of the junk bond and real estate markets, the decision was made to rescue the financial system by jumping wholehog into the derivatives market. To lead the charge, J.P. Morgan and Bankers Trust—a bank created decades earlier by the Morgan interests—began the process of transforming themselves from commercial banks into investment banks, despite the fact that it was illegal under U.S. law for banks to engage in securities trading. Bankers Trust was assigned the lead role, and rapidly became the poster-boy for the derivatives movement. The pundits came out of the woodwork to praise the bank’s revolutionary business model, right up until 1994, when Bankers Trust blew up.

Between 1989 and 1994, the Federal Reserve and the Bush Administration acted in concert to revive the then-actually, though not officially, bankrupt U.S. banking system. The Fed lowered interest rates repeatedly to pump money into the banks and the derivatives market, while the Bush Administration leaned heavily on Federal bank examiners to ignore bad loans and other unpleasant balance sheet items. Citicorp was secretly taken over by the Fed and nursed back to the appearance of health by huge cash infusions and market manipulations. A wave of big bank mergers in 1991 took care of some of the more pressing disasters, and the orchestrated European currency crisis of 1992 pumped billions of dollars into Citicorp, Morgan, and other Anglo-American insiders.

The result was, predictably, the emergence of a derivatives bubble (**Figure 2**), which, in its clumsy slam-on-the-accelerator and then slam-on-the-brakes style, the Fed decided to restrain. In 1994, the Fed reversed its interest-rate policy and began raising rates. The rise in rates almost immediately blew out the market in mortgage-backed securities and bankrupted that market’s largest player, Kidder Peabody. It also blew up the derivatives poster-boy, Bankers Trust.

By mid-1994, Bankers Trust was coming noticeably unglued. In desperation, it began blatantly cheating its customers (ripping off customers is an honored tradition on Wall Street, but there are rules by which the predatory game must be played, the first of which is don’t get caught). This cheating, rather than being dealt with behind the scenes in the usual manner, was instead deliberately blown up into a major

TABLE 1
Major U.S. Derivatives Dealers, Holdings at Year-End, 1999

(Trillions \$)

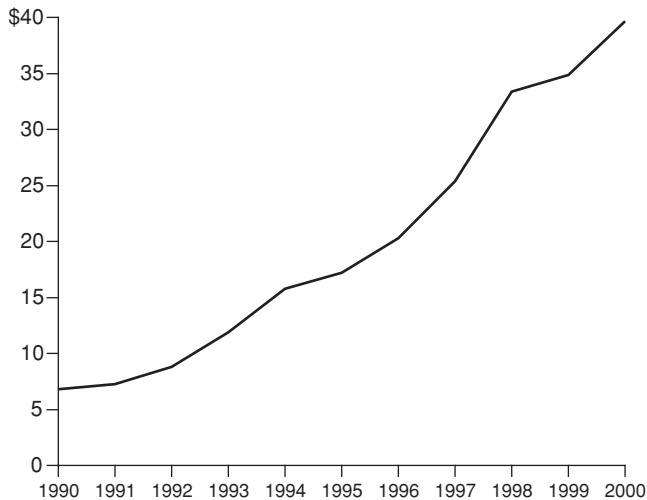
Dealer	Derivatives
Chase Manhattan	12.9
J.P. Morgan	8.9
Citigroup	7.4
Goldman Sachs	5.2
Bank of America	5.1
Merrill Lynch	3.9
Morgan Stanley	3.4
Lehman Brothers	2.9
Bank One	1.0
Berkshire Hathaway	0.9

Sources: Comptroller of the Currency; *Swaps Monitor*.

FIGURE 2

Off-Balance-Sheet Derivatives at FDIC-Insured Commercial Banks, at Year-End

(Trillions \$)



Source: FDIC.

scandal, and that scandal was then used as the pretext for the Fed and the Treasury to take over the bankrupt bank. The old management was run off, the derivatives portfolio sanitized, and the bank was eventually sold off to Deutsche Bank.

1994 also saw the shocking bankruptcy of Orange County, California, due to a couple of billion dollars in derivatives losses, as well as a rash of multimillion-dollar losses in state and local governments across the nation. It was the year that derivatives became a household word, one with unpleasant connotations.

Rather than admit the error of their ways and abandon their casino, the bankers and their regulators redoubled their efforts to build their house of cards. Money was pumped into the bubble, markets were created in the “emerging” sector, and regulatory obstacles were swept away, sometimes legally, sometimes not. Exemplary was the 1998 purchase of Citicorp by Travelers Group, an insurance company which also owned the Salomon Smith Barney investment bank. The purchase was in direct, open violation of the Glass-Steagall Act, but no move was made to enforce the law. The law was not only ignored, it was condemned by Congress and banking regulators as an obstacle to the well-being of Mom, apple pie, and the American financial system. After some infighting among the commercial bankers, investment banks, and insurers over who would get to eat whom, the Glass-Steagall Act was repealed.

When one lone regulator, the Commodity Futures Trading

TABLE 2

Top 25 U.S. Bank Holding Companies with Derivatives, as of June 30, 2000

Bank Holding Company	Assets (Billions \$)	Derivatives (Billions \$)	Dollars of Derivatives per Dollar of Assets
Chase Manhattan	396	14,386	36.33
J.P. Morgan	266	9,626	36.14
Citigroup	791	7,763	9.81
Bank of America	680	6,304	9.28
First Union	258	973	3.77
Bank One	273	911	3.34
FleetBoston	181	392	2.16
Bank of New York	77	361	4.70
HSBC North America	85	272	3.21
Taunus (Deutsche Bank)	195	237	1.21
Wells Fargo	234	199	0.85
State Street	65	173	2.67
KeyCorp	84	69	0.82
National City	85	59	0.70
Mellon	46	59	1.28
ABN Amro North America	67	54	0.80
PNC	76	58	0.77
SunTrust	100	33	0.33
Wachovia	71	33	0.47
First Tennessee	20	30	1.52
Bankmont Financial	45	21	0.47
Northern Trust	37	22	0.61
UnionBanCal	34	15	0.44
Comerica	41	14	0.33
U.S. Bancorp	86	12	0.14
Top 25 derivatives banks	4,293	42,077	9.80

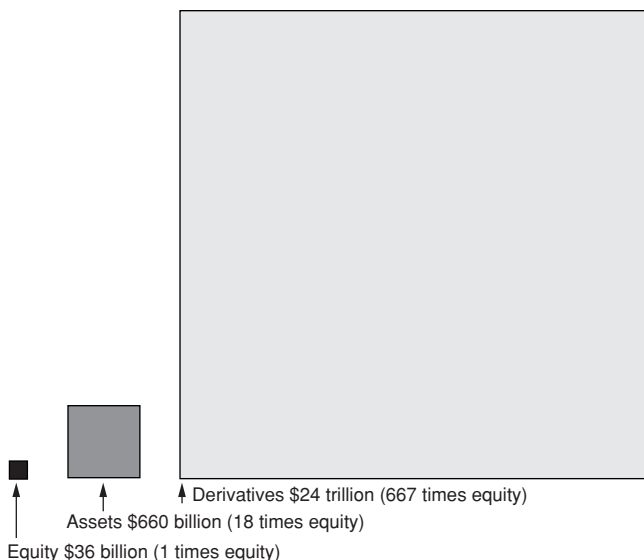
Sources: Office of the Comptroller of the Currency; EIR.

Commission under chairman Brooksley Born, dared to suggest that billions of dollars of derivatives transactions were illegal under U.S. law, the Fed, the Treasury, and the Securities and Exchange Commission slammed her, and Congress threatened to shut the agency down. Parenthetically, it was the same CFTC under the chairmanship of Dr. Wendy Gramm, which had opened the derivatives floodgates in 1993 by illegally exempting certain over-the-counter derivatives deals. Dr. Gramm, the wife of Senate Banking Committee chairman Phil Gramm (R-Tex.), is now on the board of Enron, the Bush-linked U.S. electricity speculator.

By 1998, the bankruptcy of Long Term Capital Management triggered a multibillion-dollar bailout, and the Fed and other major central banks once again turned on the money pumps to stave off a blowout. Throughout 1999, the markets

FIGURE 3

J.P. Morgan Chase & Co., Equity, Assets, and Derivatives



Sources: Comptroller of the Currency; company reports.

were routinely manipulated to paper over derivatives disasters, such as Julian Robertson’s now defunct Tiger Management, while rumors swept the markets that big names were fatally wounded. Among those most often cited was Goldman Sachs, which managed to recapitalize itself by going public.

This Summer has also seen a rash of mergers among the big derivatives players. Besides the Chase/Morgan deal, UBS—itsself the product of a merger between Swiss Bank Corp. and the Union Bank of Switzerland—is buying Paine-Webber, and rival Credit Suisse is buying Donaldson, Lufkin & Jenrette.

The result is that the derivatives market is bigger than ever, with many U.S. banks having derivatives bets in excess of their assets (Table 2). The new Morgan Chase touts its \$36 billion in equity capital as a sign of strength—after all, only 30 U.S. bank holding companies reach that level in total assets—but the picture changes dramatically when the derivative holdings are factored in. The new Morgan Chase will have \$667 in derivatives for every dollar of equity capital, or just \$0.0015 in equity for every dollar of derivatives (Figure 3).

Too Dumb To Survive

While the demise of Bankers Trust and J.P. Morgan suggests to any sentient being that the derivatives-fed financial bubble is axiomatically flawed, many of the geniuses on Wall Street seem incapable of taking the hint, preferring to believe

that the chaos they have unleashed will somehow lead to nirvana.

The *Wall Street Journal*’s “Heard on the Street” column demonstrated this preference for the virtual over reality on Sept. 14, in a discussion of the Chase-Morgan merger. After observing that “it was just a decade ago that J.P. Morgan and Bankers Trust New York were viewed as model banks of the future” with their emphasis on derivatives and currency trading, the *Journal* launched into a shameless attack on “old-style” banking for failing the get-rich-quick test.

“Old-style commercial banking,” the *Journal* proclaimed, “has a fundamental flaw: It sticks the banks with big loan portfolios, and the best thing that can happen is that the lender gets his money back with a specified return. Investment banks, on the other hand, can focus on money-making ventures with, in effect, unlimited returns.”

Thus the *Wall Street Journal*, one of the most prominent financial newspapers in the world, openly sides with the casino. After trillions of dollars of derivatives losses over the years, with companies, governments, and even nations bankrupted, on the verge of the greatest hyperinflationary blowout the world has ever seen, the *Journal*, and the Anglo-American financiers for whom it speaks, choose to watch it all blow up rather than to come to their senses.

So, You Wish To Learn All About Economics?

by Lyndon H. LaRouche, Jr.

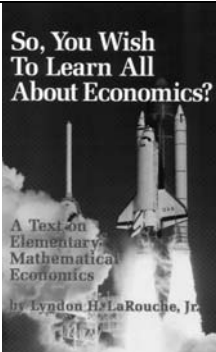
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Lies About Inflation Are Being Used To Loot the Population

by Richard Freeman

Official U.S. government lying on the true state of the hyper-inflationary price spiral now engulfing the United States and the world, is being used as the basis to loot the U.S. population, to the extent of \$150-330 billion per year.

More than 100 million Americans are protected against the ravages of inflation by cost-of-living adjustments (COLAs), in their labor contracts, Social Security benefits, unemployment payments, and so forth. When inflation goes up, the COLA is supposed to increase wages, benefits, etc., by an amount equal to inflation. But, the U.S. government has rigged the U.S. inflation rate downward, so that two-thirds of the increase that the COLA should rise by, is excluded. This is deliberate, and cheats the population of the amount that would offset inflation. This accelerates the disintegration of the population's living standard, and threatens its ability to survive.

The U.S. population is being put through the onset of a Weimar-style hyperinflation, and is being denied even the minimal defense against it.

The U.S. government claims that the Consumer Price Index (CPI), which is the official measure of inflation compiled by the Department of Labor's Bureau of Labor Statistics (BLS), rose by 3.4% over the year ending in August 2000. But, the actual course of events makes a mockery of this claim, as daily headlines blare out that oil, energy, and other commodity prices have gone through the ceiling. Consider just some of the increases in the prices of consumer goods, or of producer goods that go into consumer goods and force up their prices. During the past 12 months, in nine counties in California, the median selling price of an existing home shot up between 15 to 39%; the cost for industrial purchasing managers who use such goods in the production process, of benzene, chlorine, sulphuric acid, and polyvinyl chloride, shot up by 81%, 55%, 37%, and 118%, respectively; the price that California utilities pay to purchase electricity supplies leapt by 480%; the monthly utility bill of a San Diego electricity user doubled, and so forth (see *EIR*, Sept. 15, 2000, Table 1, p. 18). These increases do not reflect a 3.4% inflation rate, but a rate of 8 to 15%. The rate of 10% is an average, which would seem to be a base rate.

Consider, then, the huge difference between 10%, and the BLS's official CPI rate of 3.4%. The 3.4% rate excludes two-thirds of the inflation that has occurred. The COLAs, based on a 3.4% inflation rate, are cheated of two-thirds of the rate of inflation that has occurred.

Fraudulent Methods

The BLS employs fraudulent devices to knock down prices. A prime device is the use of the Quality Adjustment Factor (QAF), which Lyndon LaRouche and *EIR* brought to light in 1984. Through the QAF, for example, the BLS will ascribe half or two-thirds of a price increase of \$500 per year in an automobile, to "improved quality," and then will not count the half or two-thirds of the price increase, because of alleged "improved quality." Often, the alleged improvement is no improvement at all, or even a detraction, in quality. The BLS uses QAFs for hundreds of different products, lowering the inflation rate for each product.

In January 1999, the BLS instituted additional changes to further distort the CPI. One is called the "consumer substitution" change. This assumes that, if prices rise, the consumer will strive to make a constant level of expenditures for a certain category of goods. So, if the price of one good goes up, the consumer will substitute another, which is cheaper. This may not be at all what happens in reality—the consumer may not be able to, or wish to, make a substitution. But, the BLS pre-programs in that the consumer would not be paying more for certain categories of goods. A spokesman for the BLS told *EIR* on Sept. 11, that this assumption alone will permanently take 0.2% per year off the CPI rate. By use of dozens of such changes, and of the QAF, the BLS whittles down inflation to a ridiculously small amount.

The lying about inflation has a strategic consideration: It is used to perpetuate the deceit that the United States is in the 115th month of an economic expansion. To perpetuate that, the United States must report a rising GDP rate; in fact, a rising so-called *real* GDP. Real GDP is calculated as GDP in current dollars minus the level of inflation. So, suppose that the GDP rate in current dollars in the United States were 6%. Since the official inflation rate is 3.4%, then real GDP would

be 2.6% (that is, 6% minus 3.4%). (In GDP calculations, a GDP Price Deflator is used instead of the CPI, but they are similar in concept.) Now, instead of the fake 3.4% inflation rate, suppose that the real inflation rate of 10% were used. Then the United States would have a negative 4% GDP growth rate (6% minus 10%). This is quite a different situation. This would lead to a withdrawal of foreign investment from the United States, and, given the fact that the United States is running a \$420 billion annualized current account deficit in the year 2000, such a withdrawal would cause a sharp dollar crisis, which would puncture the financial system.

We now turn to the manner in which \$150-330 billion is being gouged from the U.S. population in the year 2000. This involves two areas: labor contracts, and necessary social programs provided by the budget of the United States.

Labor Contracts

Only about 5.5 million workers have cost-of-living adjustments in their contracts. This represents only 4.3% of the labor force, by the BLS's establishment survey, and 3.9% of the labor force, by the BLS's household survey. Nonetheless, these 5.5 million workers are concentrated in heavy industry, and their contracts are often trend-setting for the rest of the labor force.

The effect of the lying about inflation can be seen in what happens to a worker in manufacturing who has a COLA adjustment in his contract. According to BLS figures, in December 1999, a U.S. production worker in manufacturing earned \$603.50 per week, or \$30,175 per year (hardly enough to support a family). For the purpose of this example, we assume no real wage increase above the level of inflation; we look only at wage increases to keep up with inflation (if we assumed real wage increases above the level of inflation, the outcome would be the same. We are merely simplifying the example).

We examine two options: if a production worker's wage were increased by 3.4% per year, to account for the BLS's officially reported rate of inflation, or if it were increased by 10% per year, to account minimally for the real rate of inflation.

Table 1 depicts the results. In the table's second column, based on BLS figures, we start with a production worker's wage of \$30,175 per year in December 1999, and increase it by 3.4% per year. It rises to \$31,201 per year by December 2000; \$32,262 per year by December 2001, and so forth. In the table's third column, we start with the same worker's wage of \$30,175 per year, and increase it by 10% per year. It rises to \$33,193 per year by December 2000; \$36,512 per year by December 2001, and so forth.

We can now see the effect of the BLS doctoring a 10% annual inflation, to report it as officially only 3.4%. Were a manufacturing production worker's wage to be increased by

TABLE 1

Annual Wage under COLAs Pegged to Different Rates of Inflation

	Wage with COLA Pegged to 3.4% Inflation Rate	Wage with COLA Pegged to 10% Inflation Rate	Annual Income Lost
December 1999	\$30,175	\$30,175	
December 2000	\$31,231	\$33,193	\$1,992
December 2001	\$32,262	\$36,512	\$4,250
December 2002	\$33,359	\$40,163	\$6,804
December 2003	\$34,493	\$44,179	\$9,686
Four-Year Total			\$22,7323

Sources: Bureau of Labor Statistics "Employment and Earnings"; *EIR*.

a COLA adjustment of 10%, to keep up with the true rate of inflation, then by December 2000, his wage would be \$33,193. Instead, the BLS has decreed inflation to 3.4%, and the worker will receive a cost-of-living adjustment of only 3.4%. By December 2000, his annual wage will be \$31,201. He has lost \$1,992 this year, gouged from his standard of living.

But the losses are larger still in each successive year, due to what can be called a cumulative or compounding effect. Were the BLS truthful, each successive year, the base level of a manufacturing production worker's wage would be 10% higher than the previous year; instead, due to the BLS's lying, the base level would be only 3.4% higher, falling further and further behind real inflation. In the second column of Table 1, the starting base level for an annual wage in December 1999 for a manufacturing production worker is \$30,175, the same as it is in column three. But by virtue of only a 3.4% COLA increase, the worker's annual wage would be only \$31,201 by December 2000. That becomes the new base level, against which a 3.4% COLA increase is applied, so that the worker's annual wage rises to \$32,262 by December 2001. Yet, the progression, by a 10% COLA rate, produces a quite different story. If to the \$31,175 starting level of an annual manufacturing production worker's wage, a 10% COLA were applied, then the annual wage would rise to \$33,193. That becomes the new base level. If against that new base level, there were to be a 10% increase, then the worker's annual wage would rise to \$36,512 by December 2001.

So, in the year 2000, the worker lost \$1,992 in wages. But, by December 2001, the worker will lose \$4,250 in wages for the year. By December 2003, the worker will have lost \$9,686 in wages for the year. Compared to the annual wage that the worker would have in December 2003, of \$34,493, if it is adjusted by a COLA set to the BLS's inflation rate, the \$9,686 in lost wages represents a loss of 28.1% of income to the

worker. Thus, the reciprocal action of the BLS's false statement of the level of inflation, being applied through the COLA to the worker's wages, leading to an artificially lowered base level of income, and against this base level a COLA based on the BLS's false statement of inflation being applied, etc., creates year by year, an ever-widening annual income-wage loss. Cumulatively, over the four years from December 1999 through December 2003, the worker will have a total of \$22,732 gouged from his wages.

Consider, that this gouging did not start in 2000, but has been going on at least since 1990. That is, by December 1999, the production manufacturing worker had already lost a large amount in wages, due to the BLS standing policy of lying about inflation, in particular, during 1995-99. By 1999, this worker lost more than \$1,000 in that year alone. Table 1 reported that in the year 2000, the worker will have lost \$1,992 in wages. If one takes into account the full effect of the compounding of lost wages, then this more than \$1,000 loss in 1999 should be added to the \$1,992 lost in 2000. For the year 2000, the manufacturing production worker will have lost, at minimum, \$3,000. *EIR* also estimates that for the year 2000, the average worker who is not employed in the process of manufacturing will have lost \$2,000 due to gouging.

Of the approximately 5.5 million American workers who have COLA adjustments in their contracts, about 3 million work in manufacturing, and 2.5 million work in non-manufacturing jobs. Putting all this together, the 5.5 million American workers who have COLAs in their contracts will have lost, during 2000, \$14 billion in lost wages due to BLS lying about inflation.

The Broader Workforce

The rest of the labor force, who do not have contracts that contain COLA adjustments, still often key off the wage increases that those 5.5 million workers whose contracts contain COLAs, receive.

We examine the broader effect that the COLA adjustment has on the whole labor force. While the BLS does not provide wage information on the full labor force of more than 136 million, it does provide wage information on the portion of the labor force that is classified as "production workers on private nonfarm payrolls." In June of this year, this portion of the labor force totalled 90.8 million workers.

We have looked at what effect BLS lying about inflation has on the 5.5 million workers who have COLAs, and who are part of the 90.8 million workers who are classified as "production workers on private nonfarm payrolls." If one subtracts them, that leaves 85.3 million workers in that category.

There are two possible courses of action: Were the 85.3 million workers on private nonfarm payrolls strong enough, they would demand the same 10% increase in wages as those with COLAs in their contracts would get. This would net them, in the year 2000, \$171 billion. But the following reality

TABLE 2

Fiscal Year 2000 Budget Expenditures, Based on Different Rates of Inflation

(Billions \$)

	CBO Projection Based on GDP Deflator of 2.1%	Programs Adjusted by a COLA Pegged to 10% Inflation Rate
Food Stamps	\$18	\$19
Supplemental Security Income	\$29	\$31
Unemployment Insurance	\$21	\$23
Medicare	\$216	\$233
Social Security (OASDI)	\$405	\$436
Federal Retirement:		
civilian, military	\$88	\$95
Veterans Benefits	\$22	\$24
Workmen's Compensation	\$41	\$44
Subtotal	\$840	\$905

Sources: Congressional Budget Office, "Budget and Economic Outlook"; *EIR*.

affects the second course of action: The BLS claims that the inflation rate is 3.4%, when it really is 10%. The 85.3 million workers, were they informed of the true inflation rate of 10%, would not settle for a wage increase of only 3.4%. What they would be strong enough to get is uncertain, as 85% of these 85.3 million "production workers on nonfarm payrolls" are not unionized. Assuming that they would fight for a wage increase between 3.4% and 10%, let us assume that they were able to secure an increase of 7% (although the level could be a little bit less or a little bit more). That would mean that they would net \$120 billion in the year 2000 to compensate in part for the ravages of inflation.

Thus, were the BLS to report inflation accurately, then this 85.3 million part of the workforce would, if they were able to fully offset inflation, receive increases in wages of \$171 billion. Thus, by lying on inflation, the BLS gouged the 85.3 million workers, in the year 2000, of between \$120 billion and \$171 billion in wages. Adding to this the \$14 billion gouged from the 5.5 million workers who have COLAs in their contracts, the BLS has gouged the U.S. workforce of between \$134 billion and \$185 billion in the year 2000.

U.S. Government Programs

The BLS lying has also gouged more than \$70 billion from Americans in vitally needed services and benefits. More than 100 million Americans are covered by U.S. government programs that contain COLA clauses.

Table 2 shows major U.S. government programs that are covered by cost-of-living adjustments. The second column



The government is cheating the average retiree on Social Security out of an estimated \$53 per month, by its fraudulent Consumer Price Index calculation.

shows what the U.S. Congressional Budget Office (CBO) projected would be the level of U.S. government program expenditures in fiscal year 2000. Each one of these programs has a COLA adjustment. The CBO employed as its measure of inflation, the GDP Deflator compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce. The Deflator is similar in concept to the CPI concept of inflation, but it is even more stringent. For 2000, the CBO projected that the Deflator rate of inflation would be only 2.1%.

Column three shows what the level of expenditures should be, were these program's COLAs adjusted by the true rate of inflation of 10%.

Thus, Table 2 shows that in fiscal year 2000, the lying about inflation has cheated the Social Security (Old Age and Survivors Disability Insurance) program out of \$31 billion, cheated the Medicare program out of \$17 billion, and cheated Food Stamps out of \$1 billion. All told, these programs are cheated out of \$65 billion.

The cuts in these programs have harsh real-life consequences.

Take the case of Social Security. Some 44.6 million people receive Social Security benefits; most are retired workers, others include those receiving disability benefits. The retired are heavily dependent on Social Security to survive. For 63%

of the elderly, Social Security constitutes half or more of all the income they live on. For 30% of the elderly, Social Security constitutes 90% or more of all the income they live on.

A retired person, on average, receives \$804 per month from Social Security (these are benefits that the retired person paid for during his or her working life). At the end of the third quarter of each year, the Social Security Administration makes a cost-of-living calculation, to adjust the Social Security benefits upward by the increase in the CPI inflation rate for the preceding 12 months. This year, that would mean adjusting the average Social Security benefit upward by approximately 3.4% (depending on what the CPI inflation rate is for September of this year). That benefit would rise from \$804 per month to \$831 per month. But, were the Social Security Administration to make a COLA adjustment based on a rate of inflation that were truly reported at 10%, then the average monthly benefit would rise to \$884 per month. The BLS lying cheats the retired Social Security recipient, on average, of \$53 per month (or \$636 per year).

For the retired person struggling to survive in the face of an unfolding hyperinflation, including escalating rent/housing costs, medicine/medical costs, and food costs, that is a huge amount. Many elderly must carefully ration their food expenditures, and even then often end up at the close of the month with insufficient money and must cut back what they eat. The extra \$53 per month in benefits, to which they are entitled, could mean the difference between eating dog food or not.

Medicare is the Federal program that provides assistance for a portion of doctor and hospital bills for the elderly and some persons who are disabled. The U.S. Congress makes payments to the Medicare program based on a cost-of-living adjustment, which is calculated on the basis of a rate of inflation heavily weighted to medical costs. As Table 2 shows, BLS lying cheats Medicare of about \$17 billion. This is cut back from the payments that Medicare would make to hospitals and doctors. The Balanced Budget Act of 1997 already mandated deep cuts in Medicare. This lying about inflation policy, coupled with the genocidal effects of the Balanced Budget Act and of managed care and health maintenance organizations, is forcing the shutdown of hospitals and nursing homes across the country.

As for Unemployment Insurance, which is adjusted by a COLA, BLS lying is costing the program \$2 billion per year. When someone is unemployed, this is the time they most need the full funds they are entitled to, to survive.

As for Food Stamps, the eligibility standards for the program are set at a certain level and adjusted each year by a cost-of-living adjustment based on the inflation rate, heavily weighted to the cost of food. The upshot is that if the COLA is lowered below where it should be, fewer people are allowed to qualify for the food stamp program; those who qualify, are entitled to a lesser share of food stamps. Through this policy

of lying about inflation, over the last few years, the government has slashed the number of people eligible for food stamps, even though they legitimately qualify for them—and then has cynically boasted that this is a sign that the economy is growing.

Other U.S. Government Programs

Many Federal government programs have no COLA. U.S. government programs are divided into two categories: mandatory and discretionary. In mandatory programs, if an individual meets the eligibility requirements, that individual should automatically receive whatever benefits are provided under that program. Most, but not all mandatory programs are adjusted by a COLA. All of the programs listed in Table 2 are mandatory programs. Discretionary programs are those in which the funding level for the program is reviewed afresh each year. Based on the decision of the Congress and the White House, the expenditure level for the discretionary programs could be cut by 90%, doubled, and so forth. There are no mandatory benefits that must be paid. Discretionary programs range from defense to education to government infrastructure-building. Almost all discretionary programs have no COLA in them.

Nevertheless, the discretionary programs are very much affected by, and to a significant extent determined by, the rate

of inflation. It would be politically very difficult, were the true rate of inflation of 10% to be reflected in the official CPI, for Congress to pass a budget that cut the education budget, or only increased it by 3.4%. A CBO analyst told *EIR* on Sept. 11, that the way that the CBO prepares its base-line budget projections for education, is that it starts with the level of education spending for the last year for which the actual spending on education has been completed, and then increases it by the projected rate of inflation for future years. When Congress is handed the CBO base-line projections of spending for education, they are based on an increase, for each year, for the projected rate of inflation. Congress would then have to make a deliberate decision to cut the CBO base-line projections to thereby lower the spending level for education below the level of inflation. (In principle, the budget prepared by the Office of Management and Budget works exactly the same way.)

Thus, by its very nature, inflation adjustments are built into the budgetary process.

As for the U.S. budget programs which do not have COLAs, which are, by and large, discretionary programs, in fiscal year 2000, they are being cheated out of \$72 billion, which is what would be needed to increase them in line with the true rate of inflation of 10%. As indicated, the U.S. budget programs which have COLAs are cheated out of \$65 billion. Thus, a combined \$137 billion has been cheated from U.S. citizens in the form of Federal programs for vital services as a result of the policy of lying about inflation. This has a real effect, threatening citizens' very ability to survive.

The Full Extent of Looting

In surveying the total picture, in the year 2000, the amount that lying about inflation has gouged from the labor force, counting both the 5.5 million workers who have COLAs, and the 83.5 million workers who do not, is \$134-184 billion. The amount that this same policy has cheated from citizens, in the form of vital U.S. government services, is \$137 billion. Thus the lying has looted the U.S. population by a combined \$271-321 billion. This takes account of those contracts and programs which do have COLAs, and those which do not.

One word about what has been done: We have produced here not a precise calculation, but a broad approximation. The figure may overestimate or underestimate by \$100 billion. But at a minimum, \$150-200 billion has been extracted this year from the U.S. population, and it could be double that. This shatters the population's ability to reproduce its existence, culturally and materially.

In this work, *EIR* assumed a 10% inflation rate. But as the Weimar-style hyperinflationary-spiral advances, the inflation rate will continue to rise hyperbolically. As in Weimar Germany, it will destroy savings and pensions, and rip to shreds the economic fabric of society.

In light of what this process portends, isn't it time to end the policy that gave rise to it?

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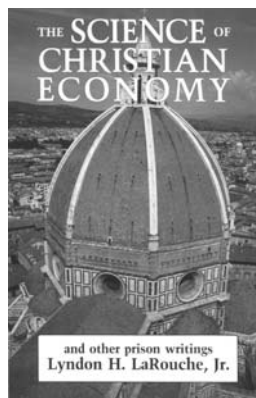
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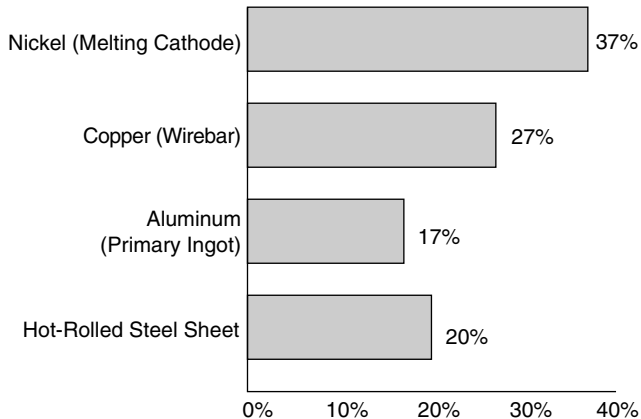
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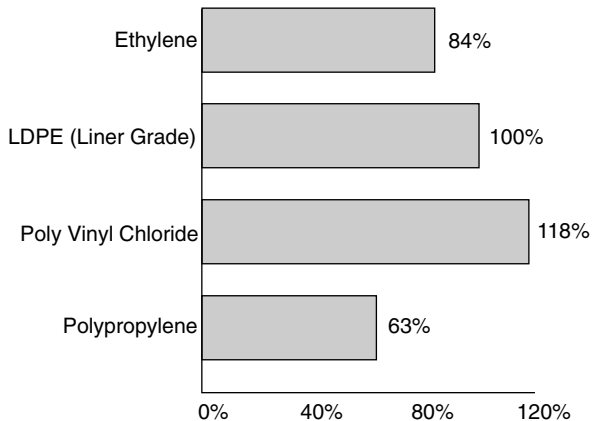
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U.S. Price Inflation Is 3.5%?

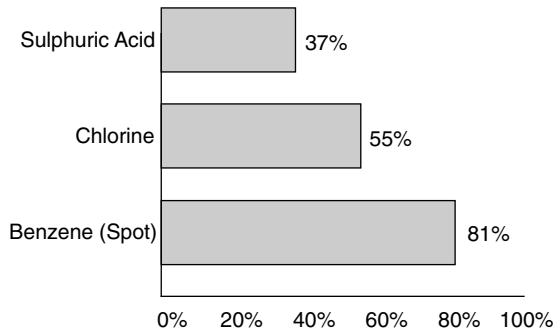
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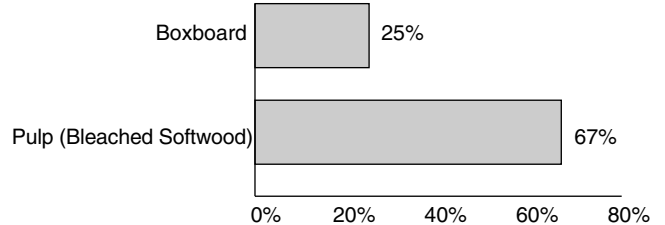
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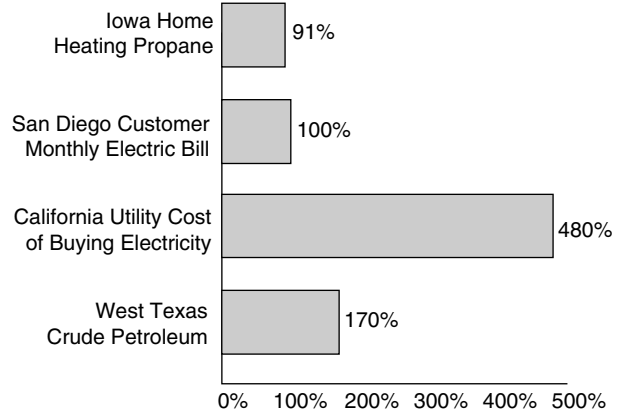
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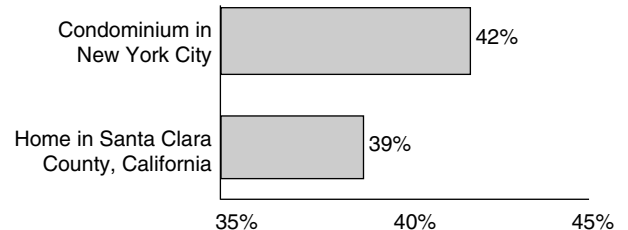
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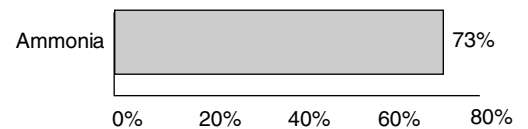
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Housing Price Inflation Surges, 2nd Quarter 1999-2nd Quarter 2000



Agricultural Inputs: Fertilizer Price Surges, May 2000-June 2000



A New Financial Order Is Essential for the Eurasian Land-Bridge

by Mary Burdman and Roman Bessonov

As the Anglo-American financier oligarchy hysterically sets off one wild provocation after another, against Europe, against Russia, against Asia, the question becomes all the more vital: Will the nations of Eurasia, which, unwilling to be taken down with collapsing world financial system, had been demonstrating clear intentions to form themselves into a “Survivors’ Club,” finally carry through on constructing the great project known as the “Eurasian Land-Bridge”?

There have been many important initiatives in Eurasia in recent months, especially springing from the bold moves by the two nations of Korea, toward economic and eventual political reunion. The initiation of reconstruction of the North-South Korean railroad on Sept. 18, is one of the important steps to build the infrastructure needed to finally economically unite the Eurasian land-mass.

Yet, without a change in fundamental economic policy, essentially, the creation of a “New Bretton Woods system,” as proposed by Lyndon LaRouche, the Eurasian Land-Bridge will not be realized, particularly because of the continuing economic catastrophe in Russia.

This is exactly the time to carry out LaRouche’s proposals to re-launch regional economic-financial arrangements, international economic cooperation, and trade on the basis of a “basket of commodities,” and to re-start state-to-state deals to ensure nations can get sufficient oil and other vital commodities. Were such measures to be put into action, this would create the essential difference, to generate a new, and just, world order.

These vital steps, however, are just what have not yet been taken. Russia is hanging in the balance, between continuing to propitiate the “Washington Consensus” lunatics (i.e., International Monetary Fund [IMF] austerity, and backers of globalization and privatization) who have brought it so low, and consideration of measures which could save its economy. A key example of the latter, was the Second International Euro-Asiatic Conference on Transport, held in St. Petersburg on Sept. 12-13, where several great transport corridors, that would cross Russia, linking East, South, and Central Asia, and Europe, were outlined. Such discussion has not taken place inside Russia in some years, and this demonstration of potential economic and cultural optimism, is itself of greatest importance.

One observer noted, that the remarkable lack of panegyrics to globalization or free trade in the conference proceedings, is an important change.

However, while the Asian-directed diplomacy of President Vladimir Putin holds real promise, Russian policy overall continues to be deal-arranging, around raw materials, energy, and military technologies. Even after a full decade of economic destruction at the hands of the “Washington Consensus,” Russia is, still, going begging to the IMF and London. Just one example of the devastation in Russia, is that sections of the Trans-Siberian Railroad, the core of all the transport corridors crossing Russia, are repeatedly shut down due to the inability of various regions to pay power bills, strikes of long-unpaid workers, and lack of basic maintenance.

Russia is certainly not alone in this dilemma. In China, tendencies to compromise with the current, bankrupt world system, epitomized by the foolish drive to join the already-dead World Trade Organization, are, at least for the moment, able to dominate national policymaking. Central Asia is at war with the forces of separatism and fundamentalism, and Europe is embattled by the engineered crash of the euro and skyrocketing energy prices.

Euro-Asian Transport Corridors

The Euro-Asiatic Transport conference was held in the Tauric Palace, the residence of the Commonwealth of Independent States (CIS) Inter-Parliament Assembly, and attended by representatives, many of them high-level ministers, of 27 countries, including all the former Soviet republics. The Russian side was represented by Prime Minister Mikhail Kasyanov, Transport Minister Sergei Frank, Railway Minister Nikolai Aksyonenko, Russia-Belarus State Secretary Pavel Borodin, and St. Petersburg Gov. Vladimir Yakovlev. President Putin had planned to attend the conference, but at the last minute, changed his plans, possibly due to the visit of Li Peng, the head of China’s legislature, to Moscow.

Leading national representatives discussed creation of five Euro-Asian transport corridors, and at least two highly important international agreements, one for the creation of the Russia-Iran-India “North-South Transport Corridor,” and another to link Russia’s Trans-Siberian Railroad to the re-

opened North-South Korean rail line, were signed. The Russia-Iran-India trilateral agreement was signed on Sept. 12 by Minister Frank for Russia, M. Hodjati, Iran's Minister of Roads and Transportation, and Rajnath Singh, India's Minister of Land Transport. The three nations, with the important addition of Iraq, will now transport goods on a route one-third the length of the current route via the Suez Canal.

Russia as a Transport Power

At the signing ceremony, Russian Prime Minister Kasyanov stated that, until recently, Russia had no opportunity to take advantage of its geographical location, but now, the realization of national transport potential is a priority of the Russian government. Kasyanov also emphasized the great importance of the corridor connected East to West. Active use of both corridors by Russia, he said, will mean that Russia is not only a "terminal point" of both directions, but also has a huge potential, for transport, in its location on the crossroads.

"Russia will become a great transport power," Academician Dr. Oleg Dunayev, of Russia's Transport Academy, told *Izvestia* in an interview published on Sept. 12, during the conference. "The potential depends on many factors, but primarily on state policy. Today, we are developing our transport network, worse than yesterday. It depends on us, whether our grandchildren will be able to use this benefit of civilization.

"We have not quite realized the priority role of transport in economic development," Dunayev said. "Though we have many state programs and instructions, they are not fulfilled. Finance Minister [Sergei] Witte, in the early 20th Century, realized the necessity of constructing the Great Trans-Siberian Railroad. He understood that the well-being of the people, would not be possible without a transport connection between the regions. The same was understood by [U.S. President Franklin] Roosevelt, when he ordered the whole American nation to build roads. . . .

"We have not realized our main advantage: Russia will flourish, only due to its geographic location. The country lies among three world markets, European, American, and Asia-Pacific, which are in an active process of exchange.

"We can benefit from the transit of a huge amount of goods along the shortest route, the existing line Paris-Berlin-Moscow-Vladivostok. But this route, also known as the Second Pan-European transport corridor, does not actually function. The amount of transit along the Trans-Siberian Railroad has fallen by six times since 1990. If Russia manages to get the Trans-Siberian involved in active international trade, it will bring in \$5 billion annually."

Transport lines, Dunayev emphasized, are essential for economic development. "First roads, then comes industry. The roads are a precondition of economy," he said. The Baikal-Amur railroad is also essential, he said. "It must only be properly used. For instance, the Japanese are planning to construct a tunnel connecting Hokkaido with Sakhalin, and then with the mainland across the Tatarsky Strait. They know

what they want." He stressed the importance of state policy, saying, "The state is obliged to create conditions, under which investment in the transport system would become economically profitable."

One recent example of this principle, is that, on Sept. 18, Tyumen Region officials opened a new bridge over the Ob River in Siberia. This bridge, 14,738 meters long, is the longest in Russia. It is notable that the entire construction, begun in 1995, was financed regionally, since outside investors refused to believe the project would be completed.

The North-South Transport Corridor

While only Iran, at present, is constructing large-scale new infrastructure for this corridor, the importance of agreements eliminating taxes and facilitating customs and other agreements, to ensure the flow of goods, is great. Since the Central Asian republics, formerly part of the Soviet Union, have only had open borders to their south and east during the last decade, many of the essential customs and financial agreements to ensure that goods move efficiently, must still be developed, and lack of such agreements have seriously hindered trade along already-constructed rail and road routes.

The North-South corridor runs from the Volga River basin in Russia, either on the river or by rail, to Astrakhan. From there, goods will be transported across the Caspian Sea, to the Iranian port of Bandar-e-Anzil. Iran is currently constructing large new roads north from the capital, Tehran, via Rasht, to Bandar-e-Anzil. From Tehran, goods will be transported via the new rail line to Bandar Abbas on the Persian Gulf, and from there by sea to India, especially to the port of Mumbai (see **Figure 1**).

The Vagna Shipping Co., Russia's main operator on the north-south corridor, said use of this route would cut delivery time between India and Russia by 10-15 days, and cut costs by 30%.

Indian delegations have been visiting Astrakhan, on the Volga, since the past winter, and met Russian Deputy Transport Minister Yevgeny Kazantsev there in March. In May, after a meeting of Russia's Security Council on Russia's interests in the Caspian, Astrakhan was visited by Transport Minister Sergei Frank, the Latvian magazine *Transport Week* reported.

More recently, Astrakhan was visited by an official delegation from Gilyan, a province of Iran, headed by Gov. Ali Sufi, who met with Astrakhan Region's Gov. Anatoli Guzhvin, to discuss future cooperation in development of the Astrakhan-Rasht-Bandar-e-Anzali transport corridor. Iran has decided to open a consulate in Astrakhan, which they call "Russia's gateway to Europe."

Representatives of Azerbaijan, Oman, Kazakstan, and Turkmenistan, also participated in discussion of this corridor, which will also benefit them. Bangladesh, Qatar, and Bahrain are planning to join the agreement. The corridor has many potential links to the north also, including via the Volga-

maximize mutual benefits through close economic cooperation. On the basis of this agreement, regional economic cooperation involving China, Japan, and Mongolia will become possible.”

The Korean-Russian connection will become possible, once North and South Korea have re-connected their North-South rail line. One line, which goes from Seoul to the city of Shinuiju in North Korea, is already connected to China. A second, from Seoul to the northeastern city of Wonsan, would be connected to Siberia. The project will cost an estimated 260 billion won (\$236 million) and take up to 36 months to complete. “Once the Seoul-Wonsan line is linked with the Trans-Siberian Railroad, Asia will be connected to the European continent and this will add momentum to the prosperity in East Asia,” President Kim Dae-jung was quoted as telling Putin. He called for cooperation to develop resources in Siberia and to have North Korea participate. Putin responded: “If the railways are linked, there will be a quantum leap in many fields, including the construction of fiber optic cables for telecommunication, energy, and power.”

The Land Corridors

At St. Petersburg, many other joint infrastructure projects were discussed. The conference Declaration confirms “that the following list of Euro-Asiatic land corridors . . . is the base of the Euro-Asiatic land transport system: 1) Trans-Siberian Railroad: [from] Europe . . . [to] China-Korean Peninsula-Japan (through Russian Federation/Ukraine and Kazakstan/Mongolia); 2) TRASECA: [from] Eastern Europe . . . [to] Black Sea-Caucasus-Caspian Sea-Central Asia [eventually to include new members Moldova, Mongolia, and Ukraine]; 3) Central South-Eastern Europe [to] . . . Turkey-Islamic Republic of Iran-Central Asia-China; 4) Southern: Southeastern Europe . . . -Turkey-Islamic Republic of Iran-Southern Asia-Southeastern Asia/Southern China; 5) North-South: Northern Europe . . . -Russian Federation-Central Asia/Caucasus-Per-sian Gulf.”

In addition, it was considered to extend “corridor No. 2 to Yekaterinburg, [Russia] . . . as a potential link for establishing the connection between trans-European and Euro-Asiatic transportation systems.”

Following the agreements of the First St. Petersburg Conference, held in 1998, the Declaration calls for “a most rapid implementation of transportation communications/networks in each of the Euro-Asiatic corridors and their consistent development, based on advanced economic principles, and proposals of new networks of Euro-Asiatic corridors.” It calls for establishing steering committees of interested nations for each of the Euro-Asiatic transportation corridors, as well as “international organizations, international financial institutions and private companies”; carrying out initiatives to facilitate customs and border-crossing; studies be carried out comparing “competitiveness of land communications . . . with

marine lines”; and, finally, that “the next such conference, is to be convened in two to three years, when a non-commercial organization named Euro-Asiatic Transport Forum is to be founded.”

Kazakstan, Russia, China, and Belarus were also planning to sign an agreement on further development of the Northern Railroad Corridor, known in China as the Second Euro-Asian Continental Bridge. This corridor starts from the Chinese port city of Lianyungang on the South China Sea, runs 4,100 kilometers across China to Druzhba station inside Kazakstan, runs 2,000 kilometers across that country to Petropavlovsk, moves across Russia and Belarus, and then along the Brest-Warsaw-Berlin route to the European ports of Rotterdam or Hamburg. Branches may be built from Minsk, Belarus to the Baltic countries.

A container train will be sent along this route, to Brest in November 2000, with an average speed of 1,000 km per day, which is in line with international demands. The sides have agreed on a tariff for the entire route, which amounts to \$0.144 per container-kilometer.

Kazak Transport and Roads Minister Karma Massimo stressed the importance of the conference to Kazakstan, as a “transit state.” Kazakstan planned to discuss transport development, tariff policy, and communications with the transport ministers of Russia, China, Azerbaijan, and Georgia.

The Chinese representative, Wang Shangkui, senior consultant of China’s Railway Minister Fu Chihuang, reported that “on June 27, 2000, Russian and Chinese railroads established direct container traffic between Beijing and Moscow. Now, similar container shipments are discussed by China, Russia, Finland, and Germany.” He described the many improvements that China has made on the Second Euro-Asian Continental Bridge since it opened in 1992, which now allows trains to reach a speed of 140 km per hour in the Chinese section, as well as the investments made by the Kazak railway company.

China itself, is shifting the focus of its rail construction to its western internal regions, to develop a comprehensive network of rail lines internally, and international rail links. Highly important in this context, is that China and Uzbekistan have just opened a highway, from Kashgar in Xinjiang, via Osh, in Kyrgyzstan, to Tashkent, capital of Uzbekistan. This highway, which was opened by Uzbek President Islam Karimov, goes over some of the highest mountains in the world, and is an enormous engineering feat. A rail line following the same route is under discussion, and would be an even more astonishing feat of construction.

Eurasian Diplomacy

The St. Petersburg conference was held in the context of a series of regional diplomatic moves to enhance cooperation. At the end of August, Japanese Foreign Minister Yohei Kono paid a four-day visit to Beijing, to prepare for the mid-October

visit of Chinese Prime Minister Zhu Rongji to Japan. On Aug. 30, Kono gave a speech to the Party School of the Central Committee of the Chinese Communist Party, in which he called for “creating a genuine friendly and cooperative partnership toward the 21st Century. . . . I would like to make Premier Zhu’s upcoming visit an occasion for Japan-China relations to make a great leap into the 21st Century.”

Kono called for economic cooperation of the two nations, including to develop the Mekong River basin, which runs through six nations in Southeast Asia, and to improve the transport and distribution infrastructure between East and Central Asia under the Eurasian Land-Bridge initiative. He proposed a multilateral dialogue to ensure peace and stability in Northeast Asia, including Japan’s proposal to establish a six-way forum involving China, Japan, North and South Korea, Russia, and the United States. There is also a need to enhance two trilateral frameworks of dialogue—one of China, Japan, and the United States, and the other of China, Japan, and South Korea.

However, long-term tensions between China and Japan remain serious, and have been stirred up recently about Chinese incursions into Japanese waters, and Japan’s continued collaboration with the United States, in joint technical research to develop a theater missile defense system.

Russia and Japan also discussed economic issues during Russian President Putin’s visit to Japan on Sept. 4-6. The key proposals under discussion, are Russian intentions to become an energy supplier for Northeast Asia, by building natural gas pipelines through China and the two Koreas, and potentially to Japan. These plans have been under discussion between Russia and China for some years.

Putin called for increased Japanese investment in development projects in Russia, in his discussions with Japanese Prime Minister Yoshiro Mori and Japanese industrialists. Putin called for Japanese investment in developing oil and gas fields offshore the Russian island of Sakhalin, building nuclear power stations in East Asia, and development of the Trans-Siberian freight network. Japan’s Ministry of International Trade and Industry is interested in purchasing natural gas from Sakhalin, and a pipeline project to transport gas to Japan is under consideration.

Russia also plans to build a nuclear power plant in its Far Eastern region between 2010 and 2020, and hopes to supply Japan with electricity from the facility, according to Russia’s Acting Minister for Atomic Energy Yevgeny Adamov. He pointed to its advantages by saying that “Japan would not have to worry about the problem of treating nuclear waste. Besides, it will be able to obtain power at a much lower cost than if it built a nuclear power plant of a similar size in Japan.” Russia would build transmission lines to export power to Japan and other Northeast Asian countries, Adamov said.

A Russian delegation led by Atomic Energy Deputy Minister B.I. Nigmatulin visited South Korea beginning on Sept.

7, where the Russians also expressed great interest in helping construct nuclear power complexes in China, Japan, and South Korea. South Korean and Chinese atomic energy officials are also to meet in Seoul in October.

Japan’s Marubeni Corp. and UES, Russia’s electric power monopoly, also agreed on Sept. 5 that the Japanese company will begin a feasibility study on a 1 trillion yen (\$10 billion) project to build a power plant on Sakhalin and to transport electricity via an underwater cable to Japan. The 4,000 megawatt plant would burn Sakhalin natural gas.

However, Russian-Japanese economic relations have a long way to go. At this point, Japan accounts for less than 1% of global investment into Russia, occupying 13th place among investor nations. Direct Japanese investment in Russia totalled a mere \$152 million in 1999, compared to world investment in Russia of \$12.8 billion.

China-Russia Relations

Chinese-Russian strategic ties were also promoted by the nine-day visit of Li Peng, Chairman of the Standing Committee of the Chinese People’s Congress, to Russia. Li Peng was on a five-nation tour, which included visits to the Baltic states, Belarus, and Iceland. In Estonia, he discussed using Estonia’s well-developed seaports for Chinese exports to western Europe. Using Estonia’s ports, via 4,000 km of railway through Russia, would save China in transport costs in trade with western Europe.

Li Peng arrived in Russia on Sept. 6 to meet with President Putin, State Duma (lower house of Parliament) Speaker Genadi Seleznyov, and Federation Council (upper house of Parliament) Speaker Yegor Stroyev. He then held three separate meetings with former Prime Ministers Yevgeni Primakov, Viktor Chernomyrdin, and Nikolai Ryzhkov.

Li Peng emphasized the importance of the Sino-Russian strategic partnership, and the sustained stable economic development of both countries. Chinese-Russian economic cooperation, although it was the focus of the visits of President Jiang Zemin in late 1998, and Prime Minister Zhu Rongji in early 1999, still lags far behind the two nations’ political ties. It is interesting, that Li visited the science city Akademgorodok, seat of the Siberian Branch of the Russian Academy of Sciences, near Novosibirsk, where President Jiang Zemin had delivered an historic speech in November 1998.

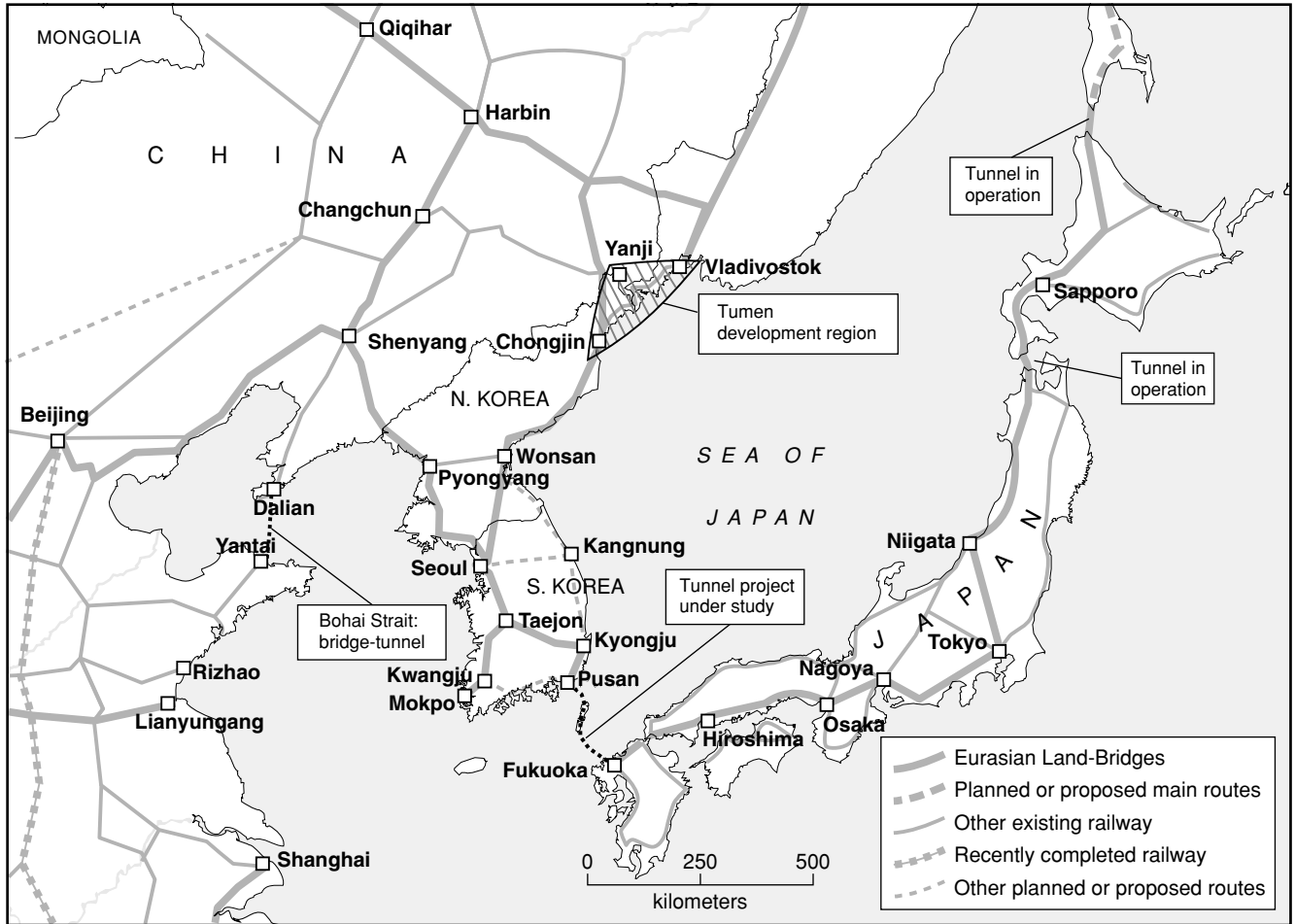
Jiang Zemin himself is to visit Russia in the spring, and both nations are planning to sign a highly important new strategic agreement, according to reports from Moscow.

On Sept. 18, Li Peng arrived in Vladivostok, to meet with Yevgeny Nazdratenko, governor of the Primorsky Territory. Vladivostok is the eastern terminus of the Trans-Siberian Railroad, Russia’s leading Pacific seaport, and the base of its Pacific Fleet, as well as a center of scientific research.

Governor Nazdratenko, who had in previous years expressed such hostility to China that he had to be disciplined by then-Foreign Minister Primakov to prevent an interna-

FIGURE 2

Pan-Korean High-Speed Rail Projects Proposed by EIR, 1996



tional incident, is now warming to his Asian neighbors, clearly as his only means to ensure economic survival. He invited North Korean leader Kim Jong-il to visit Vladivostok at the beginning of September, to be followed by the Li Peng visit. Nazdratenko had accompanied Putin to both China and North Korea in July. He promoted use of Russian railroads, agricultural projects, and other cooperation with both Asian leaders.

One area of potential economic cooperation, is the Tumen River delta, where Russia, China, and North Korea all meet (see **Figure 2**). Previous discussion of developing this area, which has little infrastructure, has not been overly productive, but the new situation on the Korean peninsula could decisively change this.

Indeed, when South Korean President Kim Dae-jung presided at the ceremony to launch reconstruction of the Seoul-Pyongyang-Shinuiju rail line, through the Demilitarized Zone (DMZ), he said that Korea “will become a transportation hub

of Northeast Asia,” and an overall Eurasian region with 75% of the world population.

In November 1998, Chinese President Jiang Zemin made an historic speech at the Russian science city of Akademgorodok. In that speech, he discussed with Russian scientists, the potential that Russia’s great, and still-existing scientific and technological achievements have, to contribute to the future development of all nations (see “Jiang in Russia: A Speech that Can Change World History,” *EIR*, Dec. 4, 1998). But, economic, scientific, and cultural cooperation at such a level, which is essential to reverse the economic collapse of so many nations in Eurasia, remains unrealized. This is the only way to finally overcome the many tragedies “left over from history,” which still divide Eurasian nations, including China and Japan, Pakistan and India, and the two Koreas. Only if nations are willing to take the opportunity, to adopt LaRouche’s New Bretton Woods, will such cooperation be possible.

Business Briefs

Agriculture

Nigerian Minister Blasts Greens on Biotechnology

If we were to take seriously the efforts to stop agricultural biotechnology, millions of Africans would suffer and die, Nigeria's Minister of Agriculture and Rural Development Hassan Amadu wrote, in a commentary in the Sept. 11 *Washington Post*.

Agricultural biotechnology and genetically modified seeds hold great promise, such as enhancing herbicide tolerance and providing resistance to insects and disease. But some people want to deny this to Africa. Organic farming is fine for those who can afford to experiment, Amadu said, but, "Starving people do not have this luxury. They want food and nourishment, not lectures, and we certainly won't allow ourselves to be intimidated by eco-terrorists who destroy crops and disrupt scientific meetings that strive to reveal the facts."

He said, "Millions of Africans—far too many of them children—are suffering from malnutrition and hunger." He pointed out that agricultural biotechnology offers a way to stop this suffering. He quoted one of Africa's leading plant geneticists, who said recently, "In Africa, GM [genetically modified] food could almost literally weed out poverty."

"The harsh reality is that, without the help of agricultural biotechnology, many will not live," Adamu said.

Namibia

Refusal of Loan for AIDS Drugs Explained

Namibian Permanent Secretary of Health and Social Services Kalumbi Shangula explained why his country had refused part of a \$1 billion loan from the U.S. Export-Import Bank for purchase of anti-retroviral drugs to combat HIV/AIDS, in a commentary entitled "We Can't Shoulder More Debt to Treat an Incurable Disease," in the Sept. 17 *Washington Post*. "Our decision not to accept the offer was based on the conviction that the

risks our country faced in taking the burden of a loan outweighed the benefits we would receive from the drugs," he wrote.

ExImBank chairman James Harmon had criticized the decision of Namibia and three other African nations that rejected the loan.

Shangula lamented that his nation is once again being labelled as doing nothing to combat HIV/AIDS, which is killing the continent of Africa. However, while calling the ExImBank loan offer "noble," especially as it is coupled with an offer by five pharmaceutical companies to cut prices, Shangula said that because anti-retroviral drugs are not a cure, it would mean plunging the country into "perpetual debt" to keep buying the drugs. Also, he noted, there are many other deadly pandemic diseases affecting millions of people in Sub-Saharan Africa, including tuberculosis and malaria, which kills more children under the age of five than any other disease in the world. The amount offered Namibia as part of the loan would only help prolong the life of a few thousand citizens.

Nuclear Energy

Russian Minister Outlines Putin's 'Atoms for Peace'

Russian Minister of Atomic Energy Yevgeny Adamov, in a press briefing in Moscow on Sept. 12, provided additional details to the proposal for nuclear energy development which Russian President Vladimir Putin made at the UN Millennium Summit. Putin's proposal starts from the standpoint, Adamov said, of 10-15 years of work that has been done, not just in Russia, but is "the combined result of the scientific potential and the needs existing in the world." Adamov said that people in Africa and Asia who "live in boxes and understand what it means to have an energy allowance of 200 kilowatt-hours per capita every year," understand that energy is needed for survival.

Adamov said that the proposal has three aspects: solving the energy supply problem, making nuclear energy safe, and preventing the spread of nuclear weapons. He proposed that new generations of nuclear technology

would solve the problem of safety, making accidents impossible "by design." For non-proliferation, designs can be built that separate the weapons from the civilian power technologies.

Such an approach could work, as opposed to the approach of the Carter Administration to try to stop proliferation by stopping the development of nuclear technology.

Adamov said that Russia hopes to cooperate with Japan and France. "They are the countries which historically have similar technological approaches to ours," such as closing the nuclear fuel cycle, through reprocessing spent nuclear fuel, and using breeder reactors.

Adamov said Russia must decide whether to do nothing with its nuclear power plants, make the investment to extend their life, or expand the use of nuclear energy. The plan that the Ministry of Atomic Energy is proposing would mean that, while making the investments to extend the lives of the operating plants, Russia would go from the 21 reactors now operating, to 50 reactors in the year 2020, and 60 by 2030. Asked if this were "too aggressive," Adamov pointed to the way that France responded to the 1970s energy crisis, by going nuclear.

Adamov said that maximum use of the so-called alternative sources of energy, such as solar and tidal energy, could not substitute for more than 10% of total global energy needs.

Biological Holocaust

New Dangers Found in 'Mad Cow'-Type Disease

In a finding that promises to explode the prevailing myths that so-called "Mad Cow" disease, or bovine spongiform encephalopathy (BSE), is under control, British scientists at the Medical Research Council Prion Unit in London have documented how normal, healthy mice, that were injected with mulched remains of hamsters which had died of disease caused by the sub-virus prion, stayed healthy, but when other mice and hamsters were injected with the remains of those healthy mice, the second generation

rodents not only died of the symptoms within five months, but they began generating their own strain of prion, the Sydney *Sun-Herald* reported on Sept. 10.

The evidence of mice carrying prion has lent credence to the theory that "Mad Cow" disease, and the related new variant Creutzfeldt-Jakob disease (vCJD) that infects humans, could be being carried silently by apparently healthy cows and humans. These humans may infect surgical and dental patients through contaminated instruments, which can never be completely sterilized against vCJD.

The mice experiment was begun four years ago by the Research Council Prion Unit's Dr. Andrew Hill and colleagues, under the direction of Prof. John Collinge. The particular strain of prion injected into the mice is called scrapie, and it is believed to have given rise to the BSE epidemic that began in Britain around 1985 and has since spread to continental Europe, and which molecular tests show is the source of CJD. Hill, now at the pathology department at the University of Melbourne, Australia, said, "The bottom line is that healthy cattle may harbor infectivity and never show any signs of BSE. It is entirely possible that, in the same way, humans might be harboring the disease at this sub-clinical level. As we don't know how many people may be incubating the disease—which may be longer than the normal lifespan—then there are possible implications for medical and surgical procedures."

Already, the incidence of CJD is apparently increasing: In the five years since its discovery in two British teenagers, vCJD has been reported in 79 people in Britain, 2 in France, and 1 in Ireland. Alarming, 36 of those were reported in only the past year.

China

Economy Is Undergoing 'Strategic Readjustment'

China is carrying out a "strategic readjustment of its economy," and is encouraging foreign investors, *China Daily* reported on Sept. 11. For the first time, foreign investors will be allowed to take a controlling share in

China's strategic east-west gas pipeline projects, the *People's Daily* reported on Sept. 11.

China is taking steps to encourage foreign businesses to participate in the reform of state enterprises, to set up research and development centers in China, and to invest in high-tech industries, "in accordance with the global development strategy of multinational corporations."

An official of the State Council office in Beijing, Zhou Ai, said that foreign investors could take controlling interests in the four pipeline projects to be built to bring gas from China's oil-rich, underdeveloped west, to the east coast. Zhou told potential multinational investors that this was a special policy to encourage foreign investment into China's western regions.

Although foreign investors have been encouraged to have input into these projects, this is the first time that they will be able to acquire controlling shares. They will be granted preferential policies for energy and other resources, if they invest in the west. Also, foreign investors will now be allowed to be involved in urban gas pipeline networks, and in 44 different sectors of light industry.

The Chinese government is also trying to get multinationals to set up R&D centers. Imported equipment for the centers will be exempted from tariffs and linkage taxes, and from sales taxes for technology transfer.

Foreign investors will also be welcome to participate in projects to restructure the debts and assets of dozens of China's state-owned enterprises, including in the chemical and paper industries. This is the third and last year of the project announced by Prime Minister Zhu Rongji to complete the reform of China's state-owned enterprises (SOEs). The reform has not been achieved. China's banks are maintaining many long-standing bad loans to SOEs, and the effort to get foreign investment is an attempt to fill the hole. In the past year, a total of 1,300 billion yuan (\$156.6 billion) of bad assets from SOEs has been turned over by China's banks to four asset-management companies set up by Beijing beginning last spring.

China Daily quoted a financial manager of a Shanghai firm, saying that purchasing or investing in Chinese bad assets is a new, fast, and cheap way for multinational corporations to enter China's market.

JAPANESE combined losses from bad loans at 17 major banks may have reached 21.2 trillion yen (about \$200 billion), according to the International Monetary Fund in its Sept. 11 "International Capital Markets Developments, Prospects, and Key Policy Issues World Economic and Financial Survey."

ALL OPPENHEIMER money has been pulled out of South Africa, because "the country is in such precarious straits," and "the government cannot be trusted," says a knowledgeable source formerly from Durban (now in the United States), who recently visited South Africa.

SOUTH KOREA is trying to find as much as 700,000 tons of assorted grains, including rice from Thailand and Chinese corn, to send to North Korea in its food aid on credit plan, the South Korean press reported on Sept. 10. The North is known to have requested up to 1 million tons of any kind of grain at the second round of ministerial talks in Pyongyang in August.

THYSSEN KRUPP is expected to be chosen as the adviser to the government of Uzbekistan on the restructuring and privatization of the Almalyk Mining and Metallurgical Complex. It does not plan to run the plant, but may get involved in marketing and distribution of products.

THE INDIAN Space Research Organization is proposing to build recoverable and re-usable satellites for conducting microgravity experiments in space. If approved, an official said, it would take three years to build such satellites.

TAJIKISTAN'S mountainous rural areas, where drought has reduced grain production to zero in some districts, are facing famine, threatening 3 million people. A Red Cross team said: "The situation is much more serious than we expected."

Rabid Anglo-Americans Demand Crushing of Peru

by Cynthia R. Rush

Peruvian President Alberto Fujimori's dramatic Sept. 16 address to the nation, in which he announced he would call general elections as soon as possible, not run as a candidate, and deactivate the National Intelligence Service (SIN), stunned his nation, Ibero-America, and much of the rest of the world. "Despite having been elected by a majority of our citizens," he told Peruvians, "I do not wish to become a factor of disturbance."

The Peruvian President's decision, however, had little to do with the stories about bribery by intelligence chief Vladimir Montesinos, intrigue, corruption, and a myriad of other imaginative reports, which have flooded the international media since the Sept. 16 announcement (see p. 32). Rather, as Lyndon LaRouche underscored in a statement released Sept. 17, President Fujimori's action is only the latest reflection of an insane Anglo-American financial oligarchy which, aware that its global monetary system is about to implode, is hysterically "looting every corner of the world . . . picking over the corpses to loot everything, and destroying everything and everyone who gets in their way—as President Fujimori did."

And President Fujimori did indeed get in the way of these mad oligarchs. Most recently, it was at the Aug. 31-Sept. 1 summit of South American Presidents in Brasilia, where he called for the formation of "the United States of South America," that would have the power, especially with Brazil as part of the equation, to fight for the continent's economic justice and industrial development from a position of strength.

Fujimori also correctly asserted that Ibero-America had already paid its foreign debt many times over, adding that with its wealth of natural resources and human talent, a united South America had the potential to become an economic and political powerhouse capable of uplifting its desperately poor

populations. A week later in New York, he repeated many of these same themes at the United Nations, zeroing in on the debt issue in particular.

The Peruvian President had already enraged London and Wall Street, with his courageous offensive to defeat the murderous Shining Path and MRTA narco-terrorists, whose rampages during the 1980s and early 1990s had threatened Peru's existence as a nation-state. Intense efforts led by London and U.S. agencies, to prevent Fujimori's reelection for a third term in last May's elections, failed when he was reelected with 51% of the vote. Now, in the current unstable climate, in which many governments in South America and around the world are increasingly questioning the insane premises of globalization, Fujimori's extraordinary initiative at Brasilia was the last straw for the rug-chewing New York rentier crowd.

Bust the Nationalist Coalition

On Thursday, Sept. 14, all hell broke loose in Peru after opposition Congressman Fernando Olivera publicly revealed a video, purportedly showing Vladimiro Montesinos, of the National Intelligence Service, paying \$15,000 to Congressman Alberto Kouri. Kouri was formerly of the "Perú Posible" coalition, whose Presidential candidate Alejandro Toledo, a wholly owned agent of Madeleine Albright's "democracy" apparatus, was defeated by Fujimori.

Immediately, the opposition went into high gear, in coordination with the State Department and the Organization of American States (OAS). There were demands that Montesinos be immediately arrested, that Fujimori resign, that an interim government be formed, and elections be convened within no more than a few months. On Sept. 16, right after Fujimori's speech, the OAS's High-Level Mission to Peru,

consisting of OAS Secretary General César Gaviria and Canadian Foreign Minister Lloyd Axworthy, issued an ultimatum: unless Montesinos were fired, the OAS would convene a Foreign Ministers' meeting, in which sanctions would be discussed. Gaviria charged that Montesinos had "committed a criminal act." In meetings in New York, both Secretary of State Albright and National Security Adviser Samuel Berger

had told Fujimori in no uncertain terms, that Montesinos had to be removed.

Since Sept. 16, Peru has been awash in all manner of rumors, speculating on Montesinos's whereabouts, on whether or not he has been arrested—he is apparently free, but under protection—and on what the Armed Forces were doing. For three days, the military leadership remained silent,

LaRouche on N.Y. Bankers' Drive To Topple Fujimori

The following press release was issued by EIR on Sept. 18.

Lyndon LaRouche, the renowned U.S. economist and former Democratic Presidential pre-candidate, stated today that Wall Street and allied financial circles were behind the massive pressure and ultimata directed toward toppling the Peruvian government of Alberto Fujimori. This foreign pressure led, over the weekend, to Fujimori's public announcement that he would call general elections in that country, and would not himself be a candidate for the Presidency.

"The New York rentier financial crowd, and their operators in the U.S. State Department, are engaging in a repulsive abuse of power against Peru," LaRouche said. "But only the uninformed, or outright idiots, believe the U.S. will be a superpower for long. Their entire financial house of cards could collapse any week.

"The simple fact of the matter, is that the U.S. financial bubble is being bailed out, principally by Europe and Japan, to the tune of over \$3 trillion per year—that is, \$7 billion or more is flowing into Wall Street every day. Moreover, the rate of increase of this flow is itself increasing. This has led to a hyperinflationary process, which no amount of hysterical lying by the media and others can conceal.

"Hysterical desperation has seized the Anglo-American financial oligarchy, and in a hopeless effort to bail out their bankrupt system they are looting every corner of the world. They are sucking every last drop of blood from every nation they can, picking over the corpses to loot everything, and destroying everything and everyone who gets in their way—as President Fujimori did, as most recently demonstrated in his speech before the Brasilia summit of South American Presidents," LaRouche noted.

In that speech to the Aug. 31-Sept. 1 summit, President Fujimori called for the formation of the United States of South America, and argued that, with such unity, the peoples of the region could achieve the economic progress



"I will kill them all!"

to which they have a right, and which today's globalization denies them. Fujimori also underscored the illegitimacy of the foreign debt of the nations of South America, noting that the debt had been paid various times over, and yet it still keeps growing.

LaRouche emphasized that the Anglo-American oligarchy is not reacting to Peru, as such. "This is a global reaction to their own crisis. They are in a 'shoot-to-kill' mode, on all fronts, from London to Melbourne to South America.

"This New York rentier crew is also key to the world oil crisis, which is the result of spot market speculation, principally by the four New York-based oil multinationals and their financial associates. These guys run the spot market, and they are using it as an essential part of their looting operation to inflate the bankrupt dollar bubble. The oil spot market has become a major source of additional revenue to keep the New York bubble growing—and hyperinflation is the consequence.

"The oil crisis has become the spearpoint of the demise of the global financial system," LaRouche emphasized.

heightening speculation that they, or some part of the high-command, opposed Fujimori's decision to deactivate the SIN, and refused to allow Montesinos to be arrested. It was not until Sept. 20, that the Joint Chiefs of the Armed Forces issued a four-point statement, backing the President's Sept. 16 address, and announcing their "firm commitment to collaborate permanently with the government to achieve the objectives" laid out by the President.

All the speculation about Montesinos is irrelevant, however. What is important is that he, together with the the Armed Forces' leadership, are key components of the *nationalist coalition* led by President Fujimori, who were central to Peru's decisive victory over narco-terrorism, and which buttress Fujimori's current economic proposals that so disturb Wall Street. The campaign against Montesinos is actually an attempt to dismantle the nationalist coalition as a whole.

Under Fujimori, Peru has stood as a bulwark against the drug cartels and terrorists which threaten the whole region. His removal, and Peru's destabilization, have immediate, and dangerous implications for war-torn Colombia, the rest of the Andean region, and Brazil. According to the Sept. 20 issue of Brazil's *Estado de São Paulo*, Brazil's intelligence services are warning that an institutionally weakened Peru, combined with increased U.S. pressure on Colombia, would mean a return of the drug trade, and by implication narco-terrorism, to Peru.

Fujimori is not prepared to be written off so easily, however. After three days in seclusion, on Sept. 19 he made a surprise appearance atop the gate of the Presidential palace in Lima, and told a crowd of cheering supporters that the announcement of new elections "does not signify my immediate resignation"; and that "there is no power vacuum. We will keep working intensively until the last days." In a press conference following his appearance, Fujimori was emphatic that he would remain in power until July of 2001, although a specific date for elections has not yet been announced. Outside the palace, he had said he might "have a little surprise" for the country in 2006, the next date on which Presidential elections would be held following next year's extraordinary elections.

International pressure through the State Department and the OAS, as well as financial warfare (Moody's has downgraded Peru's government bonds), is therefore rapidly intensifying, with particular emphasis on getting Brazil to line up against Peru, which it has so far refused to do. Puppet Alejandro Toledo is on a high-profile offensive to rope Brazil into an alliance with Argentina and Mexico, against "the dictatorship." Demanding that elections be held in four months, he is also calling for an OAS Foreign Ministers meeting to be held, for the obvious aim of imposing sanctions on Peru. And, to drive a bigger wedge into the nationalist coalition, various State Department officials have indicated they intend to implicate Montesinos in arms trafficking to the narco-terrorist Revolutionary Armed Forces of Colombia (FARC).

Fujimori: 'I Shall Be as Always, Identified with the People'

At 9:35 p.m. on Sept. 16, Peruvian President Alberto Fujimori gave a nationally televised address to the nation, in which he announced that he would not serve out the five-year term to which he had just been elected. The President's message followed the release on Sept. 14 of a video, showing intelligence adviser Vladimiro Montesinos bribing a congressman, which sparked calls for his firing and arrest. The text of President Fujimori's ten-minute address follows:

Good evening,

During the past ten years, I have had to face, like any other government, political crises of various dimensions. Those reality checks have always required deep reflection and a careful analysis on my part. This explains my silence of the last few days regarding the latest political developments, but most importantly: We have dealt with every crisis—including this one—by assuming the supreme interests of Peru as our premise.

This week, through a video, a serious accusation has been made, in the face of which my clear and definitive position is none other than to support a strict investigation, to determine legal responsibilities. Nonetheless, I want to point out that this is, above all, a political development which has obviously had a major impact on the stability of my government and of the country.

My candidacy for President of the Republic had the legitimate purpose of offering an important sector of the citizenry the full right to agree with our government program, just as other Peruvians have the right to dissent from that.

The climate of tension was prolonged beyond the elections, including with acts of extreme violence which, however, did not succeed in preventing the inauguration of the new government on July 28.

I have acknowledged more than once that we are going through difficult times, including what is going on in other countries in the world. Therefore, as of that same July 28, we immediately put ourselves to work, to honor our commitment to the people. However, political forces and interests—which have been unwilling, and are not willing to wait for another five years—forces and interests which represent policies different from the government's, different from ours, seek a change in government as quickly as possible.

It is my moral obligation, as President of the Republic,

to make a decision about this situation which, in addition to stalling the process of economic recovery, assaults the legitimate expectations of progress of Peruvians.

Although elected by a majority of our citizens, I do not wish to become a factor of disturbance, much less an obstacle to strengthening the democratic system. Therefore, after deep reflection and objective evaluation of the situation, I have made the decision: First, to deactivate the National Intelligence System; and, second, to call general elections for the earliest possible date, a measure I hope will be welcomed and understood in its real context by the relevant agencies.

Needless to say, in these general elections, I will not be participating, but rather, [leave it to] those who feel capable of serving as President or handling Congressional responsibilities.

I am certain that the people will know, with prudence, how to choose the [country's] best destiny.

I have governed in Peru for ten years. Not even my detractors can fail to acknowledge fundamental achievements, which I will not enumerate. You know them. These achievements give me great satisfaction, and are tangible proof of the dedication and affection I have invested in the job of governing, especially when it was for the benefit of the neediest of my compatriots. This, for me, is sufficient.

Few governments in the history of Peru have inherited disasters such as we have had to deal with, turning these and other historic obstacles into opportunities for national development and viability.

I hope that Peru, my country, to which I have given ten years of intensive effort, to achieve maximum efficiency in raising it up from the ashes, will not regress in terms of peace and development.

Were Peru to regress in that sense, what meaning would there be to the enormous sacrifice of civilians, police, soldiers, and authorities at every level, without whose selfless contributions there would be no peace today, either internal or external?

My two terms of government, I will admit, were not free of errors or omissions. These may have postponed attention to the legitimate interests of certain sectors of the citizenry, which I certainly regret.

To those who voted for our government program, with hope and enthusiasm, I thank you from the bottom of my heart. I ask for understanding. It is not a question of renouncing our ideals and principles, but of taking a realistic step, so that Peruvians can continue to build their future in democracy, understanding by democracy, what you understand and desire: real concrete opportunities for the least favored sectors of society.

I am confident that the people will know, with maturity, how to continue on the path of progress. I shall also be on that path, as always, identified with the people.

Thank you very much.

Interview: Sheila Sisulu

South Africa Strives To Eliminate Poverty

In his speech to the Sept. 6-8 United Nations Millennium Summit, South African President Thabo Mbeki said that the leaders gathered there must know, that billions of people have great expectations from the UN. "It must be," he said, "that we will have to jostle with various pagan gods at whose feet we prostrate ourselves, over all of whom tower the gods of inertia, the market and globalization." He listed the atrocities of the last millennium, from slavery, to colonialism, world wars, and the Holocaust, followed by the Rwandan genocide. Though the dead may have been forgotten, he said, the living have not, and have given the mandate to political leaders. "The poor of the world stand at the gates of the comfortable mansions occupied by each and every king and queen, President, prime minister, and minister privileged to attend this unique meeting.



"The question these billions ask is—what are you doing . . . to end the deliberate and savage violence against us that, every day, sentences many of us to a degrading and unnecessary death!"

Mbeki said that the challenge facing the summit was to demonstrate "the will to end poverty and underdevelopment," and to show the will to succeed, as those who defeated Nazism did. He ended, "I, like the poor at our gates, ask the question—will we, at last respond to this appeal?"

"All of us, including the rich, will pay a terrible price if we do not, practically, answer—yes, we do!"

EIR asked President Mbeki, at a press conference, whether, given the dramatic situation he denounced, discussion had taken place on the sidelines of the summit, about the need to rethink the entire approach followed by the International Monetary Fund (IMF), and other institutions, over the last decades, whose policies have contributed to the destruction of Asia, Ibero-America, and Africa. Would it not be time to promote the opposite approach, to scrap the IMF, and issue long-term, low-interest loans for real infrastructure development?

President Mbeki answered, "We are working on an Africa



South African
President Thabo
Mbeki

Development Strategy, bearing in mind all the issues which you raised,” and acknowledged the problem posed by the IMF. “We have a huge health problem in Africa,” he said, “which includes HIV/AIDS. It is true, you can’t deal with the health crisis, on the one hand, and at the same time, on the other hand, create the conditions which generate such health problems.” He said that there was a global debate on the need for a new monetary system, and on how to control short-term financial flows, within which, was the debate on a specific strategy for Africa.

Sheila Sisulu is South Africa’s Ambassador to the United States, a post she has held since 1999. She was interviewed by Lawrence Freeman in Washington, D.C. on Sept. 12.

EIR: The first question I’d like to bring up, is the problem of AIDS. This has been compared to a new Black Death. It is estimated that 16 million people have died, that 35 million are infected; the statistics show that 70% are from Sub-Saharan Africa. The figures that I’ve seen show 4 million, or 10% of the South African population, has AIDS, and that life expectancies in some of the countries in southern Africa have been reduced by one-third to one-half. And this is also leading to decreases in productivity, workers dying, so there has been a significant impact on the economy. Now, President Thabo Mbeki courageously told the truth, repeatedly, and again at the Durban conference: He said the spread of AIDS is linked to poverty and malnutrition, lack of health care. This is something that Mr. LaRouche, the founder of *EIR*, said many years ago, and he was viciously attacked for this. Why do you think that there was such an outcry by the “AIDS establishment” against President Mbeki’s remarks, which are obviously true? And, what are the plans that South Africa is undertaking to deal with this new Black Death that is spreading throughout southern Africa?

Sisulu: With regard to our approach to dealing with the HIV-

AIDS pandemic, we believe that prevention is the core to our program for dealing with the HIV-AIDS issue. And, of course, care of those already sick, dealing with the orphans of HIV and AIDS, and seeking science to find a vaccine that will respond to the African version, if you will, of the pandemic. So, ours is to seek a program as comprehensive as possible, to address the pandemic.

On the issue of why people are uncomfortable with President Mbeki’s position vis-à-vis the role of poverty in the spread of HIV and AIDS: I think it’s because there’s no medication for poverty. There’s no tablet, for poverty. And so, it’s a very difficult issue to deal with. And it goes beyond HIV and AIDS.

I think partly, also, people may be panic-stricken, and want a quick fix. But, I think, as he pointed out in his speech in Durban, and as he has pointed out in other speeches unrelated to HIV and AIDS, the key challenge for developing countries — Africa in particular, and South Africa is no different — is poverty. So, whatever afflicts us, unless we deal with poverty, we will remain in that situation.

EIR: Are there any specific plans in South Africa to deal with poverty and also to deal with health care?

Sisulu: Yes, new policies, and new strategies, have been put in place, to try and expand access to health care to the majority of the people. As you well know, that wasn’t the case until 1994. And also, to focus on primary health care, so that you’re dealing with making people healthy, rather than treating them when they are already sick. And that is also linked to the poverty strategy, so that poverty alleviation, through economic development, through job creation, would, in fact, ensure that people are able to take care of themselves.

EIR: Including a good diet, plenty of nutrition, protein, without which, the immune system is weakened.

Sisulu: The point about it, with almost any disease, as the former Minister of Health, a physician himself, has gone on record as saying, if you have two children, one well-nourished, and healthy, and another not, and you expose them to the same amount of infection, the malnourished child is likely to die, rather than the nourished one. The nourished one might not even register feverish symptoms. Their immune system would be able to fight it. So, this pandemic of HIV and AIDS, when it attacks somebody whose immune system is already compromised, would obviously have a much more devastating impact on that person, than it would on a healthy human being.

EIR: And I think that is why President Mbeki drew such flak, because he raised the issue of poverty, which is the main issue affecting all of Africa.

Sisulu: That is the point I was making earlier, that President Mbeki has consistently raised the issue of poverty, almost as the first issue that has to be attacked, both by African coun-

We come into our freedom and independence from apartheid at a time when globalization is in effect, whereas other countries came into their independence when protectionism was the norm. Therefore, a strong African economic bloc is important.

tries, and by the international community relating to Africa. Because once you eradicate poverty, then you are able to deal with a lot of the ills that affect people.

EIR: I know that President Mbeki, in addition to his remarks at the UN, also brought up the question of restructuring the global system, given the failure of the International Monetary Fund (IMF) and the World Bank. Their structural adjustment programs, etc., have weakened the population, and therefore have allowed the quality of life to be so poor that AIDS has spread. And given the fact that there is over \$300 billion in debt that Sub-Saharan Africa supposedly owes, President Mbeki has raised the question of a new global system. Isn't the time right, now, for a new system, to bypass the IMF and World Bank, to establish a new, just world economic order, as it was called many years ago, for a new arrangement among nations to deal with these problems, rather than sticking with the old system that has failed? Mr. LaRouche has called this a New Bretton Woods; other people have called for a new financial system to respect life and quality of life. What direction does South Africa think it, and the rest of Africa, should take, in terms of moving on to a different arrangement for the developing sector?

Sisulu: I think in his speech to the UN, President Mbeki was making the point, that whatever financial institution or investment organization you have, needs to have the people, the majority of the people that are participating in those institutions, about whom decisions are made, being part of the decision-making process. And so, for instance, with the UN, it is unacceptable that the developing world, Africa in particular, has no place in the UN Security Council, that makes those decisions. So, our position is primarily that, certainly in this case Africans, and African countries, ought to be part of the decision-making process, even as to how to reform these organizations. At the moment, African countries do not have any real say in decisions that affect them in the long run. So, without preempting the nature of the new, if you want, institutions, if we go that route, it is important that even in the discussion about what those institutions should be like, Africans and African countries, and other developing countries, must participate.

EIR: In South Africa in particular, some of the policies that have been followed are along the lines of globalization and

privatization. Maybe it's a sensitive area. President Mbeki comes to power after apartheid is finally eliminated, yet there is a great deal of poverty, there's a great deal of unemployment; someone made the case that some of these problems are because of following the policies of the IMF and privatization and globalization. What are the plans that President Mbeki has for dealing with poverty in South Africa, which is also linked to the question that we first raised, the issue of AIDS?

Sisulu: Our position on dealing with the issue of poverty, is informed by the reality we find ourselves in. We come into our freedom and independence from apartheid, if you will, at a time when globalization is in effect. It's there. Which means that the protectionist policies of the past, cannot be sustained. Whereas other countries came into their independence, however many years ago, when protectionism was the norm. We come in, when it isn't the norm. And so, we either get bypassed, and lose out, or we get into fights, and make ourselves a force to be reckoned with. But we ourselves, as South Africa alone, cannot take on globalization, in the way that it is panning out. Therefore, for us, the issue of a strong African economic bloc, is important, and we see it as our responsibility, along with other leaders within the region and the continent, to ensure that we position ourselves to be sufficiently competitive.

In the short term, for us in South Africa, we've opened our markets, and are continuing, even, to open our markets, particularly to our neighbors; we have signed a free-trade agreement, in which we are bringing down our tariffs in relation to our neighbors, because we want to make sure that our balance of trade is much more favorable in relation to our neighbors, because otherwise it is unsustainable.

EIR: You're referring to the Southern Africa Development Community?

Sisulu: SADC, right. So, we are of the view that we will only become, as Africa, a player in the global economy, if we are strong as a region. And therefore, we want to move, as we have done in South Africa, to democratize, to be competitive, to mobilize our economy, and so forth.

EIR: It seems, some of the trade unionists in South Africa are having disagreements with the government the best way to proceed.

Sisulu: Sure, and discussions are ongoing as we speak. If

fact this week, Cosatu [the Congress of South African Trade Unions] has a congress, and the government will be meeting with the leadership. When we get to a situation where whatever the government does is non-negotiable and totally right, then there is a problem. And the government and the African National Congress are very clear, that good governance has to do with being open to the views of the people that you're supposed to be governing. And the labor unions are important, so therefore, we have to listen to them.

EIR: Recently there was the election of the Parliament in Zimbabwe. There is tremendous pressure being put on President Robert Mugabe, some of it from Britain, that he should not be carrying out this land reform, the policy is to give something like 10 million Zimbabweans the right to have some land. Right now they're on communal property, about 10 acres per family, and most of the land is monopolized by about 4,500 Rhodesian and British farmers. In recent meetings, President Mbeki has supported President Mugabe on land reform. Will President Mbeki continue to support the rights of the nation-state of Zimbabwe? And isn't this also a question for South Africa, where again, the majority of black Africans do not have land, and there's still land being held by white farmers?

Sisulu: On the land issue, I think President Mbeki is on record as saying that the issue of land in Zimbabwe is real, and it's not a new issue. It's an issue that has been discussed, and agreed upon, as far back as the last agreement [at Lancaster House in 1979]. And it is important for all parties to that agreement to, in fact, ensure that the policy is implemented. He has gone on record as also saying, that this must be done in an orderly way that is free of violence. And that continues to be his position: that it is not a made-up story that there is a land issue in Zimbabwe. It is an acknowledged position, it was acknowledged in Lancaster House, that came up a few years ago, and now it's about time that all parties work toward its speedy resolution. And that is his stand.

And as far as South Africa is concerned, the question was raised, whether the issue would come up. I think, first of all, we say definitely not. And the reason being, we have put in place a range of mechanisms to ensure the orderly transfer of land, back to the people from whom it was taken. The Land Commission assists people to formulate their claims to land from which they were forcibly removed, or that they have claim to because it's ancestral land. And if that level of the process does not resolve the issue, then it goes to the next level, which is the land claims court, where the courts would then make a determination as to who the land belongs to. And none of the land in South Africa was taken away as part of the apartheid policy. In fact, it was kept by the state, and so, some of that land, but not all of it, when there's claim to it, has to be given back.

President Mbeki mentioned this, when he spoke to our Parliament, and the question was raised why this also hap-

pened. We have a Constitution that protects everybody's rights, and we will adhere to that Constitution. But also, South Africa is much more industrialized than most countries in southern Africa, and as a result, people are not clamoring for land to live off. They're clamoring for land to live on. So, housing, and housing ownership, and property ownership, is more the issue, which is why there is a lot of pressure for us. If there is any pressure, it will come from housing, and ownership of land to live on, rather than to live off.

So, the only thing that we would need to do, is to speed up the process, and to ensure that it doesn't take 20 years before the policy is fully implemented.

EIR: If you look at Africa as a whole—and I've seen it in Nigeria and Sudan firsthand—the lack of infrastructure is the number-one question—water, electrical power, roads. LaRouche and *EIR* have put forth the idea that there should be a complete economic development and infrastructure-building approach throughout Africa, east-west railroads, north-south railroads, connecting it up to Asia and the Eurasian Land-Bridge that the Chinese are working on.

This is not going to be done under the present IMF-World Bank system. Mr. LaRouche thinks that this financial system is on its last legs, and that we will see a return to protectionism, a return to nation-states deciding policy without the interference of the World Trade Organization, and the World Bank and the IMF; and that states will come together in a community of principle, where each state is committed to the General Welfare of its population, and trading with other countries to that end.

Is this the direction we should be going, to develop the continent of Africa, and break from current policies?

Sisulu: The last meeting of the Group of Eight received a class from three Presidents—President Mbeki, President Abdelaziz Bouteflika of Algeria, and President Olusegun Obasanjo of Nigeria. And what the three have been mandated to do, by the OAU [Organization of African Unity], is to develop what is loosely termed, global strategy on Africa, that the three would develop a framework on. It's still in that conceptual phase at the moment. But primarily, it speaks to the issue of what President Mbeki calls African solutions for African problems. As to the details of how, the elements of this strategy, I have no idea how it's going to actually pan out, except to say, that central to that strategy, will be African countries, and their vision for their countries, for the continent, in relation to the rest of the world.

As to whether there would be a United States of Africa, well, there should be, that debate took place recently, in Tripoli, and I think there was a discussion, saying, we need to find a way of uniting, and possibly having a Parliament of Africa. But these are matters that are under discussion.

Is this the way that the world should go? I cannot say that this is the way the world should go, but certainly it seems to be the way that Africa is going.

The Mideast Peace Deal That Was Killed by an Assassin's Bullet

by Dean Andromidas

Four days before an assassin took the life of Israeli Prime Minister Yitzhak Rabin, Palestinian and Israeli negotiators had completed a framework agreement that could have led to the establishment of a Palestinian state and the beginning of the end of the half-century of war between Israel and the Arab nations. The draft document, completed on Oct. 31, 1995, was revealed in the Sept. 18 issue of *Newsweek* magazine. Although it was not a final agreement, the murder of Rabin, four days later, was a dramatic demonstration of how close the Palestinians and Israelis must have been to ending their conflict.

Almost simultaneous with the publication of the document, Akram Hanieh, a confidant of Palestinian President Yasser Arafat, who attended the Camp David talks in July, began publishing a seven-part series revealing details of those talks. Hanieh revealed that in response to proposals concerning the question of Palestinian sovereignty in East Jerusalem and the holy sites, Arafat told President William Clinton: "Do you want to attend my funeral? I will not relinquish Jerusalem and the holy places." Further underscoring the point, Arafat told Clinton that he would like to see his own grave as a place of pilgrimage, and not a place to be urinated on, by the Palestinian people.

At Camp David, Arafat, no doubt, had strong memories of Egyptian President Anwar Sadat's assassination not long after the historic "Camp David I" Egyptian-Israeli peace agreement.

Given developments over the last few weeks, is a Middle East agreement possible? Are the differences only a question of "Arafat accepting the moment of truth," as the U.S. State Department and the Israeli government are telling the public? The positions of both sides can be quite close, but as long as the power of the institution of the United States Presidency is not prepared to exert its influence to bridge those differences, by offering a perspective of massive economic development for the region as a whole, no peace is possible. The differences will get no closer than the nine millimeters of an assassin's bullet.

The Beilin-Abu Mazen Document

Entitled the "Framework for the Conclusion of a Final Status Agreement Between Israel and the Palestine Liberation Organization," the document formulated days before Rabin

was assassinated, attempts to deal with all the outstanding issues, including Palestinian statehood, borders, Israeli settlements, refugees, as well as Jerusalem and the holy sites. A crucial addition to this is the question of development, management, and expansion of water resources, an area in which the United States could have played a most important role. It envisioned a final status agreement by no later than May 5, 1999.

The document was formulated between 1993, shortly after the signing of the Oslo Accords, and Oct. 31, 1995. The Israeli side was represented by Yossi Beilin, currently Israel's Justice Minister. Beilin, who is considered a protégé of Shimon Peres, was at the time number-two to Peres in the Israeli Foreign Ministry. Beilin was assisted by unofficial peace negotiators Ron Pundak and Yair Hirshfeld. On the Palestinian side, the negotiations were handled by Abu Mazen, also known as Mahmoud Abbas and Hasan Asfour. All had been involved in negotiating the Oslo Accords of September 1993.

Since 1995, much of the contents of the document has been filtered into the ongoing peace process, whose momentum never recovered from the assassination of one of its key architects, Yitzhak Rabin. While no one can say whether the document could have been successfully implemented, and whether it was officially approved, it is nonetheless important to review, if only to reflect on the fact that any attempt to implement it or to negotiate an improved agreement, was sabotaged by the atmosphere of terror created after the assassination of Rabin.

The 13-page document has various articles and annexes. Article I deals with the question of a Palestinian state with Jerusalem as its capital. It declares: "The government of Israel shall extend its recognition to the independent state of Palestine within agreed and secure borders with its capital Al-Quds [East Jerusalem] upon its coming into being no later than May 5, 1999. Simultaneously the State of Palestine shall extend its recognition of the State of Israel within agreed and secure borders with its capital Yerushalayim [West Jerusalem]. Both sides continue to look favorably [on the] possibility of establishing a Jordanian-Palestinian confederation, to be agreed upon by the state of Palestine and the Hashemite Kingdom of Jordan."

Article II deals with the question of "secure recognized borders," which was described in maps which are not included

in the copy of the document published by *Newsweek*.

Article III deals with normalization of relations, and Article IV deals with the schedule of Israeli withdrawal and various security arrangements. Article V deals with the Israeli settlements, where the idea of exchange of territory would compensate the Palestinians if certain settlements were annexed to Israel, while other settlements would come under the sovereignty of the State of Palestine.

Article VI deals with Jerusalem and lays out a proposal, for two capitals in one city. East Jerusalem would come under Palestinian sovereignty and be known as Al-Quds and would be the capital of the State of Palestine, and West Jerusalem under Israeli sovereignty and be recognized as its capital. Each would have a municipal government. Then, above this would be a "Joint Higher Municipal Council," with representation from both communities, the idea being to maintain an "open and undivided city with free and unimpeded access for people of all faiths and nationalities." The Old City would come under a type of dual sovereignty, where the "State of Palestine shall be granted extraterritorial sovereignty over the al Haram al-Sharif under the administration of the Al-Quds Awqaf. The present status quo regarding the right of access and prayer for all, will be secured." The Church of the Holy Sepulchre would be managed by the Palestinians.

Article VII deals with refugees. All Palestinian refugees would be able to return to the State of Palestine. The right of return to points within Israeli territory would be limited, because its implementation would be seen as "impracticable," while "their right to compensation and rehabilitation for moral and material losses" would be recognized. An "International Commission for Palestinian Refugees" would be created which would provide for material compensation, rehabilitation, and resettlement of all refugees.

The question of water is discussed in "Article IX: Water Resources." The first four sections of this article deal with the recognition of the importance of water to both sides. While section one declares, "The parties agree that they possess the same natural water resources essential for each nation's livelihood and survival," section four proposes, "The parties further agree to the following: a) the development of existing and new water resources to increase availability and minimize wastage; b) the prevention of contamination of water resources; c) the transfer of information and joint research and the review of potential for water enhancement." Section five calls for the preparation "as soon as possible, but not later than May 5, 1999, of an agreed-upon coordinated separate and joint water management plan for the joint aquifers that will guarantee optimal use and development of water resources for the benefit of the Israeli and Palestinian people." Section six calls for the "parties to agree to seek to extend their joint cooperation to the Hashemite Kingdom of Jordan in particular with regard to the waters of the Jordan River and the Dead Sea and to seek to promote wider regional understanding on the exploitation and management of water re-

sources in the Middle East."

Although this document could be seen as the groundwork for a settlement, it would require the political backing of the Presidency of the United States, which has not been forthcoming. Worse, much of that authority has been surrendered to Secretary of State Madeleine Albright and the State Department.

For example, the issue of Jerusalem: This is not an issue concerning the city's real estate that Arafat and Israeli Prime Minister Ehud Barak can decide between themselves. The city's holy places are revered by three religions and cultures which represent large parts of the population of this planet. This concern is best addressed, as the Vatican has proposed, in the context of a special status, given international guarantees (see *EIR*, Aug. 4, 2000, p. 38).

More "practical" are the questions of refugees and water. The former has to take into account the political rights of refugees who reside outside the territory of Israel and Palestine, which includes Jordan, Syria, and Lebanon. The latter two continue to be technically at war with Israel. These refugees number as many as 2-4 million persons. Unless massive resources are extended to the new Palestinian state, that state would become little better than a sovereign refugee camp under concentration camp-type conditions.

While the question of water holds the key to establishing political-economic cooperation throughout the region, it requires a commitment of resources which has yet to be even discussed. This is despite the fact that detailed proposals initiated by Lyndon H. LaRouche and other circles have been presented to all parties concerned.

While a well-informed Israeli source close to the Israel peace team expressed hope that the release of this proposed framework agreement drafted by Yossi Beilin and Abu Mazen could help the negotiating process, he cautioned that if an agreement is not reached by the end of September, then the situation will seriously deteriorate.

According to the Israeli daily *Ha'aretz*, the document was most likely released by the Clinton Administration itself. Commenting on the document, *Ha'aretz* correspondent Akiva Eldar wrote on Sept. 21:

"Looking back on the final stages of the Beilin-Abu Mazen initiative raises goosebumps: It is highly likely that the bullets fired by Yigal Amir five years ago buried a peace agreement between Israel and the Palestinians." Eldar reveals that that just days prior to Rabin's murder, Arafat saw the document as a basis for negotiations with the government of Israel.

Eldar then quotes from Beilin's recent book *Touching Peace*, where he states that the document had taken on "what had been postponed in Oslo. . . . Issues which we could not imagine reaching understandings over, were worked out in principle here. . . . We had in our hands a document with a complete solution, or almost complete, for the 28-year-old, or perhaps 100-year-old, conflict."



Palestinian President Yasser Arafat told President Clinton, concerning the issue of Palestinian sovereignty in East Jerusalem, "Do you want to attend my funeral? I will not relinquish Jerusalem and the holy places."

Eldar suggests that the document was written with specific formulations which they believed would have won Rabin's approval.

In his book, Beilin also writes that he had been in New York on Nov. 4, 1995, the day Rabin was killed. On his return, he immediately met with Shimon Peres, who had just stepped into the assassinated Prime Minister's post. Beilin wrote that Peres "didn't warmly embrace the plan."

According to Eldar, the document was seen by both Clinton and National Security Adviser Sandy Berger as the basis for talks. Contrary to the impression being given out by the State Department and the Israeli government, it is not Arafat who is intransigent. The problem lies with the Israeli side, on the one hand, and an absence of the type of economic and political initiative by the United States that would make an agreement workable, on the other. One well-informed source suggested that the document was released to put pressure on the Israeli side.

According to *Ha'aretz*, Arafat was offered less than the Beilin-Mazen document offered. The 1995 document envisioned only 4.5% of the West Bank being annexed by Israel, with an exchange of land elsewhere. But at Camp David, Arafat was asked to accept having over 10% of the West Bank annexed, which would create large Israeli settlement blocks, where 100,000 Palestinians live as well. The long debate on

Jerusalem overshadowed the fact that Arafat was being offered far less than what would have been possible if Rabin had not been assassinated.

The *Ha'aretz* article stated clearly the corner Arafat has been forced into: "From the Palestinians' perspective, their confirmation of the existence of the Beilin-Abu Mazen understandings reveals Arafat's concessions at a time when Barak is not budging from his positions on the main question—the borders of Palestine. He [Barak] did not even give up the enclave of Kiryat Arba, the extreme right-wing stronghold in the heart of the new state. Until now, Barak has also not been heard to say that he is willing to give the Palestinians authority in the Old City of Jerusalem. In contrast, he is repeatedly saying that he has no 'partner.' . . . And after all that, they expect Abu Mazen to stand behind his document."

Time Is Running Out

The coalition government of Prime Minister Barak, which lost its parliamentary majority shortly after the Camp David talks, remains intact at the moment only because the Israeli Knesset (Parliament) is in recess. The latter's return at the end of October will be a moment of truth for Barak. He will have three options. The first would be to form a new coalition that could muster a majority in the Knesset. So far, the most optimistic arithmetic will possibly give him 60 of the 120 seats in the Knesset. If that fails, he would have to either call new elections or form a national unity government with the right-wing Likud. If there is no peace agreement which Barak could present to the electorate, new elections could very well lead to a defeat for Barak. If he forms a national unity government, it would mean an end to the peace process.

The prospect of new elections has led to a highly dangerous political atmosphere in Israel. Former Israeli Prime Minister Benjamin "Bibi" Netanyahu (Likud), whose two-year premiership not only froze the peace process but almost led to more than one major Middle East conflict, is back on the scene. Although "Bibi" has been plagued with a corruption investigation for the past year, it is now being rumored that the case against him will be closed without prosecution, opening the way for his political comeback. Netanyahu has already been sounding out the leadership of his own Likud party as well as the right-wing religious parties.

In a new development, Israeli Chief of Staff Gen. Shaul Mofaz, a well-known hawk, created a scandal recently by openly criticizing Prime Minister Barak for the appointment of Maj. Gen. Uzi Dayan as head of the National Security Council, and for cuts in the defense budget. The unprecedented outburst by Mofaz was broadly seen as his own attempt to establish a political name for himself, in preparation for stepping onto the political stage to become the new leader of the right wing.

A dramatic shift to the political right in Israel at a time when the next U.S. President could be George W. Bush or Al Gore, can only be seen with alarm.

Dark Clouds Are Gathering over U.S.-European Policy Conflicts

by Rainer Apel

Well-informed observers of transatlantic relations have pointed out over recent weeks, that the money-pumping methods of U.S. Treasury Secretary Lawrence Summers to keep the Wall Street bubble aloft, by means of giant capital extraction from Europe, have dangerously undermined U.S.-European relations. For a long time, criticism of U.S. monetary policies has been voiced only behind closed doors in Europe, and particularly in Germany. But sentiment has been building also among longtime pro-Americans here, that “enough is enough, now we have to speak up.” Indicative of this shift, is the monthly report of the German Bundesbank, the central bank, for September, which addresses statistical forgery on the American side, as a crucial factor behind the increased outflow of German and European capital to the allegedly “booming” United States economy.

Indicative is also what Oskar Lafontaine, the Social Democratic former finance minister of Germany (from October 1998 to March 1999), said in an interview with the British daily the *Guardian* on Feb. 11. Along with attacking British Prime Minister Tony Blair’s “Third Way” policy as a “pack of lies, having nothing to do with social democratic tradition,” Lafontaine said that without a new international financial architecture, no social democratic policy could be implemented, because the existing architecture was a “machine for the redistribution of wealth from the poor to the rich.” He said that his own recipe for change in Europe would include stabilizing exchange rates and curbing short-term capital movements to prevent speculation. Measures to do so could easily be agreed to by the Group of Seven’s most powerful nations, he said, but there is little hope they would do so, for the time being, because of a big political problem on the American side: “The two candidates for the Presidency of the United States are financed by Wall Street, and so, if you are financed by Wall Street, you must respect the interests of Wall Street.”

Not having an official position in the German government any more, Lafontaine certainly finds it easier to speak out on such problems, than those members of the Social Democratic Party (SPD) who are directly linked to the government of Chancellor Gerhard Schröder. But, while nobody else among the SPD prominents has yet spoken up, Lafontaine is assured of a lot of non-public support from among the Social Democratic Party organization, the party’s constituencies, and even from inside the government apparatus. Given the aggressive-

ness of policies of the U.S. Treasury, the State Department, the Department of Justice, and other U.S. offices toward the Germans and other Europeans, it is only a question of time, when more Social Democrats will be provoked to speak up, and particularly on economic matters.

For the time being, the harshest German criticism of the present U.S. policy is voiced by prominents of the opposition Christian Democrats, and those media associated with them. Unlike the Social Democrats, who have had a long tradition of being anti-American (very often in an unreasonable way), most of the leading Christian Democrats have been pro-American, pro-NATO, and pro-free market. The fact that this has changed considerably, tells a lot about the depth of transatlantic frictions that have developed.

Insulting Incidents

What contributed immensely to that change, were two incidents of Sept. 4-5: the humiliating, insulting treatment of a high-ranking North Korean delegation by security staff of American Airlines at the Frankfurt Airport, and the “accident” at the Pentagon, in which the car of visiting German Defense Minister Rudolf Scharping was involved, with the safety barrier directly at the main gate.

Coming from non-public talks in Berlin, the North Korean delegation was scheduled to fly on, from Frankfurt, to the United Nations Millennium Summit, and the German government had notified the American authorities of that flight. But the delegation, which included President Kim Young-nam of North Korea, was subjected to security checks; when the President refused to strip naked for a search, the airline cancelled their flight to New York. Trying to get a reasonable explanation from the American side, the German government received contradictory reports both from the Department of State and the airline, which left the Germans baffled and enraged. German officials would have filed all that away, as usual, under the category of “problems with the Americans,” if that other incident with Defense Minister Scharping had not occurred.

While driving toward the Pentagon’s main gate, Scharping’s car was lifted several feet into the air, as the heavy safety barrier went up unexpectedly. The car was severely damaged, as if in a major traffic accident, and Scharping and the military attaché at the German Embassy in Washington suffered minor injuries and had to be treated at an Arlington hospital.

Karikatur der Woche

Zeichnung: Haitzinger/tz



„Das war der Scharping, wer kommt denn als Nächster?“

A cartoon in the German newspaper *Welt am Sonntag*, which reads, “That was Scharping, who’s next?”

Most German media, except a few television broadcasts from Washington, did not even cover the affair promptly, burying it on the back pages among other small news items. And hardly any German newspapers reported on that strange commentary, which appeared in the *Washington Times*, the day after the incident, saying about Scharping: “And what country would he be from? Germany, of course. . . . Coincidence? After all these years of supposedly close relations.” That it was more than just coincidence, is what many Germans thought, indeed, and the cartoon, which the second-largest Sunday newspaper of Germany, *Welt am Sonntag*, ran on Sept. 10, reflected what many Germans felt. One has to keep in mind that the weekly has been a traditionally pro-American, pro-NATO newspaper, one that keeps contact with only those Social Democrats from the most conservative wing of the party.

Von Weizsäcker Speaks Out

It happened that the same *Welt am Sonntag* was host to a conference on the future of the German armed forces and of the Western alliance, held in Berlin on Sept. 19. And, it happened right there, that the former Christian Democratic President of Germany, Richard von Weizsäcker, decided to depart from the text of his manuscript and dedicated a good part of his speech to the frictions between Americans and Germans.

He charged the United States with an increasing tendency toward “unilateralism,” deciding things on their own, without consulting with the European allies. Weizsäcker said that “Americans undoubtedly have the greatest difficulties rethinking the disposition of their role” in the world after the end of the Cold War. Against all the uncertainty that has accompanied the past ten years since the Iron Curtain came down, the American tendency to not only be, but also behave

like the sole superpower, is causing deep concern in Europe, he said, adding that Europe “must be allowed to speak up about European irritations.”

Weizsäcker also said that the fall of the Iron Curtain and the end of the Cold War confrontation with the Soviet Union, which had been a great force of discipline within NATO, have led to a new situation in which “acceptance of internal imbalances” in the West has decreased. Europeans, including Germans, feel encouraged nowadays to voice more criticism of the Americans, and whenever Americans refuse to take that seriously, it is counterproductive, and will undermine the transatlantic partnership and alliance—which Weizsäcker endorsed, once again, in his remarks. Opposition in Europe to U.S. plans for a unilateral national missile defense system, European interest in building its own currency, the euro,

in order to be more independent from the dollar, and other controversies, such as over the conduct of the 1999 NATO air war over Kosovo, were all addressed by Weizsäcker.

But instead of entering a fair but frank discussion, the U.S. Ambassador to Germany, John Kornblum, walked out. This is the more deplorable, as Kornblum has done a lot, during his term in Germany, to mollify many policy conflicts between the Department of State and the Germans.

Economic Frictions

The front line of U.S.-German frictions is, however, monetary and economic affairs. What the left-wing Social Democrat Lafontaine said in his remarks regarding Wall Street, on Sept. 11, is what many “conservative” Christian Democrats think as well. And, unlike in the past, they are beginning to say it. To the surprise of many in Germany, Angela Merkel, chairwoman of the Christian Democratic Union party, said in an interview on the morning magazine program of Germany’s second national television channel, on Sept. 18, that the price of oil is increasing throughout Europe, because of the unjust devaluation of the euro against the dollar. She proposed a discussion for a new scheme under which future oil imports would be denominated in euros. This would imply breaking with the dollar as the speculative “oil currency,” as well as interfering with the free oil market and going for government-to-government arrangements between Europe and the Organization of Petroleum Exporting Countries.

Certainly, this is something which oil price speculators at the Nymex, on Wall Street, will not like at all. The next high-ranking German visitor to the United States may be well-advised to listen to the recommendation made by that strange *Washington Times* article: It also said that future visitors might better take the subway to the Pentagon, rather than risking a crash at the safety barrier.

Denmark Prepares To Reject Euro Currency

by Poul E. Rasmussen

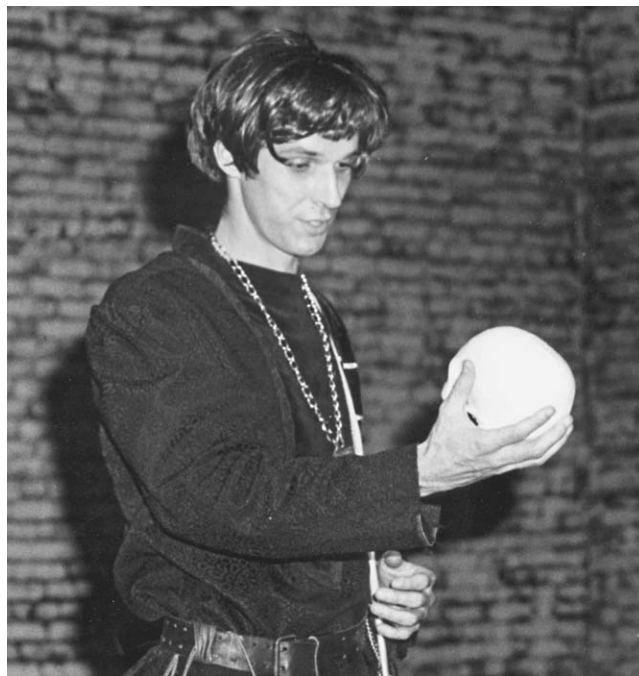
The beleaguered euro might face another severe punch to the stomach on Sept. 28, when the Danes go to the polls to decide whether Denmark should join the European single currency. Just one week ahead of the referendum, opinion polls show a comfortable lead to the “no” side. According to a Gallup Institute poll on Sept. 20, published by the daily *Berlingske Tidende* and Danish Radio, 49% will vote “no,” and only 38% “yes,” with 13% still undecided. Other polls by other institutes show a similar distribution of votes.

A Danish snub to the euro could hardly have come at a more critical time. On Sept. 19, International Monetary Fund Managing Director Horst Köhler warned that a continued collapse of the euro could become a severe threat to global financial stability. Therefore, he called for a coordinated central bank intervention to prop up the euro. Under the present circumstances, this is a very difficult endeavor, which runs the risk of being rendered utterly fruitless, if the Danes give a thumbs down to the euro on Sept. 28.

Unfortunately, from a certain standpoint, this would be good news for Wall Street. Any strengthening of the euro at this moment would be seen as a weakening of the dollar. With a U.S. current account deficit out of control, a record private indebtedness, and increasing signs of hyperinflation within the U.S. economy, the slightest weakening of the dollar could trigger a stampede out of U.S. financial markets. So, at this moment, Wall Street has absolutely no interest in any move by any government or central bank which could strengthen a competitor to the dollar. The U.S. bubble economy is totally dependent upon an inflow of \$1 billion or more in cash from the rest of the world each and every day. Any appreciation of the euro could divert a portion of that cash flow away from the United States, and into the euro zone. Should that happen, all hell would break loose. In other words, Wall Street probably wouldn't mind a Danish rejection of the euro at the present moment.

The Catch-22 Currency

However, it would be wrong to draw the simple conclusion that Denmark ought to join the euro in order to combat the powers that be on Wall Street. The European single currency is a Catch-22 project. In times of crisis, a country which has joined the euro, has the following choice between plague and cholera: either maintain the strict monetarist policies, as laid down in the original treaty, which grants the European Central Bank sole control over monetary policies, and thereby



Hamlet, Prince of Denmark: “To be or not to be. . . .”

endure the high unemployment and other social suffering this would bring about; or, break with the treaty (as proposed by France), and form a new supranational institution, which takes political control over both monetary and financial policies. In any case, the country has lost its political sovereignty.

It is this perspective, which more than anything else, has turned a majority of the Danes against the idea of Denmark joining the euro. The government, led by Social Democratic Prime Minister Poul Nyrup Rasmussen, argued that Denmark ought to join the common currency in order to protect the economy against international speculation. Obviously, the continuous slide of the euro has completely undermined that argument. On top of this, the Rasmussen government had made special efforts to assure the Danes that Denmark would not run any risk of having to give up political sovereignty, if the country entered a closer monetary and political union with the larger nations of Europe. The sanctions against Austria, imposed by all of the EU member states when Jörg Haider's Freedom Party joined the Austrian government, completely undermined the illusion of maintaining national political sovereignty.

The Danish chapter of the Schiller Institute is circulating a translation of Lyndon LaRouche's document, “On a Basket of Commodities: Trade without Currency,” as its contribution to the political debate leading up to the Sept. 28 referendum. The Schiller Institute points out, that Mr. LaRouche's warning to the nations of Asia, against falling into the trap of believing that they can protect themselves against a financial collapse by forming a basket of currencies to replace the dollar, is also relevant to the Danish discussion on whether or not to join the euro.

'October Surprise' Attacks To Hit Iraq

by Edward Spannaus

Although there is much talk about a new "October Surprise" in the form of another round of U.S.-British air strikes against Iraq, there should be no "surprise" if this happens. In recent weeks, there has been a steady drumbeat in the U.S. and British news media for renewed military attacks on Iraq under one pretext or another.

The latest round of battle-cries against Iraq was signalled by an Aug. 22 *New York Times* lead story, entitled "UN Readies Team To Check Weapons Held by Iraqis: Confrontation Is Likely." The thrust of the article was that a new team of United Nations weapons inspectors, representing 19 nations and responsible to UN General Secretary Kofi Annan, was ready to be deployed to Baghdad. But the question was, what would the United States do, should the Iraqi government refuse to allow the team into the country. The article quoted an unnamed U.S. government official, who refused to rule out the possibility of an "October Surprise" of U.S. military action at the height of the U.S. Presidential campaign. "They [the Iraqis] will be making a severe mistake if they think an election campaign will affect how we carry out our foreign policy," the official said.

Shortly thereafter, Iraqi Deputy Prime Minister Tariq Aziz announced that Iraq indeed would not allow the new team into the country, because Iraq does not recognize UN Resolution 1284, which chartered the new inspection team. Hans Blix, the Swedish diplomat selected by the UN Security Council to head the new inspection team, was advised by the United States and UN Security Council members to hold off filing his report while the UN Millennium Summit was under way.

During U.S. Senate hearings on Iraq policy held on Sept. 19, U.S. Assistant Secretary of State Edward Walker declared that the situation is now at an "impasse." Walker said that Blix has now filed his report, but that Blix is not prepared to go to Iraq without Iraqi acceptance of Resolution 1284.

However, there are plenty of other pretexts that can be utilized. In that same hearing, Undersecretary of Defense Walter Slocombe described three "red lines" which could trigger military action: if Iraq reconstitutes its weapons of mass destruction program; threatens its neighbors, or U.S. or British forces; or moves against the Kurds.

The Drumbeat Continues

During the first week of September, CNN reported that the United States is ready "for at least three days of intense

strikes" against Iraq in the event that Baghdad fires missiles at Israel. This followed reports that a Patriot air defense battery had been put on heightened alert at a U.S. base in Germany, ready to be deployed to Israel in case of any threat to Israel from Iraq.

On Sept. 14, Secretary of State Madeleine Albright threatened to bomb Iraq if it attacked its neighbors. "We have a credible force in the region and are prepared to use it in an appropriate way at the time of our choosing," Albright told a UN press conference.

Albright made her latest threat, after Iraq accused Kuwait of drilling oil in Iraqi territory, in precisely the same manner that Kuwait had done in 1990, which provoked the 1990-91 war. Iraq has accused Kuwait of stealing at least 300,000 barrels of Iraqi oil per day, taken from oil fields in the border area by means of horizontal drilling. And just before Albright's statement, the State Department had accused Iraqi planes of conducting incursions into Saudi Arabian airspace.

Reuters recently ran a story on the rising possibility of a military clash between the United States and Iraq, citing the pattern of recent incidents and what it calls provocative actions by Saddam Hussein. "The West has been holding back so far, but if this pattern of provocation continues, I'd be very surprised if we get through the next few weeks without some military action," an unnamed "senior Western diplomat" said. Albright is reported to have discussed this with British Foreign Secretary Robin Cook at the UN General Assembly in New York.

On Sept. 18, the *New York Post* ran a lead editorial accusing President Clinton of "appeasement" of Saddam. Clinton doesn't want a flare-up as he leaves office, said the *Post*, so Saddam will take advantage of Clinton's weakness. "Pundits have been busy guessing what kind of 'October Surprise' the Clintonites might be planning," the editorial said. "The most deadly surprise, though, might not come from Clinton, but Saddam."

War with Russia?

One of the most dramatic warnings was run by the right-wing website Newsmax.com, which ran an article charging that Clinton might attack Iraq "to help Gore win the election," but that this could set off a war with Russia, which could escalate to a nuclear war. Newsmax cited two recent events: U.S. saber-rattling over Iraq and the beefing up of U.S. forces in the Persian Gulf, and Russia's announcement that it intends to resume regular commercial flights to Baghdad, despite the UN air embargo.

What worries many observers, the article said, is what happens if a U.S. bombing raid on Baghdad were to hit Russian planes and kill Russian passengers. This could set off an explosive confrontation with Russia, which could quickly escalate into war. And, "given the deplorable state of Russia's conventional forces there is little doubt it would resort to using its huge nuclear arsenal, which the Kremlin regards as its first line of defense."

International Intelligence

Plan for 'Humanitarian Interventions' Drafted

A think-tank called the International Commission on Intervention and State Sovereignty is drafting a blueprint that will allow the UN to disregard national sovereignty in future "humanitarian interventions," according to the Melbourne daily, *The Age*, on Sept. 15. The commission is headed by former Australian Foreign Minister Gareth Evans, and is reportedly the brainchild of Canadian Foreign Minister Lloyd Axworthy, the godfather of the Organization of American States dirty operations against Peru's President Alberto Fujimori. The commission will be funded by the Canadian government and leading U.S. foundations.

The Age wrote, "Canada played a leading role in . . . efforts to break down the Cold War adherence to nation-state interests and establish the prominence of international standards of human rights." The formation of the commission follows a speech last year by UN Secretary General Kofi Annan, in which he said that countries that abuse their citizens should no longer escape international action by hiding behind national sovereignty. The report is expected to meet resistance from UN Security Council permanent members Russia and China, which have veto power.

Ivanov, Kharazzi Raise Alarm over Afghan Terror

Russian Foreign Minister Igor Ivanov told the 55th session of the UN General Assembly, on Sept. 16, that the "internal Afghan crisis, which turned Talib-ruled Afghanistan into a global seat of international terrorism, has already transcended the regional limits." He continued, "Complicity with Talib terrorists of all hues, ranging from Osama bin Laden to Uighur and Philippines separatists, gives the Afghan crisis broad international dimensions." A kind of "terroristic internationale" has emerged in Afghanistan, he said, which has "dangerous geopolitical ambitions and steadily increasing potential, including financial means to implement them."

Similarly, Iranian Foreign Minister Kamal Kharazzi addressed a meeting during the UN General Assembly of Afghanistan's six neighbors (China, Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan) plus the United States and Russia—known as the "6+2." Kharazzi said the growing number of non-Afghani nationals fighting alongside the Taliban forces can further complicate the Afghan conflict. "We believe that the international community, while trying to engage the Taliban in a way compatible with the interests of the Afghan people, should send warning signals to the belligerent parties."

Russian Leaders Expect Crisis Conjunction in 2003

On Sept. 13, leaders of the Russian Parliament and President Vladimir Putin charted measures to deal with anticipated multiple crisis-points, which will strike Russia in 2003. The crucial matters at issue, are demographics, investment, and debt. Former Prime Minister Yevgeni Primakov, now leader of the Fatherland-All Russia group in the State Duma, said there were "issues of extraordinary importance, strategic issues which may degenerate into a serious threat for the existence, I want to stress this, for the existence of Russia." (See also the memorandum by Duma Dep. Yuri Maslyukov, on how the bills for a decade of non-investment in industry are coming due, in *EIR*, Sept. 15.)

Boris Gryzlov, leader of the Unity group in the Duma, said that 2003 will mark a turning point in the shrinkage of the population, as well as a peak of foreign debt payments, with \$17 billion due that year. A special commission will work on the 2003 problems.

Earlier, on Sept. 2, the journal *Trud* published an interview with Prof. Dr. Vasily Zhukov, Rector of the Moscow State Social University, in which he pointed out, "It is the first time in the history of the state that the death rate is higher than the birth rate in peacetime. . . . It means that we have stopped on the road of depopulation, which in common language means the extinction of the nation."

Dr. Zhukov states that with perestroika, "Disillusionment and pessimism, engendered by the unprecedented growth of poverty, hit tens of millions of people," resulting in birth rates falling from 13.4 births per 1,000 population in 1990, to only 8.4 in 1999. Life expectancy went from its 1987 peak at 69.94 years, to 65.9 over the next seven years. Men's life expectancy fell from 65 in 1987, to 59.8 in 1996. "And the government plans to raise pensionable age to 65," Zhukov says. "Who will it pay pensions to?"

Zhukov concludes, "If we really want to restore the might of Russia, we should remember that this is possible only . . . if we invest the state's fixed capital into the family, into children, their health and education. And this should become one of the main ideas rallying all Russian citizens."

Catholics, China Meet on 'Religions and Peace'

A dialogue between China and Christianity took place in Beijing, sponsored by the Chinese Academy of Social Sciences, the Milan Catholic University, and the Italo-Chinese Friendship Society "Tian Xia Ya Jia," reported conference speaker Bruno Forte in the Sept. 16 issue of *Corriere della Sera* (emphases are Forte's). "The meeting made two issues very clear," he said. "The first issue can be summed up as *China needs Christianity*: In an era of great social and economic transformations, such as China is undergoing, China needs strong ethical references, to fill the vacuum left by ideology, and to support the commitment for the common good with respect for the dignity of all. Now, it was Christianity that offered the world the idea of the centrality of the human being and of the value of solidarity, starting from the Love revealed in the incarnation of the Son of God. . . . A dialogue between the Christian message and Chinese culture, along the lines of that begun in the 16th Century by the Jesuits, can only benefit the country.

"But if China needs Christianity, the second issue that came out, [is] that *Christianity needs China as well*: At the beginning of the Third Millennium, Christianity needs a new

missionary momentum. . . . In Christian history, regeneration has always occurred in coincidence with the opening of new horizons for dialogue and the annunciation of the Gospel . . . [and] thus could it be now, towards the East, thanks to a new meeting with the great Asian cultures, beginning from India and China.”

The conference, he stressed, took place “a short distance from the old Astronomic Observatory . . . which was directed 11 times by Jesuits; starting at the end of the 16th Century, thanks to the Italian Matteo Ricci, the Society of Jesus had started a fertile dialogue with the millennia-old Chinese culture. . . . Some Jesuits (among them Giulio Aleni from Brescia) wrote, in Chinese, works on Christ in which, in a conversation with the Wisemen of the Empire, they presented the Gospel as the supreme achievement of human endeavor, which is nobly represented by Chinese culture. . . . In the climate of new openings, marked by so-called ‘modernization,’ this singular meeting between Christianity and China seems to come alive again today.”

Bolivian Coca Growers Protest Anti-Drug Bases

The São Paulo Forum’s drug legalizer, Bolivian Deputy Evo Morales, led coca producers and peasants in protests along the main highway linking the capital, La Paz, to Cochabamba in late September. Some 15,000 coca producers joined in the protest, to denounce government plans to build three new military bases in the region, from which to continue the anti-drug fight. Construction on the first base is scheduled to begin in October.

President Hugo Banzer’s government has been extremely effective, with U.S. backing, in eradicating coca production, through its Operation Dignity, which has destroyed 93,900 acres of coca over the last three years. But, it is stymied by lack of credit and technology—Bolivia is the poorest country in South America—in creating productive enterprises to employ former coca producers. Morales, who advocates drug legalization, argues that the protests are “on behalf of sovereignty, against the Yan-

kees who want to take control of our lands.”

The government decided on Sept. 19 to deploy police and military forces to unblock the highway by force, if the protesters do not agree to negotiate peacefully. The blockades have prevented the transport of products from eastern Bolivia to the west and northwest.

Indonesia Resists UN West Timor Mission

Indonesia’s Foreign Minister Alwi Shihab gave a briefing in Washington, on Sept. 13, regarding the crisis that has erupted since the killing of 3 UN aid workers in Atambua, West Timor on Sept. 6. Alwi Shihab made clear that Indonesians are united in resisting any attempt by the UN Security Council (UNSC) to launch any mission in West Timor, which would open the way for intervention into, and separation of the Maluku, Aceh, and Irian Jaya. Alwi Shihab said that pressure within the UNSC for such a mission was led by permanent members, the United States, Britain, and Canada. He added that the other two permanent members, China and Russia, pledged they would back whatever decision Indonesia makes.

Defense Minister Mohamad Mafud, speaking at a press conference in Jakarta on Sept. 14, declared, “We suspect, and have initial evidence, that there were intelligence operations in the Atambua case aimed at faulting Indonesia.” He suggested that the reason for such operations, lies in the failure of the UN Transitional Authority in East Timor to form a new government in what is expected to become independent East Timor. Moreover, Mafud said, “Recently it’s emerged that people living in East Timor have already started thinking about reintegration with Indonesia, because it’s impossible for them to establish a government of their own.” Refusing to name a particular country, Mafud described the role of Australia, saying, “The international community, deeply involved in the independence ballot, feel embarrassed at the failure to develop East Timor. So they provoked this riot. They just throw the stones, but hide their hand, so that the world once again is blaming Indonesia.”

BRITISH CUSTOMS officials confiscated tapes of Zimbabwean President Robert Mugabe’s Sept. 10 speech to a church in Harlem, New York. According to journalists for the state-run Zimbabwe Broadcasting Company, British customs aggressively searched them when they arrived in London, and then confiscated their videotapes of Mugabe’s speech, without justification. They have yet to release the tapes.

CANADA hosted a conference in mid-September in Winnipeg, on war and children. UN estimates that 300,000 children are currently soldiers, sex slaves, or forced laborers in war-torn areas around the globe. Since May, 50 nations have signed a UN agreement, banning the use of soldiers under 18 years old, but conferees acknowledged that the number of children swept up into regional wars continues to grow.

THE FOREIGN MINISTERS of the Association of Southeast Asian Nations (ASEAN) and Ibero-America will hold a first joint meeting in April 2001. The plan was announced after a three-day meeting of senior officials from 27 countries in Santiago, Chile, called the East Asia-Latin America Forum.

OSAMA BIN LADEN is reportedly distributing instructions to his terrorist followers on CD-ROMs, according to the Sept. 18 *USA Today*. The CDs, which detail how to assemble bombs, were seized by Jordanian authorities, from a suspected terrorist linked to Bin Laden.

THAILAND’S armed forces took part in the country’s biggest drug raid on Sept. 14, staging searches in 49 villages along the Thai-Myanmar border, in Chiang Rai, Chiang Mai, Tak, Lampang, and Mae Hong Son provinces, looking for amphetamine refineries and warehouses. In Lampang, police intercepted a truck, which was loaded with 4 million amphetamine tablets.

Al Fayed Charges ‘Murder’ in Anniversary Lawsuit

by Jeffrey Steinberg

Exactly three years after the Aug. 31, 1997 Paris car crash, that claimed the lives of Princess Diana, Dodi Fayed, and Henri Paul, Mohamed Al Fayed, father of Dodi Fayed, filed a Federal civil suit in Washington, D.C., demanding that the U.S. government turn over all classified documentation that could shed light on the causes of that tragic event.

The suit also demanded government files on jailed fraudster and self-proclaimed “CIA agent” Oswald LeWinter, and others, who were foiled in a 1998 effort to extort \$20 million from Al Fayed. U.S. Justice Department officials have stonewalled for two and a half years, in bringing charges against the other Americans involved in the scheme, despite the fact that LeWinter is now serving a four-year jail sentence in Austria for his role in the conspiracy. The incident revolved around LeWinter et al.’s attempts to sell Al Fayed forged CIA documents, purporting to prove that Britain’s MI6 intelligence agency assassinated Princess Diana and Dodi Fayed. To this day, LeWinter claims that, although the documents seized in his hotel in Vienna are forgeries, their content is accurate, and reflects the contents of actual CIA documents.

Smears and Cover-Up Can’t Stop Al Fayed

Despite a flagrant cover-up of the causes of the Paris crash by French authorities, and a non-stop smear campaign against him by the British Crown and the majority of the British Establishment media, Mohamed Al Fayed has continued to insist that the deaths of his son, the Princess, and their driver, were murder. In a videotaped statement released at a Washington press conference on Aug. 30, 2000, announcing the lawsuit, Al Fayed stated:

“Three years ago, on Aug. 31, 1997, I lost my beloved son Dodi and a dear friend, Diana, Princess of Wales, in a tragic event in Paris, France. The car crash that took the lives of these two lovely people has been portrayed as a traffic

accident caused by a drunk, driving at high speed. The reality is that it was murder.”

And, three years after the fact, a growing mountain of evidence, now, more than ever, supports Al Fayed’s contentions.

Despite British Establishment efforts to demonize the Harrods department store owner as a “conspiracy-monger,” and to bury the truth of the Paris crash beneath a “bodyguard of lies” and a rigorously enforced media blackout, the press conference drew national and international media attention, and once again spotlighted the many unanswered questions surrounding the crash in the Place de l’Alma tunnel.

Washington attorney Mark Zaid, Harrods security director John Macnamara, and English barrister Ian Burton, who represents Al Fayed, spent more than an hour detailing the case for a *de novo* investigation into the Paris events, demanding that the U.S. agencies named in the lawsuit, make their classified files available, to ensure that justice is done and the truth made public. The press conference was attended by an overflow crowd of reporters and other interested parties.

For the next 48 hours, major U.S. news outlets featured coverage of the Al Fayed allegations. John Macnamara and Mark Zaid, appearing on a variety of news interview shows, presented dramatic evidence that the French investigation was a cover-up, and that driver Henri Paul was not drunk at the time of the crash.

At the press conference, Macnamara, Zaid, and Burton released photographs from the surveillance cameras at the Paris Ritz Hotel, which Al Fayed also owns, showing two unidentified men, at the edge of a crowd of paparazzi in front of the hotel, in the hours just prior to the crash. Those two men, whose photographs first appeared, exclusively, on the cover of *EIR* on Dec. 19, 1997, were part of a team of five to seven men, tracking Diana and Dodi, it is believed. Were they



John Mcnamara, director of Security for Harrods, at a press conference in Washington on Aug. 30, announcing a lawsuit by Mohamed Al Fayed, who is demanding that U.S. agencies make available their classified files on the deaths of Dodi Fayed and Princess Diana.

part of an MI6 surveillance unit, that, several well-placed sources say, was stalking the couple from the moment they arrived in Paris? That was one of a string of questions posed by Macnamara and Zaid.

Participants in the press conference were also provided excerpts from video footage at the Ritz Hotel, showing acting hotel security chief Henri Paul, in the evening prior to the crash, which took place shortly after midnight. Although the official French investigation found that Paul was drunk, the video footage showed that Paul was perfectly normal, conversing with other security personnel, hotel guests, and the Princess and Dodi Fayed.

The official French coroner's files revealed that Henri Paul not only had illegal levels of alcohol and traces of two prescription drugs in his blood. There was also a 21% level of carbon monoxide in the same blood sample! Experts on carbon monoxide poisoning concur that a 21% presence of carbon monoxide would render any individual incapable of moving—and, in fact, near death. The hotel video footage, and Paul's ability to navigate the Mercedes sedan through the Paris streets and riverside expressway, clearly demonstrated that he was not suffering from such lethal levels of carbon monoxide.

As Macnamara told the Washington press corps, the only conclusion that can be drawn, is that the blood samples were either so contaminated as to be useless, or that they were taken from some other person! In short, the whole foundation for the official French government claim that the crash was the

result of drunk driving is *disproven* by the very evidence in the French magistrate's file.

A So-Called 'Suicide'

Macnamara elicited a sharp reaction from the Washington press corps, when he detailed the mysterious death of paparazzo James Andanson, whose charred body was found in the wreckage of a car in the south of France in May of this year. French officials claimed that Andanson had committed suicide, because of marital troubles.

Andanson was not only one of the leading paparazzi who had stalked Princess Diana and Dodi Fayed during the final week of their lives. Andanson was, also, at the time of the Paris crash, the owner of a white Fiat Uno. French authorities acknowledged, from the outset of the probe, that the Mercedes carrying Princess Diana, Dodi Fayed, Henri Paul, and body-guard Trevor Rees-Jones, collided with a slow-moving white Fiat Uno at the entrance of the Place de l'Alma tunnel, and this contributed to the fatal crash.

A number of eyewitnesses told French investigators that they saw a white Fiat Uno flee the tunnel, seconds after the crash, and disappear into the night. Despite a nationwide dragnet, the French police *claimed* that they were never able to find the car, nor identify the driver.

However, the French authorities did, in fact, seize the white Fiat owned by Andanson, which he had painted and sold shortly after the crash. Forensic tests on the car confirmed that the paint and bumper scratches matched those on the



This photo, published in EIR of Dec. 19, 1997, was taken by closed-circuit cameras near the Ritz Hotel in Paris on Aug. 30, 1997, shortly before Princess Diana and Dodi Fayed were murdered. The men to the rear are believed to be part of a team that was surveilling them.

Mercedes, strongly suggesting that Andanson's car had been involved in the crash. Yet, Andanson presented a paper-thin alibi, that he was not in Paris the night of the crash, and the authorities released the Fiat and took Andanson off their suspects list!

Andanson's death in May was followed, days later, by an armed burglary on the offices of the Paris photo service where he worked. Three armed men wearing ski masks shot a security guard, and held employees hostage, while they ransacked the offices and confiscated what were believed to be computer files and cameras owned by Andanson. A source in Paris confirmed to *EIR* that the modus operandi of the burglars showed that they were working for French security services, and knew that they were in no danger of being caught.

These startling revelations, which also first appeared in *EIR* on July 7, 2000, added to the already-existing evidence that the official French decision to shut down the investigation, was a flagrant cover-up. The final one-page statement by investigating magistrate Hervé Stephan exonerated all of the paparazzi and place exclusive blame on Henri Paul. Thus, by failing to indict any of the paparazzi for manslaughter, or even for failing to obey France's strict "good samaritan" laws, which require that eyewitnesses to a crash assist the victims, the French government was able to withhold from the public, the 60,000-page report.

It was as if the Warren Commission had issued its final report on the assassination of President John F. Kennedy, but kept the 26 volumes of evidence under seal!

More Unanswered Questions

Apart from the mysterious death of Andanson, the French "bungling" of the probe of his white Fiat Uno, the British

surveillance team at the Ritz Hotel, and the "carbon monoxide" paradox of the Paul blood sample, there are other unanswered questions that must be resolved before anyone can dismiss Al Fayed's charges of murder.

At the Washington press conference, and in several media appearances afterwards, Macnamara cited evidence, obtained by American investigative reporter Gerald Posner, that Paul was on the payroll of several security services: the French, the British, and, perhaps, the Israeli. Posner wrote in *Talk* magazine last year that two American intelligence officials in Paris had told him that Paul had spent the early evening of Aug. 30, 1997, meeting with his French intelligence "handler," and had been paid the equivalent of \$2,500 in French francs, money that was found in his pocket after the crash, in which he died instantly.

Paul took a circuitous route from the Ritz to Dodi Fayed's Paris apartment, a route that ultimately led him into the Alma tunnel. Was Paul acting on instructions from his intelligence agency controllers, who may have, in effect, set him up for murder? The U.S. files being sought by Al Fayed may shed light on this, given Posner's own source accounts, and given that the National Security Agency has acknowledged that it has more than 1,000 pages of files on Princess Diana.

Another mystery surrounding the events of Aug. 31, 1997 concerns the failure of French emergency rescue teams to get Princess Diana to a hospital for nearly two hours *after* they arrived at the crash site. As Macnamara told the Washington press corps, Princess Diana was suffering from the same internal injuries as President Ronald Reagan, when he was shot in March 1981. President Reagan, already in his 70s, was rushed to the hospital and he survived, after surgery to repair a torn pulmonary artery.

Princess Diana was “treated” at the Alma tunnel for an hour, and then it took an additional 43 minutes to drive her, by ambulance, to the La Pitié Salpêtrière hospital—just five miles from the crash site! She died moments before she was brought into surgery.

French officials claimed that French emergency rescue procedures are different from those used in America, and that French emergency rescue vehicles are “mobile surgery units.” However, a senior French doctor—who designed the Paris emergency response system—told *EIR* in 1997 that Diana should have been in surgery in a hospital within 25-30 minutes after the rescue crews arrived. Under such “standard procedures,” especially for VIPs, Diana would have been alive today, the doctor opined.

The emergency response and the forensic investigation at the Alma tunnel was personally directed by Philippe Massoni, the police chief of Paris. Interior Minister Jean-Pierre Chevènement was at the hospital, in minute-to-minute contact with the teams at the tunnel, an hour before Diana arrived. What do these senior French officials know about the bungling of the rescue effort?

High-Level Politics

As *EIR* reported from day one, the death of Princess Diana and Dodi Fayed was not a story of star-crossed lovers. Rather, it was an affair of state.

Princess Diana, from no later than 1990, was publicly challenging the authority of the House of Windsor—first, in her collaboration with author Andrew Morton, and later in her November 1995 television appearance on BBC Panorama. In that two-hour interview, Princess Diana declared that Prince Charles was unqualified to serve as King. As a member of the Spencer family, which had descended from British royalty long before the Hanover/Windsors migrated from Germany, Princess Diana’s *political* attacks on the Royals represented a very significant challenge to the authority of the British monarchy. Following her BBC appearance, Princess Diana was the target of a vile smear campaign by the Establishment media, which demanded, “Off with her head!” This was a year and a half before her relationship with Dodi Fayed began.

This declaration of war by Diana was not lost on the Royals—particularly on Prince Philip, as noted in a chillingly ironic piece that appeared in the British media on the morning of the Princess’s death. On Sunday, Aug. 31, 1997, the *Mirror* had written:

“At Balmoral next week, the Queen will preside over a meeting of The Way Ahead Group where the Windsors sit down with their senior advisers and discuss policy matters. MI6 has prepared a special report on the Egyptian-born Fayed which will be presented to the meeting. . . .

“A friend of the Royals said yesterday: ‘Prince Philip has let rip several times recently about the Fayed. . . . He’s been banging on about his contempt for Dodi and how he is undesirable as a future stepfather to William and Harry.’ Diana has

been told in no uncertain terms about the consequences should she continue the relationship with the Fayed boy. . . . Now the Royal Family may have decided it is time to settle up.”

Moments before that edition of the *Sunday Mirror* appeared on newsstands all across Great Britain, Princess Diana was pronounced dead.

‘The Reality Is That It Was Murder’

On Aug. 29, Mohamed Al Fayed released a videotaped statement that was played at a Washington, D.C. press conference, given by Harrods security director John Macnamara and attorneys Mark Zaid and Ian Burton. Al Fayed’s statement appears below in its entirety.

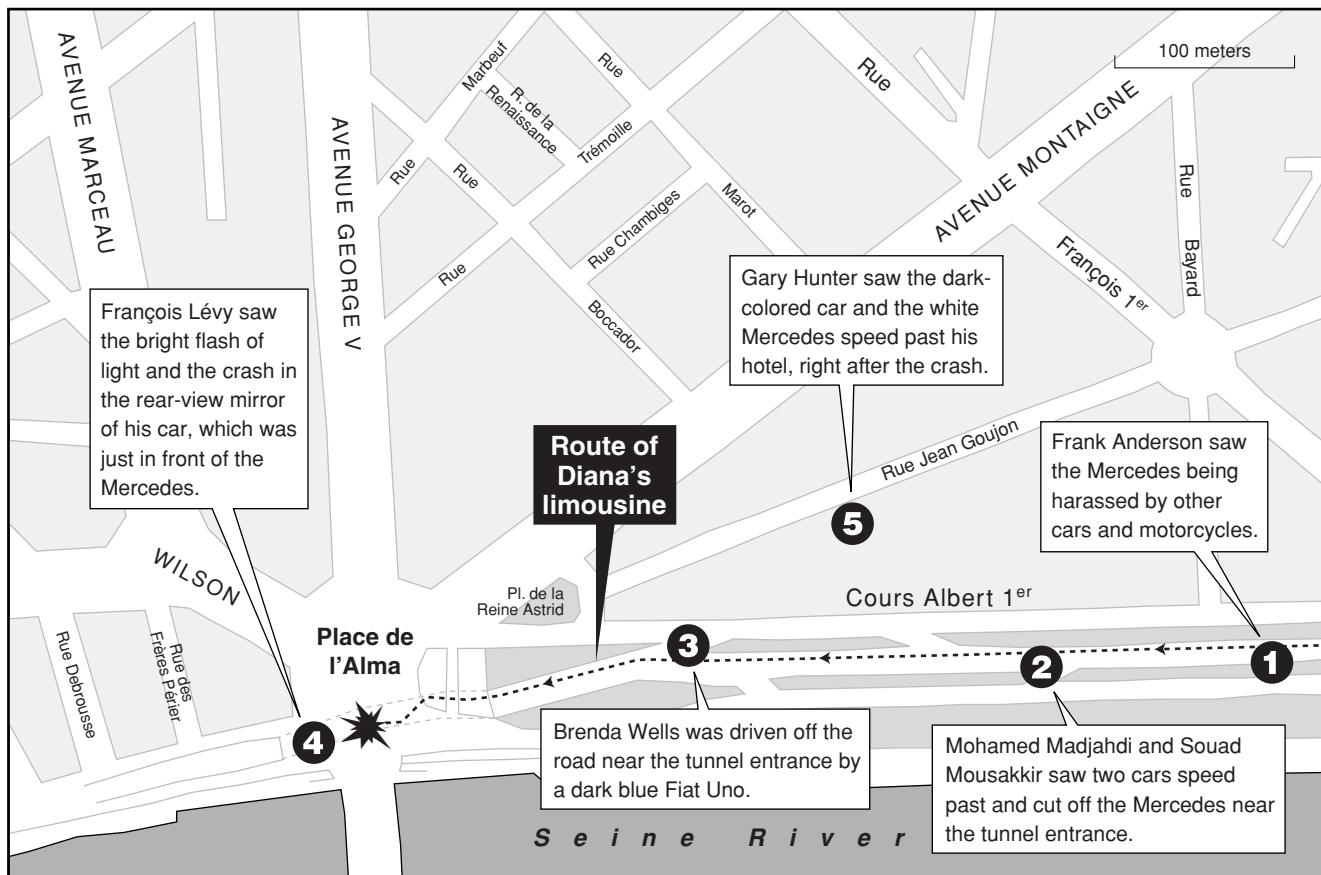
Three years ago, on Aug. 31, 1997, I lost my beloved son Dodi and a dear friend, Diana, Princess of Wales, in a tragic event in Paris, France. The car crash that took the lives of these two lovely people has been portrayed as a traffic accident caused by a drunk driving at high speed. The reality is that it was murder. The person portrayed as the drunk driver was Henri Paul, the second in charge of security at the Paris Ritz Hotel. According to reputable sources, Henri Paul spent at least three years in the employ of MI6, the British foreign intelligence service.

We have forensic proof, which has been submitted to the Court of Appeals in Paris, that the blood sample upon which the French are relying to prove that Henri Paul was drunk, in fact contained over 21% carbon monoxide. This fact seriously calls into question whether the blood was his, for Henri Paul died instantaneously upon impact and could not have breathed in the noxious fumes. The statement issued by the French authorities that Henri Paul was three times over the legal limit [for alcohol] was issued within 36 hours of the crash and before his body samples had even been analyzed. This is but one example of the disinformation being disseminated, which I believe is being orchestrated by the British security services in their attempt to cover up the truth.

Since that tragic day three years ago, I have not rested in my search for the truth. From the irrefutable facts which have been uncovered, it is clear to me that evil and racist forces, working through the British security services, murdered my son and Princess Diana. MI6 is controlled by the Establishment of the United Kingdom. They answer ultimately to the Royal Household, which would never have accepted my son, a naturally tanned, curly-haired Egyptian, being married to the mother of the future King of England and becoming his stepfather. The drama of Romeo and Juliet continues to repeat itself almost 500 years after William Shakespeare penned his tragic story.

FIGURE 1

Six Eyewitnesses Provided Remarkably Consistent Accounts of the Assassination



Open U.S. Government Files

Evidence will eventually be tested in an open forum, either in the Appeal Court in Paris or at the Coroners' Courts in the United Kingdom. There are still many unanswered questions, not least of which relate to documents held by United States government agencies, especially the National Security Agency (NSA) and Central Intelligence Agency (CIA). The United States' intelligence-gathering network, through the most sophisticated satellite systems, allowed the NSA to spy on Diana, Princess of Wales, perhaps while she was in the company of my son, even when they were aboard my yacht in Sardinia. They monitored many of her conversations and apparently passed the information to MI6. There are at least 39 documents, consisting of 1,054 pages, held by the NSA alone. The NSA, however, refuses to release the documents or even publicly acknowledge the existence of the tapes, by hiding behind the cloak of national security. How can the innocent conversations of two people, very much in love, possibly jeopardize the security of the United States of America, particularly when the existence of the tapes is well known? The information in these files can form part of the jigsaw puzzle now being assembled, to reveal

the truth. Tomorrow, I will be filing a lawsuit before the United States District Court for the District of Columbia, to compel the United States government to release all relevant information it possesses regarding the tragedy and related events.

Included among the relevant documents is information pertaining to the U.S. Department of Justice's failure to fully investigate and prosecute individuals who attempted to take advantage of Princess Diana's death and my grief, by extorting \$20 million from me by offering for sale alleged CIA documents, describing MI6's involvement in the assassination of my son and Princess Diana. One of the men, Oswald LeWinter, was prosecuted immediately by the Austrian government and is now imprisoned in Vienna for his part in the scheme. Although the documents were later determined to be forgeries, LeWinter insists that the original documents describing the murder plot are held by the CIA. Almost two and a half years have passed since LeWinter's imprisonment; yet despite overwhelming evidence in the United States, the U.S. Attorney's Office in the District of Columbia has made no move to prosecute anyone else.

I will never rest until the truth is discovered. Those

responsible for the murders must be brought to justice. I am a great believer in God and I am now appealing to the American people to help me prove that two innocent people were murdered by evil people controlled by a political regime.

Mohamed Al Fayed's Suit vs. the U.S. Government

On Aug. 31, 2000—the third anniversary of the fatal car crash in Paris, France, that claimed the lives of Princess Diana, Dodi Fayed, and Henri Paul—Mohamed Al Fayed and Punch, Limited, filed a civil suit (Case No 1:00CV02092), under the Freedom of Information Act, against the U.S. Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, the Department of Defense, the Department of Justice, the Department of State, the Federal Bureau of Investigation, the Executive Office of United States Attorneys, and the Immigration and Naturalization Service. The case was filed in the U.S. District Court for the District of Columbia, and was assigned to Judge Colleen Kollar-Kotelly. Here are excerpts from the suit.

This is an action under the Freedom of Information Act (“FOIA”), 5 U.S.C. §552, as amended, and the Administrative Procedure Act, 5 U.S.C. §702 et seq., for the expedited processing and disclosure of agency records pertaining to the deaths of Princess Diana and Dodi Fayed, and events and individuals associated with the tragedy, that were improperly withheld from plaintiffs Mohamed Al Fayed and Punch Limited by defendants. . . .

The Tragedy

14. On August 31, 1997, at approximately 12:25 a.m. local time, an automobile carrying Diana Francis Spencer, Princess of Wales, and Dodi Al Fayed crashed into the thirteenth pillar in the tunnel under the Place d’Alma in Paris, France. Princess Diana and Dodi Al Fayed were killed along with the automobile’s driver, Henri Paul, a French security officer at the Ritz Hotel. Bodyguard Trevor Rees-Jones was the sole survivor.

The French Investigation

15. Shortly after the tragedy, Premier Juge d’instruction Hervé Stéphan, a French investigating magistrate, instituted an investigation. On or about January 29, 1999, it was announced that the investigation had ended and concluded that the tragedy was caused by drunk driving by Henri Paul, excessive speed and a dangerous stretch of road. Nine photographers and a press motorcyclist were placed under formal investigation—a step immediately before being formally

charged—for manslaughter and failing to render aid to accident victims. On or about September 3, 1999, Judge Stéphan dismissed all charges against the photographers and motorcyclist.

16. The decision to formally end the investigation is presently under appeal by Al Fayed, and judicial proceedings are scheduled for September 2001.

Richard Tomlinson

17. Richard Tomlinson, 37, is a former MI6 (British foreign intelligence service) officer who served from September 1991 through April 1995.

18. On or about August 28, 1998, Tomlinson informed investigating magistrate Hervé Stéphan that Henri Paul, the chauffeur killed in the tragedy, had been on the MI6 payroll for at least three years. He also revealed that the death crash resembled an MI6 plot to kill Yugoslavian President Slobodan Milosevic in Geneva. A copy of the affidavit Tomlinson provided to Judge Stéphan is available at www.alfayed.com/dianaanddodi/tomlinson.html.

19. In or around September 1998, Tomlinson traveled to the United States on board a Swiss Air Flight in order to appear on an NBC television program to discuss his recent revelations. Upon arrival at John F. Kennedy International Airport in New York, Tomlinson was escorted off the plane by United States government officials and detained for several hours. He was never permitted to enter the United States, and instead was placed back on a plane to Europe.

20. Upon information and belief, the United States government prevented Tomlinson from entering the United States at the request of MI6 or other British government officials.

Oswald LeWinter

21. Oswald LeWinter (“LeWinter”), 70, has claimed to be a former United States intelligence operative for more than two decades. He has been linked to several high-profile controversies here in the United States and Europe, all of which involved allegations of intelligence connections and specifically the CIA. These controversies have included LeWinter providing what apparently turned out to be disinformation regarding [the] “October Surprise,” which involved allegations that individuals associated with Ronald Reagan’s Presidential campaign delayed the release of American hostages in Iran in order to defeat President Jimmy Carter; claims by LeWinter that the CIA was involved in the 1986 assassination of former Swedish Prime Minister Olof Palme; his appearance in a 1994 documentary on the bombing of Pan Am Flight 103, entitled “The Maltese Double Cross,” in which LeWinter claimed that the CIA knew that Libya was not responsible for the terrorist attack; and a 1998 attempt, more fully described below, to sell fraudulent CIA documents concerning the deaths of Princess Diana and Dodi Al Fayed.

22. In his book *October Surprise* (1991), Professor Gary Sick describes LeWinter as an “intelligence operative,” who

was a “graduate of University of California at Berkeley and had a master’s degree in English literature from San Francisco State.” “He spoke German and English, but he had also acquired a working knowledge of Hebrew, Persian, and French, and some Urdu.” Sick stated [that] LeWinter “had served with U.S. forces in Vietnam and also claimed long experience with various U.S. and Israeli intelligence agencies.”

23. Upon information and belief, LeWinter previously formally maintained a relationship with the CIA, at least to the extent he provided information to the Agency during the 1970s. The CIA presently maintains in its possession records that confirm a relationship, as well as information pertaining to the fraud attempt described below.

The Effort To Defraud Mohamed Al Fayed

24. In late 1997 or early 1998, Keith Fler (“Fler”), a prominent California attorney, George Williamson (“Williamson”), an independent journalist, Pat Macmillan (“Macmillan”), and LeWinter—the latter two are both alleged former CIA agents—participated in an enterprise to sell forged documents purportedly stolen from the CIA that indicated MI6 . . . had plotted to murder Princess Diana and Dodi Al Fayed. Other individuals who are alleged to have played a role in the scheme include Linda Tumulty, who is tied to the late film producer Alan Francovich, and another former CIA operative named Thompson.

25. LeWinter, Macmillan, and other associates apparently forged the documents and planned to misrepresent them as genuine to induce potential buyers to purchase the documents. Along with Williamson, who was also aware that the documents to be sold were not authentic, LeWinter, Macmillan, and their colleagues agreed that a sale of the forged documents to a tabloid newspaper should be arranged. The participants in the scheme anticipated a sale price of over \$1 million.

26. Upon information and belief, at the suggestion of Gaby Leon (phonetic), an individual who allegedly formerly worked for the Argentine Secret Service, Williamson was advised to contact Fler, an entertainment attorney in Los Angeles, for advice on the sale of the documents and to serve as a broker for their sale.

27. In their course of discussions, Fler noted that Al Fayed had offered a reward of up to \$20 million for information concerning the deaths of his son and Princess Diana and he suggested that they should approach Al Fayed in lieu of a tabloid and offer him the information for \$20 million. Fler stated that he knew one of Al Fayed’s attorneys in Washington, D.C. and would make the necessary approaches to him. Upon information and belief, Fler was to receive 5% of any monies obtained through the sale of the alleged CIA documents.

28. On or about March 24, 1998, Fler contacted Douglas Marvin (“Marvin”), Al Fayed’s legal representative in Washington. Marvin, in turn, put Fler in contact with John Macnamara (“Macnamara”), Al Fayed’s chief of security. In a series of telephone conversations over the first two weeks of April

1998, between Fler and Macnamara, Fler stated that he had been approached by reliable individuals with credible information that the deaths of Dodi Al Fayed and Princess Diana were not accidental but in fact were the product of a carefully planned assassination carried out at the behest of British intelligence with the knowledge and acquiescence of Buckingham Palace. Fler indicated that his immediate contact was Williamson, an investigative reporter, and that several “principals” were also involved.

29. According to Fler, Williamson had connections with CIA sources who had been reliable in the past. Those CIA employees, Fler stated, would be prepared to disclose their information concerning the deaths of Dodi Al Fayed and the Princess, provided that Al Fayed would provide them with the financial security and assistance to “take measures to protect themselves”—a price of \$20 million. Fler indicated that, while it was unlikely that the CIA employees would agree to testify in any manner, they could provide authentic and sufficiently detailed CIA documentary evidence to prove the involvement of British intelligence agencies in the assassination plot. Fler also stated that the CIA sources knew that a CIA operative in Europe had been contacted by someone within the British intelligence agency MI6. The British agent indicated that an assassination team was being compiled, and asked for assistance. The CIA employee subsequently cabled for instructions and received in return a telex indicating that the CIA was not to become involved directly but that the agent could give British intelligence the name of a contact with a Mossad-affiliated “K team” operating out of Switzerland.

30. In addition to the telexes from and to the CIA operative, Fler indicated that the CIA sources could and would supply Al Fayed with a relevant intelligence collection report and a medical document indicating that the Princess was pregnant at the time of her death. Fler also indicated that there was a report of the results of an internal CIA investigation into the agency’s involvement with the assassination of Dodi Al Fayed and Princess Diana, but that this document could only be obtained through a “seven figure” cash payment.

31. On or about April 13, 1998, Fler requested that Macnamara arrange for the wire transfer of \$25,000 “expense money” so that Al Fayed’s representatives and the “principals” could meet in a foreign country to arrange for the inspection of the CIA documents and their subsequent sale to Al Fayed.

32. Given that alleged classified information was being offered for sale, on or about April 13, 1998, Al Fayed’s representatives contacted and began cooperating with officials from the FBI and the CIA. From here on, all actions taken by Al Fayed’s representatives were done with the approval and supervision of law enforcement and intelligence officials of the United States government.

33. On or about April 13, 1998, Fler requested that Macnamara send the \$25,000 via wire transfer to the account of Garland and Loman, Inc., a New Mexico company with an affiliate in Juarez, Mexico, at the Western Bank, 201 North

Church Street, Las Cruces, New Mexico 88001. Flee explained in a subsequent call to Macnamara that the Western Bank would contact Williamson when the funds were received. The FBI directed Al Fayed's representatives to wire the money from a bank in the District of Columbia so that criminal jurisdiction would lie with the United States Attorney's Office for the District of Columbia. Macnamara was told that at the very least the transmittal and receipt of the funds would constitute wire fraud, even if nothing else came of the intended transaction to sell the documents.

34. On or about April 14, 1998, with the approval of U.S. law enforcement authorities, Marvin ordered the wire transfer of \$25,000 from a NationsBank branch in Washington, D.C. to the Garland and Loman account. FBI, CIA, and EOUSA [Executive Office of United States Attorneys] officials were all aware of the ongoing events.

35. Upon information and belief, Williamson traveled to the Garland and Loman premises in New Mexico to withdraw the \$25,000 wire transfer with the intent to use those funds to finance and further the sale of the forged documents to Al Fayed. Williamson subsequently traveled to London, England and disbursed some or all of the \$25,000 to his co-conspirators; including, but not limited to, LeWinter.

36. On or about April 14, 1998, following confirmation from Williamson that the \$25,000 wire transfer had been received, Flee informed Macnamara that the meeting to exchange the documents for payment was to take place in Vienna, Austria. Flee stated that in Austria, Al Fayed's representatives would meet with four "principals," who would offer for sale two CIA telexes and a doctor's certificate that Princess Diana was pregnant at the time of her death. Flee emphasized that the internal CIA investigative report on the circumstances of the crash would not, however, be provided at the Vienna meeting because "they" had yet to procure it.

37. With the intent to render the proceeds of the sale difficult or impossible to trace, and in an effort to conceal their source, Flee instructed Macnamara during their conversation on or about April 14, 1998, that he should arrange to have the \$15 million negotiated purchase price (having been reduced from \$20 million) for the documents deposited at the Austrian bank Kredit Anstalt in a Sparbuch, an anonymous, bearer passbook account. Flee stated that the passbook was to be handed over to the "principals" at the Vienna meeting as payment for the documents.

38. On or about April 20, 1998, Macnamara received a telephone call in Austria from Williamson, who stated that he was at the Hilton Hotel, New York City. Williamson confirmed that he dealt regularly with the "principals" supplying the documents and that he served as their go-between. He also stated that the "principals" would be present in Vienna and that at least one of them, whose identity remains unknown, had traveled from the United States to meet with Al Fayed's representatives. At an initial meeting, Al Fayed's representatives would be shown at least one of the CIA telexes dealing

with the assassination of Dodi Fayed and Princess Diana, and that a serving member of the CIA would be on hand to authenticate the document. Additionally, Williamson also stated that the \$25,000 wired by Macnamara had been spent and that "nobody's cheating on you."

39. Following additional negotiations concerning the time, place, and format of the Vienna meeting, Macnamara received two telephone calls from an unknown individual on his mobile phone discussing the mechanics of the document exchange and setting a meeting for April 22, 1998, 2:00 p.m. at the Hotel Ambassador, 1010 Vienna, Neuer Markt 5. Macnamara was to sit on the Kärtner Strasse side, where he would be approached by one of the "principals." With the approval of United States and Austrian law enforcement authorities, Macnamara followed the instructions that had been given to him regarding the planned rendezvous.

40. At approximately 2:30 p.m. local time, a man (later identified as LeWinter) approached Macnamara and identified himself as an ex-CIA agent who was in Vienna with six CIA and Mossad agents to deal with "the business." LeWinter spoke to Macnamara for approximately one-half hour, briefing him on the provenance of the CIA documents, and indicated that there had been a meeting in London between an MI6 operative named Spelding and a CIA agent named Harrison, who was attached to the United States Embassy in London. At that meeting, Spelding asked Harrison for the CIA's assistance in assassinating Dodi Al Fayed, who had formed a close relationship with Princess Diana. Harrison allegedly cabled CIA headquarters in Langley, Virginia for instructions and was informed via telex that the CIA would not become involved but could refer the British to the Mossad "K team" in Geneva. LeWinter indicated to Macnamara that these two telexes were for sale, and he also gave a brief description of the CIA investigative report that could be obtained, including a reference in that report to Princess Diana's pregnancy.

41. At the conclusion of their meeting at the Hotel Ambassador, LeWinter provided a telephone number and requested Macnamara to call him there under the name George Mearah at 5:00 p.m. Law enforcement personnel working with Macnamara traced the telephone number to the Hotel Stadt Bamberg, where they confirmed that the hotel had as a guest an American named Oswald LeWinter who matched Mearah's description.

42. By arrangement, and with the approval of United States and Austrian authorities, Macnamara met with LeWinter later that afternoon at the Ambassador Hotel. Following further discussions with Macnamara, LeWinter was taken into custody at the Ambassador Hotel by Austrian law enforcement officials. On information and belief, two associates (one of which has apparently been identified as Thompson) of LeWinter who were nearby evaded capture. In fact, it turns out that one of the individuals who assisted LeWinter during his time in Vienna was Karl Koecher, a Czechoslovakian intelligence operative who had infiltrated the CIA as a

“sleeper” agent during the 1970s. After more than a decade of spying on the United States, Koecher was arrested and ultimately exchanged in a spy trade for Soviet dissident Anatoly Scharansky on February 11, 1986. Upon information and belief, Koecher and LeWinter became acquainted while serving in prison together in New York State.

43. LeWinter told Macnamara and the arresting officers that six other CIA and Mossad agents were in the Kärtner Strasse and would retaliate for his arrest by murdering Macnamara and Al Fayed.

44. Among the papers found in LeWinter’s hotel room were an airmail pouch addressed “U.S. Government Property, Return to Commander USA FAC, Indianapolis IN 46249,” and a multiple-use U.S. government messenger envelope with the last noted addressee “U.K. liaison.” Inside this envelope were two telexes and a Domestic Intelligence Information Report that appeared on their face to originate within the CIA. The documents found in LeWinter’s room were subsequently determined to be forgeries. Also found in LeWinter’s room was an SM Rohner gas pistol with 25 rounds of ammunition and \$10,000 in U.S. currency.

45. On or about October 1, 1998, LeWinter was convicted in an Austrian court of charges of attempted criminal fraud and sentenced to two and a half years imprisonment. On appeal by the Austrian public prosecutor, the Austrian High Court on April 15, 1999, increased LeWinter’s sentence to four years imprisonment, citing the “reprehensible way” LeWinter had sought to prey on Al Fayed.

46. Upon information and belief, the Austrian Justice Ministry sent a request concerning the documents taken from LeWinter’s hotel room to the CIA to ascertain their authenticity, and also requested that a United States government expert be sent to testify under oath at LeWinter’s trial concerning the documents. The United States government delayed its response for three months, and finally simply replied that the documents were “not authentic” and refused to send any expert to testify under oath.

47. Between April 1998 and the present, Al Fayed’s legal representatives in Washington, D.C., including David Kendall and Terrence O’Donnell of the law firm of Williams and Connolly, have repeatedly met and exchanged communications with high-level United States government law enforcement and intelligence officials—including, but not limited to, Deputy Directors from the CIA and FBI, Robert McNamara, the CIA’s General Counsel, and Wilma Lewis, the U.S. Attorney for the District of Columbia—to secure the prosecution of those involved in the fraud attempt.

48. In order to assist the criminal investigation being conducted by the U.S. Attorney’s Office for the District of Columbia, Al Fayed’s legal representatives provided the prosecuting attorneys with information in their possession including, but not limited to, copies of telephone transcripts between Macnamara and Flear. It was later subsequently discovered that without permission or knowledge of Al Fayed’s representatives, the U.S. Attorney’s Office had provided

Flear, and perhaps the other alleged conspirators, with copies of the evidentiary transcripts for their own personal use. Flear used this information, in part, to defeat a civil lawsuit filed against him by Al Fayed in California on July 19, 1999; a lawsuit that had been deliberately delayed in order to cooperate with the U.S. Attorney’s Office and not interfere with the supposed ongoing criminal investigation.

49. In recent interviews with LeWinter, including one on April 12, 2000, at Wilhelmshöhe Prison, he has suggested that one or more CIA employees participated in the fraud scheme. He has also stated that the forged CIA documents offered to Al Fayed were based, at least in part, upon an e-mail LeWinter received from a “CIA contact in Langley.” According to LeWinter, this information was shared with Macmillan, himself allegedly formerly affiliated with the CIA, who then prepared the documents incorporating the information received from the CIA contact.

50. Although LeWinter is willing to name names, he has requested a grant of immunity from the United States government. Despite this fact being provided to the United States Attorney’s Office for the District of Columbia, the FBI, and the CIA, upon information and belief, LeWinter has never been questioned by representatives of the United States.

51. Upon information and belief, the CIA’s Office of Inspector General was ordered to cease its investigation into the fraud scheme by the CIA’s Office of General Counsel. Additionally, the CIA intentionally delayed providing requested information regarding the case to the prosecutors in the U.S. Attorney’s Office for the District of Columbia.

52. Although the U.S. Attorney’s Office for the District of Columbia has acknowledged that Al Fayed was the victim of criminal conduct, upon information and belief, the office just recently closed the investigation with a recommendation of “no prosecution.” . . .

Intervention by Former Senator George Mitchell

59. On behalf of Al Fayed, former Senator George Mitchell, who recently served as a key negotiator in the Northern Ireland peace process, was retained in 1999, to facilitate the transfer of information held by the CIA and DOD components including, but not limited to, the DIA and NSA.

60. An inquiry for information was submitted by letter dated March 29, 1999, by Senator Mitchell to Secretary of Defense William Cohen. By letter dated April 23, 1999, Secretary Cohen informed Senator Mitchell that neither the DIA or NSA “possesses information that would have any bearing on, or would be at all useful to, the pending French judicial inquiry.”

61. Notwithstanding Secretary Cohen’s response, Robert Tyrer (“Tyrer”), the chief of staff to Secretary of Defense William Cohen, reviewed potentially responsive classified records which are in the possession of the DIA and NSA. Tyrer refused to publicly share his findings, but informed Senator Mitchell by letter dated October 4, 1999, that there

was no information related to Princess Diana's death or that Henri Paul was connected with foreign intelligence services.

62. This latter point directly contradicts what attorney-turned-journalist Gerald Posner was told by his American intelligence sources, as reported in the September 1999 issue of *Talk* magazine. Posner wrote that: "Paul was in regular contact with the Direction Général de la Sécurité Extérieure (DGSE)—the French equivalent of the CIA—an arrangement not unheard of among security staffers at premier international hotels. (Paul also had less formal relations with the Direction de la Surveillance du Territoire and the Renseignements Généraux, both intelligence gathering divisions of the French national police.) In fact, according to an American law enforcement official and an American intelligence agent, Paul spent the last several hours before the crash with a security officer from the DGSE." The DGSE is the French intelligence service. This information is additionally supported by former MI6 officer Tomlinson's allegations that Paul was in the paid employ of MI6.

63. Posner also confirmed in his article that the NSA had secretly intercepted and recorded telephone conversations involving Princess Diana. This past Spring, an active intelligence asset of the United States government permitted Posner to listen to one of several surveillance tape recordings of Princess Diana in the possession of NSA.

64. Although Senator Mitchell requested that the DOD ensure all responsive records had been located—particularly in light of Posner's statements—upon information and belief, either no such efforts were ever undertaken by the DOD or its components to ensure a complete search had been performed, or information was intentionally withheld. In fact, by letter dated October 13, 1999, Tyrer confirmed that the records he reviewed were retrieved solely through an electronic search of NSA and DIA databases. Upon information and belief, certain record systems are excluded when only electronic searches are conducted.

65. Senator Mitchell also wrote to George Tenet, CIA Director, by letters dated September 2 and 15, 1999, and requested that the CIA initiate a formal inquiry into whether United States intelligence agencies possess information concerning the tragedy. The second letter specifically informed the CIA of Posner's information. The request was denied, although DCI Tenet invited Senator Mitchell to meet with the CIA's General Counsel Robert McNamara.

66. On March 3, 2000, representatives of Al Fayed met with the CIA's Office of General Counsel ("OGC"), and expressed concern that serving officers of the CIA may have played a part in the fraud scheme to sell Al Fayed forged CIA records. A formal inquiry was again requested to investigate these allegations. The OGC subsequently forwarded relevant materials provided by Senator Mitchell to the CIA's Office of Inspector General ("OIG").

67. By letter dated June 16, 2000, Senator Mitchell requested that L. Britt Snider, the CIA's Inspector General, investigate the matter. By letters dated June 16 and 29, 2000,

Snider informed Senator Mitchell that the OIG "found no information that would shed light on the automobile accident or the deaths of Lady Diana and Dodi Fayed. Neither did we find any information that would substantiate the claims made by LeWinter concerning the involvement of CIA employees in fabricating these fraudulent documents." Upon information and belief, the OIG was prevented from fully investigating the allegations by the CIA's Office of General Counsel, despite the fact that current or former CIA personnel may have been involved in an illegal scheme to defraud Al Fayed.

Unanswered Questions

68. As with many controversial high-profile events, oftentimes there exist more unanswered questions than those that appear to have been answered. This lawsuit seeks the release of information to answer at least some of those questions including, but not limited to:

- Do agencies of the United States government possess any information regarding the deaths of Princess Diana, Dodi Al Fayed, and Henri Paul?
- With all of its forensic and criminal expertise, was the United States government ever requested to lend assistance to the French investigation into the August 31, 1997 tragedy?
- Does the United States possess any satellite imagery of the City of Paris from the night of August 31, 1997, that could be used to determine the movement of vehicles in the area of the tragedy?
- Does the United States possess information, as alleged by Gerald Posner, that Henri Paul was employed by MI6 as reported by Richard Tomlinson to the judge, or any other foreign intelligence service?
- Was Henri Paul meeting his French intelligence handler in the three hours before he returned to the Ritz as claimed by Gerald Posner?
- To what extent did the NSA intercept telephonic communications between Princess Diana and others, the existence of which has been confirmed by Gerald Posner?
- What documents did Defense Secretary William Cohen's Chief of Staff, Robert Tyrer, review relating to the tragedy, and were the searches conducted to locate these records intentionally narrow?
- What is or has been the CIA's relationship with Oswald LeWinter, Pat Macmillan, and the other individuals involved with the plot to defraud Al Fayed of \$20 million?
- Although the documents LeWinter alleged were from the CIA are apparently forgeries, does the information within the documents have any accuracy, as claimed by LeWinter?
- To what extent did the CIA ever investigate Oswald LeWinter's allegations?
- Was the criminal investigation into LeWinter and others for the attempt to defraud Al Fayed over the alleged CIA documents deliberately assigned low priority and then closed by the United States government in an effort to shield the actions of current or former CIA employees from scrutiny or [to] avoid adverse publicity? . . .

Wen Ho Lee Case: Defeat for Justice Department Terror

by Marsha Freeman and Edward Spannaus

“If Wen Ho Lee had been prosecuted in the Eastern District of Virginia — where most espionage cases are tried — rather than New Mexico, he’d be on death row by now.” That was the reaction of one observer to the freeing from jail of the former Los Alamos scientist on Sept. 13.

The horror of what the Justice Department and FBI were attempting to do in the Lee case, comes clearly into focus, if one considers what would have happened if the government had been able to bring its case against Lee in its favorite venue for such cases: the Federal court in Alexandria, Virginia, which is notorious for its pro-prosecution bias, and its routine denial of defendants’ motions. The difference is that the Justice Department and FBI could have gotten away with their railroad of Wen Ho Lee, had their fraudulent case not come under the careful scrutiny of an extraordinary and honest judge, as it did in the Federal court in New Mexico.

As you read the following account of the attempted frame-up of Lee for espionage on behalf of a foreign power, China, keep in mind what would have been the outcome if Judge James Parker had merely accepted the government’s secret submissions and fanciful allegations against Lee at face value, and if Judge Parker had not eventually granted Lee’s motion for discovery in his attempt to have the indictment against him dismissed on grounds of selective prosecution. (Discovery on such motions by a defendant are rarely granted, and are almost



Dr. Wen Ho Lee

never granted in the “rocket docket” in the Eastern District of Virginia.)

Also keep in mind how much more of a penalty against the Justice Department would have existed, had Congress passed the full “Citizens’ Protection Act,” popularly known as the McDade-Murtha Bill, in 1998, instead of succumbing to Justice Department pressure to water down the landmark legislation.

DOJ Terror Tactics

On March 8, 1999, Wen Ho Lee was being interrogated by FBI agents at the Los Alamos National Laboratory, without an attorney present. As Lee insisted on his innocence, the FBI agents waved an article published two days earlier in the *New York Times*, with the headline, “China Stole Nuclear Secrets for Bombs.”

“You know what?” one of the agents told Lee. “The Rosenbergs professed their innocence. They weren’t concerned either. The Rosenbergs are dead. They electrocuted them.”

It was all a bluff. The FBI never had any evidence that Lee was spying for the People’s Republic of China, or that he was handing over the “crown jewels” of the U.S. nuclear arsenal, as had been alleged. But the “shock effect” — of accusing him of spying, threatening him with the death penalty, indicting him in December 1999 on 59 felony counts, and jailing him under maximum-security conditions without bail — was all intended to make him “crack” and plead guilty, as most defendants will do under the circumstances, irrespective of the lack of evidence.

And, under most circumstances, under the ominous specter of “national security,” most judges will go along, without scrutinizing or challenging the government’s “secret” evidence.



Lyndon H. LaRouche, Jr. and co-defendant Michael Billington (behind him), on their way to prison in 1989, after the Justice Department succeeded in railroading a conviction through the corrupt “rocket docket” in the Eastern District of Virginia in Alexandria. Had the Justice Department been able to prosecute Wen Ho Lee in Alexandria, Lee wouldn’t have had a chance to defend himself—just as LaRouche was prevented from defending himself from the government’s fraudulent charges.

Judge Parker did not.

In his statement accepting the plea of Wen Ho Lee to one count of mishandling sensitive data, Judge Parker noted that last December, the Justice Department had presented him “with information that was so extreme it convinced me that releasing you, even under the most stringent of conditions, would be a danger to the safety of this nation.” He repeatedly said that he had been misled by the Justice Department and FBI, and he pointedly remarked that the government had agreed to Lee’s release “shortly before the Executive branch was to have produced, for my review *in camera*, a large volume of information that I previously ordered it to produce.”

“What I believe remains unanswered,” the Judge stated, “is the question: What was the government’s motive in insisting on your being jailed pretrial under extraordinarily onerous conditions of confinement until today, when the Executive branch agrees that you may be set free essentially unrestricted? This makes no sense to me.”

The Background

On April 4, 1998, two months before President Clinton was to make an historic state visit to China, the *New York Times* ran a front-page story reporting that two American communications satellite manufacturers were suspected of having provided “space expertise that significantly advanced Beijing’s ballistic missile program.” Two days later, neo-conservative, and hysterical China- and Russia-basher, Frank Gaffney, issued a press release from his Center for Security

Policy, stating that this was just one more instance of the “Clinton Administration’s indifference to the arming of Communist China.” The “scandal” was off and running.

The *New York Times*’s Jeff Gerth followed up his initial report on April 13, by revealing that Loral Space Systems and Hughes were large contributors to the Democratic Party. In fact, Loral’s head, Bernard Schwartz, was the single largest contributor to the party. So, while the Republicans in the Congress were already probing Chinese-connected fundraising ties to the Clinton White House, they now had a China scandal with a supposedly direct tie-in to national security.

Within a matter of weeks, contentious hearings on the satellite technology transfer cases were held on Capitol Hill, with contradictory presentations on whether U.S. national security had been damaged. A special committee was formed, headed by Rep. Chris Cox (R-Calif.), called the Select Committee on U.S. National Security and Military/Commercial Concerns with the People’s Republic of China.

Toward the end of its deliberations, in October 1998, the Cox Committee was made aware of investigations that had been ongoing by the FBI and Department of Energy (DOE) counterintelligence officials, into the possibility that China had obtained access to classified information on the U.S. W-88 advanced nuclear warhead. These otherwise quiet investigations made front-page headlines, when leaks from the Cox Committee, and later the unclassified version of the report, became public in the first half of 1999.

The very first conclusion presented in the three-volume

Cox report was: “The People’s Republic of China has stolen design information on the United States’ most advanced thermonuclear weapons.” The report continued: “P.R.C. penetration of our national weapons laboratories spans at least the past several decades and almost certainly continues today.” Upon being questioned about their basis for this conclusion, when prominent scientists had already declared that this was highly doubtful, committee representatives stated that they did not “have time” during their deliberations to hear from witnesses who would dispute these breathtaking claims.

Then, on March 6, 1999 the *New York Times*’s Jeff Gerth and James Risen, quoting unnamed “Administration officials,” wrote that espionage by China, believed to have occurred in the mid-1980s, would lead to a “leap” in the development of miniaturized nuclear bombs, using secrets stolen from Los Alamos National Laboratory.

“At the dawn of the Atomic Age, a Soviet spy ring that included Julius Rosenberg had stolen the first nuclear secrets out of Los Alamos,” Risen and Gerth asserted. “Now, at the end of the Cold War, the Chinese seemed to have succeeded in penetrating the same weapons lab.” The comparison was mentioned again in a *New York Times* article six days later, by Sandra Blakeslee, who recounted that two of Klaus Fuchs’ couriers for Los Alamos nuclear secrets, “Julius and Ethel Rosenberg, were executed for espionage.”

The March 6 article recounted the history of the FBI’s investigation of an unnamed Chinese-American computer scientist at Los Alamos, complaining that the Bureau had been dragging its feet, because there had been no arrests. But, “after prodding from Congress, and the Secretary of Energy,” in February government officials administered a lie detector test to the “main suspect,” which he failed, the *Times* claimed.

The *Times* referred to testimony to the closed Cox Committee hearings by the head of intelligence at the Department of Energy, Notra Trulock (someone with no technical background, but a bachelor’s degree in political science), who spent years, unsuccessfully, trying to convince the CIA of the Chinese nuclear spy scenario. Nor was Trulock successful in convincing many other security officials at the Department. But he nevertheless became the star witness for the Republican Congress, who could use the alleged cover-up of Chinese spying as a club against the Clinton Administration.

The accusations of a cover-up were immediately countered by Gary Samore, senior official at the National Security Council, who handled the issue. Samore told the *Times* that the NSC did not accept the Energy Department’s conclusion that China’s advances in nuclear technology stemmed from theft of U.S. secrets. But this did not stop the police-state tactics by the FBI.

The day after the *New York Times* article, Senate Majority Leader Trent Lott (R-Miss.) called for hearings, and sanctions against the Administration’s policy of engagement with China.

Two days after the *Times* article appeared, Energy Secre-

tary Bill Richardson buckled, and announced that he had “recommended the dismissal” of a Los Alamos employee, soon identified as Dr. Wen Ho Lee, who was immediately fired. Richardson also announced that there would be polygraph testing of more than 1,000 Lab workers who handle classified material. But at the same time, Edward Curran, the Department of Energy’s director of counterintelligence, said that it was not clear how much the Chinese weapons programs may have been helped by unauthorized procurement of sensitive information.

Within days of the Wen Ho Lee firing, Sen. Robert Smith (R-N.H.), chairman of the Armed Services Committee, said that he was “shocked and outraged by the lack of response of this Administration,” and called for hearings to find out why Dr. Lee had not been charged with a crime.

While the Administration and the Congress wrangled over how much of the Cox Committee report should be made public, with Cox accusing the Administration of suppressing his report, various studies were initiated, including an independent panel convened by CIA Director George Tenet to study the “damage” from Chinese nuclear spying, and a review by the President’s Foreign Intelligence Advisory Board, led by former Sen. Warren Rudman (R-N.H.). (The Rudman review would conclude in June that the FBI’s investigation focussed almost exclusively on Wen Ho Lee, when there was no hard evidence that he, or anyone else at Los Alamos, was the source of any classified information obtained by China.)

When the CIA review, headed by Adm. David Jeremiah (ret.), was released on April 21, it stated that the conclusions about Chinese access to nuclear secrets drawn by Trulock were a lot more uncertain that was being admitted in public. It also noted that China traditionally had a nuclear deterrent—not offensive—strategy.

On May 12, Attorney General Janet Reno was attacked by Sen. Richard Shelby (R-Ala.), chairman of Senate Select Committee on Intelligence, for failing to aggressively respond to the espionage threat. Reno stood by her earlier decisions that there had not been enough evidence against Dr. Lee to authorize an FBI wiretap, and by the evaluation that whatever investigators would find on Dr. Lee’s computer would be “stale,” since the reputed espionage had taken place in the 1980s.

Two weeks later, Justice Department officials told the *Washington Post* that the FBI came to them three times over the course of its investigation, seeking a warrant for a wiretap for Lee, but they were sent back for additional evidence each time. No one who reviewed the case thought that a warrant or a wiretap could be justified, the officials stated. “Everybody thinks it was either a ‘no’ or a ‘no way.’” The FBI would have to show probable cause that Lee was not only engaged in clandestine intelligence gathering on behalf of China, but was also “knowingly” violating Federal law, the officials stated. There was no such evidence.

In the end, however, Attorney General Reno bent to the political pressure, and approved the 59-count indictment against Wen Ho Lee, the first prosecution ever under the Atomic Energy Act.

All There But the Evidence

Looking back on the Wen Ho Lee case, one observes that it was made crystal clear, more than half a year before he was indicted, that there was never any case against Lee—and no case for Chinese nuclear spying either.

During hearings on the Cox Committee's findings, at the end of May 1999, it was revealed that the Central Intelligence Agency was dubious about the report handed to the United States in 1995 by a supposed defector, said to reveal what China knew about advanced nuclear warheads. It was this report from a "walk-in," which had started the whole witch-hunt for spies. After taking another look at the document, the CIA believed the document was actually a plant by Chinese intelligence. Even the *New York Times* had to admit that "no one has ever come up with a persuasive explanation of why China sent the documents to American spies." From the moment the nuclear spying allegations became public, the contention that China had stolen nuclear secrets was seriously in dispute.

The firing of Dr. Lee from Los Alamos, and the charges of nuclear espionage floating around Capitol Hill and the press with the release of the Cox report in May 1999, triggered an immediate response from the scientific community, which shoulders the actual responsibility for nuclear research.

Nuclear physicist Dr. Edward Teller, the elder statesman of nuclear weapons design, wrote in a commentary in the May 14, 1999 *New York Times*, that even if there were Chinese spying, this case should not be compared to that of the Klaus Fuchs case 50 years ago, and to how U.S. secrets helped Soviet research. (The press had already tried to equate this case with the execution of the Rosenbergs.)

Chinese scientists "have had 50 years to consider the possibilities that we kept secret. It seems to be probable that the Chinese must have made discoveries that made the added knowledge from intelligence less important," Dr. Teller wrote.

What disturbed Dr. Teller most was the response to the spying accusations. On March 15, Senator Shelby asked the DOE to suspend parts of an exchange program involving more than 20,000 foreign scientists. "At present the proposed remedy is more security," Dr. Teller wrote, "including exclusion from participation of people from abroad. Let us remember that past military successes have been accomplished by remarkable people from abroad—for instance, Enrico Fermi. I claim that our continuing security is acquired by new knowledge rather than by conserving old knowledge."

On May 30, Dr. Harold M. Agnew, director of Los Alamos during 1970-79 when the W-88 was developed, and Dr. Johnny S. Foster, who was the head of Lawrence Liver-

more Laboratory during 1952-65, responded to the Cox Committee report. Both said that whatever the Chinese might have obtained through espionage, only would have added to what its scientists already knew. Drs. Agnew and Foster said that even data on the size, weight, shape, and yield of nuclear weapons, although highly classified, do not represent a war-head's design in any real sense.

Dr. Agnew said that the original W-88 design went back to the 1950s. "The Chinese physicists certainly have the brains to develop their own weapons. . . . They are smart, and have been trained in England, Scotland, and the U.S." (Incidentally, neither of these two scientists had been asked to appear before the Cox Committee.)

On July 4, 1999, Dr. Teller was quoted in the *Sacramento Bee*: "I would hope the Congress in Washington would be one-tenth as careful about not spreading secrets, as the labs." He was referring to the nine hearings in June alone into allegations of Chinese spying. "People outside the labs, and particularly politicians, have completely failed to understand that there is not 'one' secret. We are trying to preserve what is, in fact, gone; and gone not because of spies, but because of independent [foreign] work."

By then, 79 House members had proposed a moratorium on visits to weapons laboratories from "sensitive" countries. Dr. Teller said that that is the opposite of the direction the labs should go in. "Attempting to keep secret what is not secret interferes with our obtaining information in other countries. Peace can be assured through cooperation."

Lee and His Computer

When Wen Ho Lee was fired from Los Alamos, it was on the grounds that he had withheld information about his contacts with Chinese scientists—not that he had done anything illegal, but only violated lab procedures. But on April 27, the *New York Times* broke what would become the *real* story. After Dr. Lee gave the FBI permission to search his computer, a few days before he was fired, agents found that he had improperly transferred secret data from a secure computer to his unsecured computer at the lab.

On April 29, the *Times* followed its initial report with an article by science writer William Broad titled, "Downloaded Secret Codes Make Up Cookbook for Atomic Weapons, Experts Say." The *Times* quoted from a former Los Alamos researcher, now at the environmentalist Natural Resources Defense Council: "It's the distillation of 50 years of work, over 1,000 nuclear tests, and thousands upon thousands of man-hours."

As the constant press attention to the Wen Ho Lee case continued, some very interesting little details began to make their way into the press. On April 26, the *Washington Post* reported that Dr. Lee's wife, Sylvia, who worked at Los Alamos, in an administrative position, was used as an "informational asset" by the FBI between 1985 and 1991, to report on the activities of Chinese scientists visiting the United

States—meaning that she provided useful information to the FBI.

Los Alamos further used Sylvia Lee's access to Chinese scientists by providing her with video tapes for a presentation on a trip to China in the 1980s, "because the lab was anxious for her to go there," according to one intelligence source.

The *Post* revealed on May 2 that Wen Ho Lee himself had cooperated with the FBI in 1982, when the Bureau was investigating a scientist at Lawrence Livermore laboratory for espionage! Dr. Lee's attorney, Mark Holscher, said in response to the report, that his client's cooperation with the government is "completely consistent with his innocence" of the allegations against him. In fact, a retired Los Alamos computer scientist commented that Lee might have downloaded the nuclear codes because they were easier to edit on a desktop computer.

On May 5, during hearings by the Senate Energy and Natural Resources Committee, it was revealed that after two years of investigating Wen Ho Lee, the FBI realized in 1998 that it had failed to turn up any evidence that he gave any secrets of any kind to the Chinese. That Summer, the FBI tried to "entice" (or entrap) Dr. Lee into spying, using two Chinese-American FBI agents. They were rebuffed by Wen Ho Lee. It was also pointed out by Sen. Pete Domenici (R-N.M.) that, in 1984, Dr. Lee had passed a second polygraph test, when the results of a first were inconclusive.

The following day, Holscher issued a statement citing all the "incorrect" assertions that had been made in the press concerning spying allegations. The six-page statement also provided more details of the Lees' cooperative relationship with the FBI.

In addition, law enforcement, intelligence, and counterintelligence experts were convinced that Wen Ho Lee was not a spy. Experts in espionage cases told the *Washington Post* at the end of May that there has been no known prosecution of anyone for transferring data from classified to unclassified government computer systems. Any such case would hinge on unlawful "intent," for which, in Dr. Lee's case, there was no evidence. While two former National Security Council employees were prosecuted for having retained documents at their home, this does not apply to Dr. Lee, although it does apply to former CIA Director John Deutch, lawyers told the *Post*.

By June, the press was reporting that it was "unlikely" Wen Ho Lee would face spying charges, or that even his downloading of classified material was against the law. There were no witnesses, the *New York Times* stated, there was no evidence of a motive, there was no evidence that Taiwan-born Dr. Lee was "ideologically allied with Beijing," and "even the evidence that a theft occurred is circumstantial"!

On Aug. 1, Wen Ho Lee broke his silence about the spying accusations, telling the CBS News program "60 Minutes" interviewer Mike Wallace, "The reason I downloaded the computer codes from a classified machine to an unclassified machine is part of my job to protect my code." He described

it as "a routine part of my job," which is done by many other people at the lab. "Plus," he continued, "when I downloaded into unclassified machines, I have three levels of passwords. It's almost impossible for anybody to break in. . . . Sometimes I even had a hard time to break in myself."

The same day, the *Los Angeles Times* carried a report of meetings Lee's lawyers had with Justice Department officials and prosecutors, where they explained that the back-up of files on the unclassified computer was done to protect the nuclear bomb codes, were there to be a computer crash. Their legal brief, compiled to head off an indictment for mishandling classified data, called Lee a victim of political hysteria, and a "scapegoat" for the lack of security at Los Alamos. The brief described the case as a result of "xenophobia," in which Dr. Lee was targeted because of his Chinese heritage.

In September, 1999, Robert S. Vrooman, who was head of counterintelligence at Los Alamos during 1987-98, and during the period when the first suspicions about Chinese nuclear spying were investigated in 1995, stated that the inquiry was marred by a racist bias against Chinese-Americans. The short list of suspects, he stated, put together by Trulock, included only those people whose trips to China had been paid by the Department of Energy, leaving unexamined at least 15 others whose trips were paid for by the Chinese, the CIA, the Air Force, or private companies. Vrooman also noted that one secret document describing the design of the W-88 warhead was mailed to 548 addresses in the government and military!

The Indictment

But none of the evidence of Dr. Lee's innocence was able to stop the flight-forward by the FBI. According to the *New York Times*, on Sept. 4, a meeting took place at the White House, involving FBI Director Louis Freeh, CIA Director Tenet, National Security Adviser Sandy Berger, Energy Secretary Richardson, and Federal prosecutor John Kelly from Albuquerque. Attorney General Reno was asked to give the final approval for prosecution.

Finally, on Dec. 10, 1999, Wen Ho Lee was indicted by a grand jury on 59 counts: 29 counts of removing and tampering with restricted data, 10 counts of retaining restricted data, 10 counts of gathering national defense information, and 10 counts of unlawful retention of national defense information, under Federal espionage laws. The government had dropped talk about the death penalty, and the indictment did not allege that Dr. Lee gave the material to anyone, but it charged that he removed classified nuclear weapons data "with the intent to injure the United States and with the intent to secure an advantage for a foreign power." This, despite the fact that there was absolutely no evidence of any such intent.

Lee's attorney sent a letter dated Dec. 10 to Federal prosecutor Kelly, offering to make Dr. Lee available for a polygraph test "to verify our repeated written representations that at no time did he mishandle those tapes in question and to confirm that he not provide the tapes to any third party." This

request was never agreed to by the prosecution.

Most interestingly, three days later, Associated Press reported that three memos had been written to FBI Director Freeh by investigators involved in the Lee case, stating that there was reason to believe Wen Ho Lee was not the source of any leaks of classified data, and that the probe had been too narrow.

Soon after the indictment, Dr. Lee decided to sue the FBI, the Justice Department, and the Energy Department, claiming that they violated his privacy and wrongly portrayed him as a Chinese spy. The suit cited the above-mentioned FBI memos, and made the case that the FBI continued to pursue him and leak false information, months after they knew he wasn't a spy. (Now that the criminal case against Dr. Lee has been settled, this civil suit will be back on the docket.)

The next outrage in this case came on Dec. 27, when the government argued in a hearing that Wen Ho Lee should be continued to be held without bail. The government presented testimony from laboratory specialists claiming that what Dr. Lee had downloaded could be used "to design and analyze U.S. nuclear weapons."

The testimony of Richard Krajcik, a leader at Los Alamos' nuclear weapons design X division, would later become a ringing headache for the prosecution in this case, since he stated that the files Wen Ho Lee had downloaded into his computer, were the "crown jewels" of America's nuclear arsenal. Another statement prosecutors would live to regret, was made by Paul Robinson, president of Sandia National Laboratory, who said that any release of the secrets could "truly change the world strategic balance."

Another star witness for the prosecution, FBI agent Robert Messemer, testified how evasive Wen Ho Lee was under questioning, describing Lee's activities in the lab as a "pattern of deception." Opposing a proposal to grant bail to Lee while keeping him in home detention under round-the-clock FBI surveillance, Messemer said that even the most innocent remark Lee might pass, could be a code. Dr. Lee's lawyer called the claims "ludicrous."

But the dramatic, sweeping, and serious nature of these charges led Judge Parker to deny bail. Parker did urge prosecutors to take Dr. Lee up on his standing offer to be subjected to a polygraph examination on the missing computer tapes, which Lee had said he destroyed. Parker said he would reconsider the issue of bail, depending on the outcome of such a polygraph test.

FBI Threats

As the outrage in the Asian-American and scientific communities grew over this case, in which a scientist who very few were convinced had done anything illegal, was being held in solitary confinement, able to meet with his family for only one hour per week, more details were emerging as to how the case had been conducted.

In early January, this year, the *Washington Post* obtained the transcript of the interrogation of Wen Ho Lee one day

before he was fired by the Department of Energy in March 1998, which had been introduced into the December bail hearing. Dr. Lee had taken a polygraph test administered by the Department in December of that year. The DOE concluded that Dr. Lee was telling the truth in his denials that he had given secrets of nuclear weapons to Beijing.

But two months later, the FBI decided that he had been "deceptive" in that interview, and carried out another lie detector test. In their final interrogation of Dr. Lee just before his firing, the FBI outright lied to Dr. Lee, telling him he had better tell the truth this time, because he had failed the DOE polygraph test.

During questioning, the *Post* reported, Lee continued to insist that he never gave any classified information to the Chinese. The FBI countered: "Do you know who the Rosenbergs are? The Rosenbergs are the only people that never cooperated with the Federal government in an espionage case. You know what happened to them. They electrocuted them, Wen Ho."

Lee attorney Holscher told the *Post* that "the transcript clearly shows that the FBI on at least a dozen occasions [during the interrogation] pressured Dr. Lee to confess to a death penalty offense, which even the Department of Justice must now concede he did not commit."

This case is reminiscent of the case of Arthur Rudolph, outrageously accused in the 1980s of committing Nazi war crimes while he was a rocket engineer in Germany during the Second World War. Likewise, Rudolph, a foreign-born American citizen, was terrorized by FBI agents, without a lawyer present, when he didn't really understand the charges that the FBI was cooking up against him.

The conditions of Wen Ho Lee's confinement, and the increasing doubt about any credible criminal case against him, even mobilized the usually apolitical scientific community into action. On March 7, 2000, the American Physical Society, the American Association for the Advancement of Science, the New York Academy of Sciences, and the Committee of Concerned Scientists sent letters to Attorney General Reno protesting the conditions of Dr. Lee's imprisonment.

Dr. Irving Lerch, who drafted the letter for the AAAS, said that some scientists feared that Lee "was being intimidated in order to force him into a plea bargain." All of the letters likened the treatment of Wen Ho Lee to that of Soviet-era, or Chinese, dissidents.

On Sept. 1, the National Academy of Sciences sent a strongly worded letter to Reno, protesting the "unjust treatment" of Wen Ho Lee. The Academy said that it was making this letter public because private letters that had been sent on March 10, April 14, and June 26, had been answered only with a form letter. The letter curtly stated, "The concerns that we have expressed and the questions that we have posed in our letters are identical to those that our Committee on Human Rights regularly poses to foreign governments, some of which have had the courtesy to respond."

Meanwhile, soon after Dr. Lee was denied bail, his lawyers began their effort to obtain access to the classified material which Dr. Lee had downloaded, which could prove the innocence of their client. And in April, a most stunning revelation appeared in the *Albuquerque Journal*. The paper reported that the supposed “crown jewels” of the nuclear weapons program, which Wen Ho Lee had been accused of illegally copying into his computer at Los Alamos, had carried a significantly lower classification when they were downloaded, than they did later. They were designated “protect as restricted data,” which is a lower classification than “secret.” They were only reclassified after charges were filed against Dr. Lee!

On Aug. 16, the third hearing on a request for bail, turned into the final scene for the FBI’s dramatic play. On the first day of the hearing, although Sandia President Robinson stuck by his story, that if the downloaded tapes had fallen into the wrong hands, the damage would be unimaginable, John Richter, a former top nuclear weapons designer and intelligence official at Los Alamos, stated that about 99% of the information Dr. Lee downloaded had already been made public, in various forums.

By the second day, the government’s case was crumbling. FBI special agent Messemmer admitted that he had provided false testimony in the December bail hearing, about how Wen Ho Lee had appeared to be “deceptive.” (As the *Minneapolis Star Tribune* editorialized after the last day of the hearing, it was shown that it was not Dr. Lee who was deceptive, but an FBI agent.)

On Aug. 24, Judge Parker ordered Dr. Lee released on \$1 million bail, and gave the government three days to appeal. It was clear that if the judge had determined that Dr. Lee was not a threat to national security, and thus could go home, the rest of the government’s absurd 59-count indictment was in serious trouble.

Five days later, Judge Parker made a ruling that drove the last stake into the heart of the prosecution’s spy case. He ordered the government to turn over thousands of pages of classified documents to him, so he could determine if Lee had been unfairly singled out for prosecution because he is a Chinese-American. On Aug. 31, Judge Parker unsealed two affidavits in the case from former Los Alamos intelligence officials, who corroborated the defense’s assertion that Dr. Lee was the victim of racial profiling.

An eleventh-hour intervention by the government postponed Dr. Lee’s release on bail, but secured a plea bargain for the scientist on the terms that the defense had offered months before: that he serve no further jail time, and that there be no further charges. In return, Dr. Lee would cooperate with investigators seeking to determine what happened to missing computer tapes, and would explain why he downloaded the data and what he did with it.

On Sept. 13, Judge Parker accepted Dr. Lee’s plea of guilty to one count of mishandling sensitive data, and, dropping of the other 58 counts against him, he made a most

extraordinary public statement.

After asking Dr. Lee’s indulgence for explaining the Constitution, which Dr. Lee already had had to study to become a citizen—unlike others who are born into having that right—Judge Parker made clear that the Attorney General is the head of the U.S. Department of Justice, which “despite its title, is a part of the Executive branch, not a part of the Judicial branch of our government.”

“The Executive branch has enormous power, the abuse of which can be devastating to our citizens,” Parker declared.

Addressing the scientist directly, Judge Parker said: “Dr. Lee, I tell you with great sadness that I feel I was led astray last December by the Executive branch of our government through its Department of Justice, by its Federal Bureau of Investigation, and by its United States Attorney for the District of New Mexico. . . .

“I am sad for you and your family because of the way in which you were kept in custody while you were presumed under the law to be innocent of the charges the Executive branch brought against you. I am sad that I was induced in December to order your detention, since by the terms of the plea agreement that frees you today without conditions, it becomes clear that the Executive branch now concedes, or should concede, that it was not necessary to confine you last December or at any time before your trial.”

The judge read the letter from Dr. Lee’s attorneys last December, that made their client available to explain what happened to the missing tapes of data, and stated that he had tried to get both sides to accept the terms the defense was offering.

Judge Parker scored the leadership of the Departments of Energy and Justice as responsible for the fiasco. “They did not embarrass me alone,” he stated. “They have embarrassed our entire nation and each of us who is a citizen of it.”

Clean Out the DOJ and FBI

Following the release of Lee, President Clinton characterized the case as “quite troubling,” and “disturbing.” But the Lee case is much more than “troubling” and “disturbing.” Aside from the unconscionable detainment of Dr. Lee in solitary confinement for nine months, his firing from Los Alamos Laboratory not only ended his scientific career, it has damaged the national security of the nation by demoralizing scientists at the lab, and is driving new science recruits, particularly Asians and Asian-Americans, out of nuclear weapons research.

The President has called for an “analysis” of the government’s activities in the case. Undoubtedly, there will be internal reviews at the FBI and the Justice Department, and Congressional hearings led by the same Congressmen who were demanding Wen Ho Lee’s head last year. But a sweeping clean-out of both agencies, which President Clinton should have carried out when he took office seven years ago, is the only way to prevent such miscarriages of justice from being repeated again and again.

LaRouche Dems Release 'Platform for October'

The following press release was issued by LaRouche's FDR-PAC on Sept. 19.

Former Democratic Presidential candidate Lyndon LaRouche's FDR-PAC has issued "The Fight for the General Welfare: A Democratic Platform for October" as a pamphlet for mass distribution, in a drive to return the policy and platform of the Democratic Party to one which represents the interests of the Party's traditional core constituencies.

On June 22 of this year, LaRouche's Presidential campaign facilitated the convening of Ad Hoc Democratic Platform Committee Hearings in Washington, D.C., when the Gore-dominated Democratic National Committee (DNC) apparatus refused to do so. Eleven prominent Democratic state legislators from across the nation, joined by former U.S. Senator and Presidential candidate Eugene McCarthy, heard testimony from dozens of elected officials, trade union leaders, farmers, and other constituency leaders in three major policy areas: the economy, the health care crisis, and constitutional law and justice. After almost nine hours of testimony, the panel concluded that, contrary to popular hype, "the fundamentals are *not* sound," and a radical change in U.S. policy was an urgent necessity.

A week later, the DNC, clearly embarrassed by the Washington event, hastily convened their own hearings in St. Louis. They issued a draft platform, which they proudly announced "appealed to Republicans and independents." Unfortunately, it did little to speak to the needs of the vast 80% of the American population who make up the nation's lower income brackets.

By the time the Democratic National Convention occurred in Los Angeles, approximately 750,000 copies of the complete Proceedings of the Ad Hoc Democratic Platform Committee were in circulation. However, there was *no debate of the Democratic Platform* permitted at the National Convention.

On Sept. 2, many of the legislators and witnesses who participated in the June 22 hearings, along with a dozen or so other leading Democrats, joined in a discussion with LaRouche to map a out strategy for the adoption of a Democratic policy that actually represents the interests of the American people, and that is capable of achieving a Democratic majority in November.

LaRouche told the gathering, "We can not tell people to mobilize to vote for Gore, a man morally and intellectually unfit to serve in any responsible office. We have to mobilize around the truth of the global and national crisis, in prepara-

The Fight
For the
General Welfare

A DEMOCRATIC
PLATFORM FOR OCTOBER

Ad Hoc Democratic
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tion to [take leadership] in the period of catastrophic collapse ahead.

"The only thing we have that's clear, in terms of the election campaign, is that we've got to get as many good Democrats elected as possible, at every level around the country. Forget these two leading candidates. Neither one is going to do any one of us any good, or the American people any good. . . .

"Maybe we can control the Congress. Maybe if we can control the Congress, we can dictate terms to the next President of the United States. It's the only shot we've got. . . .

"Our basic point is, we have, implicitly, the majority of the lower 80% of income brackets on our side. They're demoralized. They're discouraged. They're demoralized not merely in the sense of lack of courage, but they're demoralized in the sense of being corrupt, morally corrupted, by their very conditions. If we give them a movement, which they're convinced is going to stand up for them, they'll get their dignity back. When you've got 80% of the population, or a good part of them, with a sense of dignity, and a fighting disposition, you're going to win."

The pamphlet is a reflection of that discussion. It contains a perspective for the immediate battles ahead in the key areas of national policy, as well as exemplary pieces of legislation.

Copies of the pamphlet are available from FDR-PAC, P.O. Box 6157, Leesburg, Va. 20178. The contents of the pamphlet are also available on the Internet, at www.larouchespeaks.com.

If We're So Rich, Why Are We So Poor?

by Michele Steinberg

The worst candidates of the postwar era, George W. Bush and Albert Gore, Jr., are campaigning on the myth of "prosperity." Each is trying to claim credit for the "economic boom," for example, by saying that *he* (or at least, his political allies) gave us Federal Reserve Chairman Alan Greenspan. That's Greenspan, the "wizard" who architected the greatest U.S. current account deficit, the greatest trade deficit, the greatest inflation of the stock market, and the greatest mountain of U.S. household debt in history. Beneath the "new economy," the foundations of the American economy are rotten, as the following snapshots of real conditions show.

In September, the U.S. Department of Agriculture reported that nearly 3 million families—about 2.8% of the nation's households—had at least one member who went hungry in 1999. There were 27 million people, including nearly 11 million children, who were hungry, or at least food-insecure. Low-income workers, especially African-Americans and Hispanics in the Southwest, are the hardest hit, especially since 1996, when Gore's "welfare reform" kicked the poor off assistance and food stamps.

In the Northwest, families are already facing double-digit inflation in electricity bills, with heating oil and natural gas increases coming also. In Washington state, natural gas costs are going up by an average of 27.5% this October; in Oregon, natural gas will increase by 22%. Electricity rates in Seattle are being increased by 8.9%, and home heating oil costs are expected to be at least 20% higher than last year. And this energy hyperinflation is a national pattern.

State Budgets in Crisis

What about the report of "lowest unemployment ever"? For the fiscal year ending June 30, 2000, elected officials in Mississippi faced a paradox: Unemployment was 4%, about the lowest in history, yet the state had a 4.25% (\$44.6 million) shortfall in expected revenues from its state income tax. The shortfall for the first six months of 2000 was \$97 million.

Why? Mississippi's low unemployment rate was due almost entirely to the fact that it has the second-largest "gambling industry" in the nation, next to Nevada, employing 35,000 people at 31 "floating" casinos located on Mississippi River and Gulf of Mexico coastal sites. But instead of producing a tax revenue base, because the majority of these jobs pay roughly minimum wage (\$5.75 per hour), workers are not earning enough to pay state income tax.

In a discussion with the *New Federalist* newspaper on Aug. 8, Mississippi State Rep. Erik Fleming compared the situation in Mississippi, though on a smaller scale, to that of Silicon Valley, California, where the "Internet economy" has driven housing costs out of the reach of even \$50,000-per-year engineers. "You develop this area, and you're paying these people \$6 an hour, but then you charge a two-bedroom apartment for \$600. Property values are going up . . . but those people that are coming down here . . . can't afford the houses," he said.

Casino owners won't allow Mississippi to develop even the semi-skilled industry required to supply those casinos. "If you had industries develop where they were making . . . whatever a casino would need, . . . there would be that trade-off. Those companies that make slot machines are like companies that make cars. They're slightly high-tech, but they're definitely manufacturing jobs, which pay, on an average, higher than the service industry does," Fleming said.

Fleming pointed to an additional problem: Most of the prime casino sites on the river and the Gulf are taken. So, the gaming interests are pushing for inland casinos, in addition to one on the Choctaw Indian Reservation. "That's something that we're going to have to fight here," Fleming stated. "That would mean that there will be a major move to put a casino here in Jackson. But I would rather spend \$100 million to redo the Pearl River, and turn it into two lakes that will improve the flood control in the city, and open up about 50,000 acres of land for development. . . . I'd rather spend the money that way than trying to lure casinos in." Not to mention, he added, "the money we have to spend to solve the problems that it [gambling] also generates."

Gore's state of Tennessee also faces budget deficits as a result of industrial jobs being replaced with low-wage service-sector jobs. This year, when the Legislature faced a \$500 million deficit and was preparing to lay off up to 1,500 state employees, primarily teachers, it "balanced" the budget—by increasing the projected sales tax revenue for next year.

Michael Warmsley, aide to Tennessee State Sen. John Ford, explained to *New Federalist*: "They came up with a bandaid budget. It's not real, but they made it real." If the income is less than projected, the Legislature will go to the "rainy day fund."

EIR Founder Lyndon LaRouche has warned that hyperinflation, of the sort that flattened Germany's Weimar Republic in 1923, is already under way. As a result, the crisis will shut down schools, medical services, and cause mass layoffs, and it will happen as soon as *this year*. Washington, D.C. is in the process of shutting down its only public hospital, D.C. General. Pennsylvania Gov. Tom Ridge (R) is pushing to privatize schools to cut costs. In New York State, officials did not deploy for mosquito-control in 2000, despite the fact that the mosquito-borne West Nile virus was *known* to have killed seven people in 1999. The reason for these insane policies is simple: The U.S. "economic boom" is phony.

A National Shakespeare Touring Company

by Mary Jane Freeman and Paul Gallagher

There was a time in our nation's history, well over a century ago, when the plays of Shakespeare were a major part of our national culture, entertainment, and thinking, from the Irish neighborhoods of Manhattan, to cowboy and railroad camps in Utah and California. The bard's plays were presented—often not complete, but with faithful intent—playfully to involve the average citizen in thinking about the paradoxes of history, the demands of leadership and the qualities of love. President Lincoln gave his cabinet members late-night discourses and powerful recitations from Shakespeare; Generals Grant and Sherman suited up in costume, along with so many others, for rustic western performances watched by railroad men and troops. Americans wanted their Shakespeare “raw,” with plainly intelligible speech, open humor, and grandly visible gesture and action. They wanted to learn history from Shakespeare, and the characteristics of great human lives, and small. New York's Irish rioted against British actors who substituted genteel elocution for passionate acting.

Shakespeare was America's bard. The major collections on Shakespeare's life and work are in America, not England; there are in America 18 theaters built on the model of Shakespeare's Globe Theater, but in England only one, and that reconstructed by an American actor.

How far we've fallen. It is still true, that any Hollywood film of Shakespeare—or about Shakespeare, his life and writings—becomes popular, be it good, bad, worse or worsen. But the historical and human truth of Shakespeare's plays has become unrecognizable. Both filmmakers, and also the major live professional companies like the National Shakespeare, cover every performance in a haze of wierd psychodramatic interpretations, politically correct re-settings, scores from Bert Bacharach to acid rock, or just outright tear the plays up and rewrite them. “Premier” Shakespearean actors pride themselves on shouting or whispering their lines so rapidly that few audiences can understand what's being said.

The ‘Shenandoah Shakespeare Express’

So, it now depends upon smaller touring companies and even amateur acting groups to try to bring back honest Shake-

speare. One truly national touring company, and surely one of the best, is the Virginia-based “Shenandoah Shakespeare Express.” The two acting groups of the Express are currently performing six plays across the United States: *Richard II*, *Much Ado About Nothing*, *Twelfth Night*, *Othello*, Christopher Marlowe's *Dr. Faustus*, and *The Roaring Girl*, by Shakespeare's contemporaries Thomas Dekker and Thomas Middleton.

So named because they attempt to perform every Shakespeare play within approximately two hours of unbroken action (no scene or act breaks), Shenandoah Shakespeare Express is putting on a play somewhere in the 50 states, 220 days out of the year. The company was founded only 12 years ago, by James Madison University Prof. Ralph Alan Cohen and his co-director, Jim Warren, in Staunton, Virginia.

This company makes an excellent effort to present Shakespeare “raw and true,” to the limits of their and their directors' comprehension of the plays. Line by line, individual scene by scene, they succeed brilliantly in staging and action, on what is often just a high-school gymnasium floor, surrounded on three sides by the audience and with normal lighting throughout—they are attempting to replicate the relation between actors, audience, and surroundings characteristic of the Elizabethan stage.

The Express's audience hears every thought clearly, sees the humor in every turn of plot, gets every joke and discovers anew the true hilarity of which Shakespeare is capable. The characters often speak directly to and “with” spectators, whom they can see around the stage. The actors, young but extremely well-trained in stagecraft, throw themselves passionately into the action, and use the bare thrust-stage space extremely well. The end and purpose of all is the clear *intelligibility* of Shakespeare to their audiences—which always include a lot of children—and in this, Shenandoah Shakespeare Express consistently succeeds. For the Shakespearean history plays and tragedies, their costumes are consistent with the period setting of the play when composed; for comedies, they may costume in modern dress. But they do not consciously introduce *modernisms*, as do so many companies in mis-

guided efforts to make great truths “relevant” to audiences presumed to be uninterested in truth. The company’s attempt to understand the tragedies as history, is evident in their educational work with aspiring teenaged actors, as in their performances.

There are only 12 actors in each of the Express’s two touring groups, and so each actor plays two or three roles in each play, despite the lack of act or scene breaks. This challenging practice is, again, their historical view of how Elizabethan dramatic companies worked.

A Step Beyond Intelligibility

To impress the guiding idea of one of Shakespeare’s masterpieces upon the minds of an audience—what the play *as a whole* is about, what does it call us to realize about human life—is a different, taller order than to make intelligible each individual speech and action. This higher task, Shenandoah Shakespeare can achieve as well: as in their *Richard II*, which we review below; or in their wonderful performance of Shakespeare’s paradoxical triumph of love, *Much Ado About Nothing*.

In other cases, Shenandoah Shakespeare may fail at this second step, as with Marlowe’s *Dr. Faustus* and Shakespeare’s *Twelfth Night*. Their very pace can be a problem for cognition; the burst of each scene on top of the ending of the scene before it, can leave the spectators no time to reflect and grasp a deeper sense of what is happening. Their sheer hilarious comic skills can lead them overboard. In *Dr. Faustus*, their slapstick staging of the scene of the Seven Deadly Sins, compounding similar mistakes earlier, breaks the spectators’ concentration, reducing the impact of the ensuing terrible death of Faustus, to an old wives’ tale. In their *Twelfth Night*, this problem spawned a series of mischaracterizations, exemplified by the portrayal of the melancholy Lady Olivia—acted absolutely brilliantly, but wrongly—as another comic character along with her clown and her retainers.

At Shenandoah Shakespeare’s *Much Ado About Nothing*, the audience spends the two hours rolling in the aisles with laughter, but *thinking* at the same time. The spectators at their *Twelfth Night* are also in stitches throughout—but that’s all; they are left wondering, “What was that all about?”

These shortcomings come only from the limitations of the company’s comprehension of Shakespeare’s (or Marlowe’s) idea. And many of Shenandoah Shakespeare’s performances are so good, that one does not find shortcomings, but wants to see their efforts imitated as widely as possible. One such is *Richard II*.

Legitimacy To Rule: Richard II

Shakespeare, as with Friedrich Schiller after him and Aeschylus before him, composed plays and poetry of universal ideas, that is, ideas relevant for all time. If indeed their plays are performed as written, the ambiguities and complex dy-

namics of human relations confront the viewer so as to cause him or her to reflect on their life and whether they are part of the problem or the solution to the unfolding of history.

The presentation of the bard’s *Richard II* tragedy by the Shenandoah Shakespeare Express adequately portrayed the burning question explored in the play: If the legitimacy to rule is lacking, is it appropriate to depose a king? Shakespeare posed this question in his day to his ruling monarch, Elizabeth I—who paid this play great attention on this account. It is highly relevant today as our elected officials concern themselves with personal gain and exercise of power for its own sake, at the expense of the population’s general welfare.

In King Richard II’s day (reigned 1377-99), his failure to act on behalf of the general welfare led to civil war. As poet Schiller wrote in *The Stage Considered as a Moral Institution*, “The jurisdiction of the stage begins where the domain of secular law comes to an end. When justice is blinded by gold and revels in the wages of vice; when the crimes of the mighty scorn her impotence and the dread of human power has tied the hands of legal authority, then the stage takes up the sword and the scales and drags vice before a dreadful tribunal. The entire realm of fantasy and history, the past and the future are at its beck and call. Bold criminals, who have long since turned to dust, are summoned to appear before us by the all-powerful voice of poetry and to reenact their shameful lives for the instruction of a horrified posterity.” Shakespeare and Schiller put these issues before us in hopes we would reflect on such failures of character that we might change to secure a better future.

Shakespeare’s play opens with King Richard II preparing to mediate a royal feud between the King’s cousin, Henry Bolingbroke, Duke of Hereford, later King Henry IV, and Richard’s trusted knight Thomas Mowbray, Duke of Norfolk, who accuse each other of treason against the interests of the King. Richard, unable to cool their demands for a duel, sets a trial day, proceeds to convene the contest and arm the combatants, and then at the last minute calls it off, and sends both antagonists into exile. By Richard’s act, the seed of destruction unfolds, as the audience intimates when he has Bolingbroke and Mowbray return to take an oath.

You never shall—so help you truth and God!—
Embrace each other’s love in banishment,
Nor never look upon each other’s face,
Nor never write, greet, nor reconcile
This luring tempest of your home-bred hate,
Nor never by advised purpose meet
To plot, contrive, or complot any ill
’Gainst us, our state, our subjects, or our land.

Scene four drives home Richard’s real motive in banishing the Duke of Hereford, his cousin and a potential heir to

the throne. He tells his hangers-on at court that Hereford had a “courtship” with “the common people,” as if, Richard rebukes, “our England [were] his.” His rival now removed, Richard shows us the bankruptcy of his rule. He declares that he will wage war against the “rebels in Ireland” and to finance it, he will tax the “royal realm” to whatever extent required.

Richard: Bushy, what news?

Bushy: Old John of Gaunt is grievous sick, my Lord,
Suddenly taken, and hath sent posthaste
To intreat your Majesty to visit him.

Richard: Where lies he?

Bushy: At Ely House.

Richard: Now put it, God, in the physician’s mind
To help him to his grave immediately!
The lining of his coffers shall make coats
To deck our soldiers for these Irish wars.
Come, gentlemen, let’s all go visit him;
Pray God we may make haste and come too late!

These six lines are the seed crystal of the tragedy which unfolds. John of Gaunt is Bolingbroke’s father. Act II opens with Gaunt, dying, pronouncing the likely demise of England if Richard does not change his ways. Richard turns a deaf ear.

The ripest fruit first falls, and so doth he;
His time is spent, . . . ;
So much for that. Now for our Irish wars.
We must supplant those rough rug-headed kernes . . .
And for these great affairs do ask some charge,
Towards our assistance we do seize to us
The plate, coin, revenues, and movables
Whereof our uncle Gaunt did stand possessed.

Stricken with horror and grief, the last remaining son of King Edward III, the Duke of York (Richard’s uncle and Gaunt’s brother), cries out yet one more warning to the King to mend his ways. York says,

If you do wrongfully seize Hereford’s rights,
. . .
You pluck a thousand dangers on your head,
You lose a thousand well-disposed hearts,
And prick my tender patience to those thoughts
Which honor and allegiance cannot think.

Richard yet again fails to heed the voice of reason.

The Tragedy Becomes Unavoidable

The noblemen of the realm take heed of these events, band together, and join forces with the returning banished Duke of Hereford, who comes in arms to reclaim his “rights and royalties.” Deserted by his noblemen, Richard, returning

from the Irish wars, begins to unravel. He relinquishes power to Bolingbroke, who in turn determines that to “proceed without suspicion” to ascend the throne, Richard must “in the common view” surrender his crown. The remainder of Act IV, the deposition scene—subject of tremendous discussion and controversy in Shakespeare’s lifetime—has the audience witness the dissembling of Richard’s will and vanity. In Act V, Bolingbroke assumes power, but not without peril, as the divine right of kings, in that day, was considered sacred, and he had just usurped the throne. Or in the words of the cleric, Bishop of Carlisle, who speaks against this assumption of power:

My Lord of Hereford here, whom you call king,
Is a foul traitor to proud Hereford’s king;
And if you crown him, let me prophesy
The blood of English shall manure the ground,
And future ages groan for this foul act; . . .

Indeed, Shakespeare writing this play 500 years after the reign of Richard II, has the Bishop prophesy the War of the Roses, which would follow Richard’s rule 50 years later.

The great strength of the Shenandoah Shakespeare Express performance of *Richard II* was in the completely clear use of Shakespeare’s own words, to give this turn in the history of modern nations plain life before the audience, and in the truthful development of the characters. In this regard, director Jim Warren had King Richard evolve from a foppish dilettante, to a greedy self-serving careless heir to the throne, to a broken, dissimulating dethroned king, as indeed Shakespeare intended.

Likewise, the skillful portrayals of the Duke of York—torn between two royal loyalties—and of Henry Bolingbroke—from put-on hothead, to righteous returning soldier, to lamenting king—all added to the tension of the questions presented by the play. The male roles (even those played by women) were all well done. Unfortunately, the three women (Duchess of Gloucester; Isabel, Richard’s queen; and the Duchess of York), as presented, lacked a certain depth and maturity to successfully convey their part in this unfolding history.

Finally, the complexity of the plots and counter-plots, and pageantry of this play were artfully done by Shenandoah Shakespeare Express without elaborate set changes or costuming. Its presentation of *Richard II* had a driving pace, without rushing, which enhanced the focus on the dialogue and content of the play.

The times and locations across the country of the Shenandoah Shakespeare Express’s remaining 2000 touring schedule, mid-September to mid-November, and its 2000-2001 tour schedule, can be found on their Internet site, www.ishakespeare.com. Admission for performances range from free to about \$15, depending upon the hosting facility.

GOP Debt Plan Passes House Committee

On Sept. 18, by a vote of 381-3, the House passed a bill to create a "Public Debt Payment Account" at the Treasury Department. The bill would require that \$42 billion from the fiscal year 2001 budget surplus be immediately deposited into that account. The bill also prohibits the House or Senate from considering any legislation that would reduce the expected surpluses in the Medicare or Social Security trust funds. The House action came four days after the bill was unanimously reported out by the House Ways and Means Committee.

Democrats consider the bill a gimmick, even though few voted against it. Jim McDermott (D-Wash.) told the House that the Republicans have been reading the polls, and have figured out that "the American people do not want tax breaks for the wealthy few. What they want is to pay down the national debt." He pointed out that no separate legislation is needed to pay down the debt, because the Treasury automatically takes any money left over at the end of the fiscal year and applies it to debt reduction.

Congressional Republicans, Democrats say, are abandoning Presidential candidate George W. Bush's \$1.3 trillion tax cut plan, because there isn't enough money to both cut taxes and reduce the debt. During an appearance on CBS's Face the Nation, Senate Majority Leader Trent Lott (R-Miss.) claimed that the two plans are completely compatible. He explained that the debt reduction plan is only for one year, and that the remaining 10% of the surplus can be used for small business tax cuts. Bush's tax cut plan, however, is for ten years and wouldn't kick in until fiscal year 2002.

The vote comes in the aftermath of the House's failure to override Presi-

dent Clinton's vetoes of both the estate tax repeal and the marriage penalty tax repeal. The vote on the marriage penalty bill was 270-158 on Sept. 13, and that on the estate tax repeal was 274-157 on Sept. 7. The veto on the estate tax repeal was sustained when about a dozen Democrats who had originally voted for the bill changed their votes.

China Trade Bill Passed by Senate

After two and one-half weeks of debate, the Senate voted 83-15 on Sept. 19 to grant permanent normal trade relations to China. Even more importantly, the Senate rejected every attempt to amend the bill, so that the vote on passage clears the bill for President Clinton's signature without the need to negotiate a compromise version with the House. Clinton hailed the vote, declaring that it's about more than trade. "It's about building a world in which more human beings have more freedom," he said. "The more China opens its markets to our products, the wider it opens its doors to economic freedom and the more fully it will liberate the potential of its people."

The Senate debate, though lengthy, was far less divisive than the debate on the same bill in the House, in May. One feature of the debate was an unusual alliance in opposition to the bill between liberal Paul Wellstone (D-Minn.) and the ultraconservative chairman of the Senate Foreign Relations Committee, Jesse Helms (R-N.C.). While they didn't co-sponsor any amendments, they each voted for the other's amendments.

There was tremendous pressure on the Senate not to amend the bill, especially from business and trade groups supporting the measure, because any

amendment was seen as potential death for the bill, at least for this year. The amendment that was considered the biggest threat, that sponsored by Robert Toricelli (D-N.J.) and Fred Thompson (R-Tenn.), to provide for sanctions for weapons proliferation, was tabled on Sept. 13 by a vote of 65-32. Of the 20 amendments that were voted on, only one, a sense of the Congress resolution on forced abortions, received more than 33 votes. That bill, sponsored by Helms, was defeated by a vote of 53-43.

House Votes Up Two More Spending Bills

On Sept. 14, the House ignored White House veto threats and voted up two more spending bills according to the dictates of the GOP leadership. Both bills passed by near-party-line votes. The District of Columbia Appropriations bill passed by a vote of 217-207, and the vote on the Legislative Branch Appropriations conference report was 212-209.

The bill that funds the Legislative Branch usually isn't a source of controversy, although in 1995 President Clinton vetoed it because of his displeasure over how the GOP-controlled Congress was handling the appropriations process as a whole. This year, however, the \$2.53 billion bill has a new twist. Somewhere during the conference process, the Treasury, Postal Service, and General Government Appropriations bill was attached to the Legislative Branch bill, even though the Senate never acted on its version of that bill. David Obey (D-Wisc.) called the bill "part of an unfortunate process" by which the GOP leadership has apparently decided "to send bills down to the President which will be veto bait

rather than bills that will be likely to become law.”

Jim Kolbe (R-Ariz.) claimed that the Democrats were invited to participate in the process every step of the way, but had so far declined. He complained that the White House has failed to communicate its position on the Treasury bill. This is the reason, he said, that the Congress failed to move earlier on the bill. Steny Hoyer (D-Md.), a member of the Legislative Branch Appropriations subcommittee, responded that the Treasury bill is not part of any conference he was invited to participate in.

President Clinton hasn't yet threatened to veto the D.C. bill, which includes a \$414 million Federal payment to the city and dictates the rest of the city budget, but the bill carries riders that have drawn vetoes in past years. These provisions include prohibitions on the use of funds for abortions except in limited circumstances, for implementing the District's Domestic Partners Act, and for needle-exchange programs for drug addicts.

Senate Panel Questions U.S. Policy on Iraq

On Sept. 19, three members of the Clinton Administration, Undersecretary of Defense for Policy Walter Slocombe, Assistant Secretary of State for Near East Affairs Edward Walker, Jr., and recently appointed Central Command commander Gen. Tommy Franks, appeared before the Senate Armed Services Committee to explain where policy toward Iraq stands.

Committee Chairman John Warner (R-Va.) focussed, in part, on the costs and dangers relating to U.S. military activities in enforcing the “no-fly zones” and the UN embargo. He com-

plained that the United States and Britain are the only countries militarily enforcing the UN resolutions, and demanded to know why France, Russia, and China have abstained from support for the new inspections Resolution 1284. He also wanted to know why the United States had support for its policy in the Balkans, but no support for the Iraq policy. Strom Thurmond (R-S.C.) said that the Administration's policy toward Iraq has been a total failure, and he looks forward to hearings which will be held later in the month on a more innovative policy.

Carl Levin (D-Mich.), the committee's ranking Democrat, said that Saddam Hussein is increasing his hostility, and demanded to know what would be done about it. He asked whether Iraq's refusal to submit to Resolution 1284 and allow in inspectors, would be cause for military action.

Slocombe and the other Administration spokesmen said that only if Iraq crossed the three “red lines”—threatening its neighbors, rebuilding weapons of mass destruction, or violating the “no-fly” zone—would military action be taken. Walker, when asked whether there was a military option to force the UN inspection commission, chaired by Hans Blix, to be allowed in, said that it was now being reviewed, but that the purpose of Resolution 1284 is not to militarily force acceptance of inspectors. Walker said that the sanctions would be suspended if Iraq complied with weapons inspections, but that the chances for achieving our “objectives” are small with this regime, that even if the Iraqis complied, the regime would still need to be changed. When asked if Blix's mission was at a stalemate, Walker said that Blix won't go in without Saddam Hussein's acceptance, and implied that Saddam would eventually give in,

as he did with the UN Special Commission (UNSCOM).

Clinton Urges GOP on Patients Bill of Rights

President Clinton, appearing before reporters on Sept. 14 with leaders of the American Medical Association, took the Senate GOP leadership to task for failing to bring the Patients Bill of Rights to the floor for a vote. He said that he was confident that the votes are now there in the Senate to pass a bill very similar to that passed in the House last year, “if we can get it up for a vote.”

Clinton complained that it's only a minority in the Senate that's holding up the bill with threats to filibuster it. He said that no more debate is needed, and that “it's time to listen to the doctors, the nurses, the patients, the other consumer and provider experts.” He said that either the Senate leadership has to be persuaded to bring the bill to the floor, or nine or ten more votes are needed to make a filibuster-proof majority.

Meanwhile, Reps. John Dingell (D-Mich.) and Charles Norwood (R-Ga.), the co-sponsors of the House-passed bill, have been redrafting their bill in order to reach a compromise with Senate Republicans. However, their latest version has come under attack by the Association of Private Pension and Welfare Plans, for allegedly making lawsuits even easier than did the original bill. Norwood and Dingell said that they are trying to make a distinction between employers who participate in treatment decisions and those who don't, but the APPWP's analysis claims that such a distinction would be ineffective because of the difficulties associated with proving “direct participation.”

National News

Texas Fails To Care for Its Poor Children

U.S. District Judge William Wayne Justice ruled on Aug. 14 that Texas, under Gov. George W. Bush, has failed to adequately care for the 1.5 million low-income children in its Medicaid program, and gave the state until October to find a solution.

The court found that Texas was not adequately providing dental care, regular check-ups, transportation to doctors, or information about what services are available to children in Medicaid, despite a 1996 agreement (when Bush was Governor), in which the state promised major improvements in its program. The ruling also concluded that Texas failed to address the needs of about 13,200 abused and neglected children under state supervision.

Judge Justice is a Democrat, appointed by President Lyndon Johnson in 1968.

Texas announced that it will appeal the ruling, and Bush's campaign staff said that the problem started with the Democratic administration that preceded him. Al Gore's aide, Mark Fabiani, responded to the ruling by saying, "It's basically a sweeping indictment of the way George Bush has run his state's Medicaid system."

Wyoming Unions Back LaRouche Dem Logan

Mel Logan, the LaRouche Democrat who is the Democratic Party's candidate for U.S. Senate in Wyoming, on Sept. 7 received the endorsement of the state AFL-CIO in his race against incumbent Republican Senator Craig Thomas. Logan is a local officer in the United Mine Workers. The Executive Board of the state AFL-CIO passed a resolution that said:

"...WHEREAS, Wyoming's workers deserve to have a Senator who is devoted to supporting, defending, and standing with working people and a person who is not indebted to out-of-state corporate interests who seek to run Wyoming from their corporate boardrooms; and

"WHEREAS, all Wyomingites share a

concern that their Senator represent—first, last and always—the people of Wyoming and not out-of-state corporations that seek to use Wyoming for their own benefit; and

"WHEREAS, Mel Logan has demonstrated that he can provide an effective and badly needed voice for workers and the Wyoming public as a whole; and

"WHEREAS, he has shown a concern for the economy and can provide the balance needed between workers' rights and those of the business community; and

"WHEREAS, Wyoming workers have not been represented in the U.S. Senate for the past 24 years; now therefore be it

"RESOLVED, Mel Logan be strongly and wholeheartedly endorsed by this 37th Constitutional Convention of the Wyoming State AFL-CIO; and be it finally

"RESOLVED, that the local unions, councils, and members in Wyoming work to ensure the election of Mel Logan to the U.S. Senate."

Family Sues NAMBLA for Role in Child's Murder

The family of murder victim Jeffrey Curley filed a \$1 million wrongful death suit in May against the North American Man Boy Love Association (NAMBLA), the organization that has been trying to legalize sex between men and boys.

In October 1997, 10-year-old Jeffrey Curley was killed when he resisted the sexual advances of two men, Salvatore Sicari and Charles Jaynes. Both were convicted of the murder, and the Curley family was awarded \$328 million in a civil suit against them.

But, according to the *Washington Times* on Sept. 1, the Curley family suit against NAMBLA charges that Jaynes was a member of NAMBLA, and frequented the organization's website. The lawsuit says that Jaynes was influenced by the site and "became obsessed with having sex with ... young male children." The American Civil Liberties Union (ACLU) has come to the defense of NAMBLA.

NAMBLA has been tied to the "Get LaRouche" networks that involve the pro-drug legalization *High Times* magazine, and "researcher" Chip Berlet, who attended

meetings of the "Get LaRouche Task Force" at the salon of investment banker John Train, in 1983-84, prior to the frameup trial and imprisonment of Lyndon LaRouche and associates. NAMBLA was also identified as a key component of the child-kidnapping and sex-torture ring exposed in Nebraska attorney John DeCamp's book *The Franklin Cover-Up* (Lincoln, Nebraska: AWT, Inc., 1992) which documented pederasty and murder operations, involving the highest levels of the U.S. financier and political establishment.

No. California Faces Electricity Inflation

Pacific Gas & Electric Co. warns that all of Northern California could soon get the "San Diego treatment," the *San Jose Mercury News* reported on Sept. 15, referring to the fact that electricity rates have doubled in San Diego in the past year. PG&E, the main Northern California electrical utility, filed papers with the Securities and Exchange Commission (SEC), stating that the freeze on Northern California electricity rates could end in a matter of months.

PG&E has announced its intention to sell off its entire hydroelectric system, including 68 powerhouses and 140,000 acres of watershed land. The sale would supply PG&E with enough capital to retire its old power plant debt. Under the original California deregulation statute which went into effect in March 1998, a statewide freeze on consumer electricity rates was implemented, lasting until March 2002. However, any utility able to retire its old debt, prior to March 2002, could apply to have the rate freeze lifted. That's exactly what happened in San Diego earlier this year, and PG&E is now preparing to ask the state's Public Utilities Commission to lift the rate freeze for its service area as well.

According to the report filed with the SEC, in July 1999, PG&E was paying 4.1¢ per kilowatt hour, and charging consumers 5.4¢. Under the freeze, they are still charging consumers 5.4¢, but they are now paying 18.7¢ per kilowatt hour! According to PG&E, this increase in costs has left them with \$2.2 billion in unpaid bills. If they were to meet their operating costs, rates to cus-

tomers would have to more than triple. PG&E services 4.5 million residences and businesses in Northern California.

Inmates Are Tortured in Virginia Prisons

At least 20 District of Columbia inmates at Virginia's Sussex II state prison have been shackled to their metal beds for 48 hours or more for minor disciplinary infractions, according to D.C. Prisoners Legal Services Project, the *Washington Post* reported on Aug. 27 and 29. The prisoners are being placed in "four-point restraints," with leather straps on their wrists and ankles, and over their chests and thighs. They are allowed to move only once every six hours. This practice, which is standard at the "supermax" prisons in Virginia, has not been reported before at lower-level prisons.

At Virginia's Wallens Ridge supermax, Correctional Medical Services, Inc. of St. Louis, which is supposed to provide medical services, has been fined \$1 million for failing to live up to its contract. Two Connecticut inmates died at there earlier this year, and dozens have reported being beaten repeatedly and stun-gunned.

Under Republicans Gov. George Allen and Attorney General Jim Gilmore, the state overbuilt prisons. Gilmore, now Governor, is trying to fill the prisons from other states' overflow.

Iowa Wants Its Share of Immigrants

Iowa's 2010 Committee, appointed by Gov. Tom Vilsack, has proposed that the state be granted exemptions from Federal immigration laws so as to acquire a larger share of immigrants, the *Minneapolis Star-Tribune* reported on Aug. 28. The state is suffering a demographic collapse; its population is the same in 2000 as it was in 1980; the average age of Iowa farmers is now 58; and even if 100% of high school students graduating between now and 2005, stay in Iowa, the state will still have a net loss of 3% in the available workforce. For these and other reasons, the state's economy is shrivelling up.

The Governor's commission has called for "an immigration enterprise zone," recruitment of large numbers of immigrants to boost the labor force, with state agents going abroad to direct immigrants into Iowa, and special Federal programs to help in the process.

Immigrants have come in recent years especially from Mexico, Bosnia, and Sudan.

Buchanan Rejects Charge of 'Jeffersonianism'

Responding to a column by Gen. William Odom that appeared in the Aug. 11 *Wall Street Journal*, Reform Party Presidential nominee Pat Buchanan published a reply in the same newspaper on Aug. 23, in which he upheld the American System of political economy. General Odom had characterized Buchanan as a Jeffersonian who feared American engagement in the global economy. Buchanan wrote in reply: "Prof. Odom calls me a Jeffersonian agrarian. Has he read my book? My ideas are rooted in the economic nationalism of Washington, Hamilton, the Madison of the Tariff of 1816, Henry Clay, Friedrich List, Lincoln and the Republicans who, from 1865 to 1914, took the U.S. from half of Britain's manufacturing power to more than double her power—a 50-year period where growth rates averaged 4%, with bursts under McKinley up to 7%. They all put America first.

"As Hamilton insisted," Buchanan went on, "U.S. trade policy should be designed to ensure the highest standard of living on Earth for the American people, and the economic independence of the nation, so that, if need be, America could stand alone. Only thus could we stay out of Europe's wars."

Buchanan concluded, "'Independence Forever' was Adams's deathbed toast. Men will die for the 'ashes of their fathers and the temples of their gods,' not for some New World Order created of, by, and for the greedy global mandarins who endlessly lust after America's wealth and power."

EIR reviewed Buchanan's book, *A Republic, Not an Empire: Reclaiming America's Destiny*, in our issue of Oct. 22, 1999. Reviewer Nancy Spannaus showed that Buchanan's "America First" standpoint contradicts the actual foreign policy of the greatest American leaders.

HEALTH INSURANCE premiums for Federal employees and retirees will rise an average of 10.5% next year, the Clinton Administration announced on Sept. 15. The increase, the fourth consecutive year of higher rates, means health premiums for Federal employees and retirees have jumped a staggering 36% since 1998.

THE SECESSIONIST "Southern Party" won its first electoral victory, when Wayne Willingham was elected mayor of the town of West Point, Alabama, beating the incumbent by one vote. The London *Guardian* reported this result on Sept. 18, in a story on the rise of neo-Confederates in the U.S. South.

A GROUP OF GOVERNORS, led by Tony Knowles, the Democratic governor of Alaska, and Bob Taft, the Republican governor of Ohio, convened a meeting on Sept. 20, in Columbus, Ohio, to discuss what it calls the coming "natural gas crisis." The governors' objective is to get a bipartisan understanding of what is driving natural gas prices up, and what to do about it.

SELMA, ALABAMA'S longtime mayor, Joe Smitherman, was defeated on Sept. 12 by African-American businessman James Perkins, who won 57% of the vote. Smitherman, once an arch-segregationist, has been mayor for 37 years. It was he, who, in March 1965, allowed state troopers to attack civil rights demonstrators as they attempted to march for their voting rights from Selma to the state capital in Montgomery.

'THE RELUCTANCE of many Jewish leaders to accept the earnest efforts of Catholics to seek forgiveness for past wrongs is not only disrespectful and self-defeating—it defies Judaism's core belief in the transformative power of [forgiveness], which lies at the heart of our High Holy Day prayers." This is the crux of an article in the Fall issue of the *Reform Judaism*, the quarterly magazine of the Union of American Hebrew Congregations.

The Voice from the Doomed in the Bunker

Since Lyndon LaRouche and Richard Freeman issued, in *EIR*, the warning that the world has slipped over the boundary into a Weimar-style hyperinflationary spiral, the rate at which foreign assets must flow into the dollar markets to keep Wall Street from collapsing, has risen to about \$3 trillion-a-year rate today.

The world is currently operating on the hyperinflationary slope of the economic "Triple Curve" defined by LaRouche. The situation probable now, for but a few weeks ahead, already indicates a political, strategic, and economic situation beyond the imagination of most people today. However, simple geometric expansion of the rate of inflation, in that way, would not exist as a self-standing sort of phenomenon. The movement into such a direction would already have chain-reaction effects within the highly merged structures of banking and related financial institutions. Under these conditions, any major blow-out of banking and related financial systems in any large section of the world, would tend to cause a chain-reaction blow-out of the U.S. banking and financial institutions.

More and more, well-informed circles suggest that it is the U.S. banking system which is likely to blow out first, at least in large part.

Because of this desperate situation, from Blair's London, the Queen's Australia, and the New York City spot-market capital of the world, one cry sounds out across all waters. This time, the cry from the doomed regime, is not, "Let them eat cake!" but, purely and simply, "Kill them all!" No explanation but this, applies to the current all-out financial assault against South Korea as it attempts steps toward reunification with the North. No other explanation applies to the coup against Peru, the sinking of the *Kursk*, to the lunacy of Wall Street's elimination of all possible leading candidates but the relevant two idiots, the shoot-to-kill order in Australia, and Blair's abortive cry of "Off with their heads" from Downing Street—or, should we rename it "Drowning Street-by-the-Thames"?

Today's story is, that the sole causes for the oil-price skyrocketing are, first and foremost, the New

York financial center's big-four monopolies orchestrating the price through the international spot market, and, second, the greenie taxes on petroleum and energy prices generally. Furthermore, all of this, is but a signal feature of a worldwide, Weimar-1923-style hyperinflationary spiral now skyrocketing upward. The world's financier oligarchical circles know all this, because they are doing it all deliberately, but they would rather drown the world stage with blood than allow anyone to outlive them. The name for the policy of the world's ruling financier-oligarchy is, The Gods of Olympus are doomed, but, "We are taking everyone down with us!"

That is the situation; that is the reality which should govern the movements of mouth, hands, and feet, of everyone who deserves to survive this crisis.

LaRouche's action proposed in this week's issue, on the immediate issue of current oil-price hyperinflation caused by dollar speculation on the international spot market, is a necessary action, but other considerations must be kept in mind.

Joint action among governments to take government-to-government control over the international petroleum traffic, trade, and prices, is an indispensable immediate action, to bring under control a cost of that energy upon whose flow, and relative cheapness the continued existence of world economy depends, even in the very short term, and also to ensure the political stability of the governments themselves.

That action for short-term stability of governments, is indispensable if governments are to retain both the authority and impetus for the additional emergency actions to bring an already inevitable global financial blow-out under control.

If governments refuse to act against the current spot-market petroleum speculation, as he proposes, then those governments themselves will be brought down in the ensuing, near-term, hyperinflationary blow-out of the system as a whole. No sane government has any real-world choice, but to act immediately in more or less exactly the way which LaRouche has proposed.

THE 'NEW ECONOMY' IS DOOMED

The Fraud of the Information Society

The Group of Eight heads of state, meeting in Okinawa in July 2000, proclaimed as its major accomplishment, the establishment of a task force aimed at giving the Third World access to the "Information Revolution." In a parody of Marie Antoinette, they said of the world's poor: "Let them eat laptops!"

EIR's Special Report rips apart the fraud of the Information Society, and tells what must be done to restore economic health to nations where billions of people face hunger and death by infectious disease, while transport, power, and water infrastructure is collapsing.

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