

# EIR

Executive Intelligence Review

August 9, 2002 Vol. 29 No. 30 [www.larouche.com](http://www.larouche.com) \$10.00

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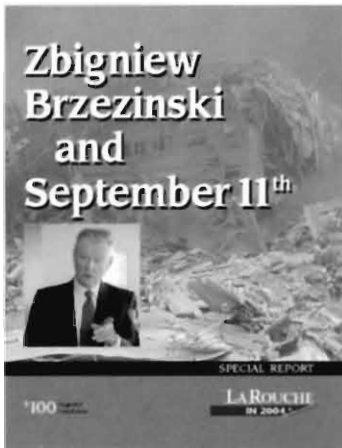


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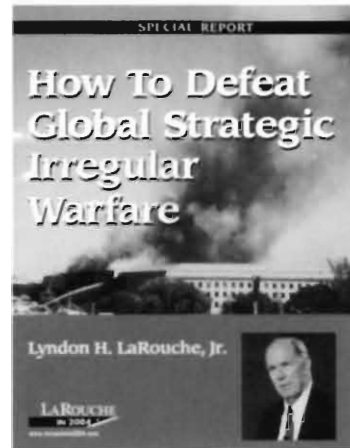
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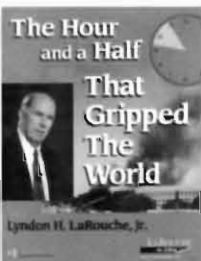
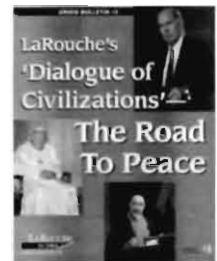
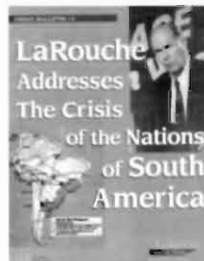
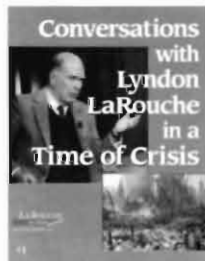
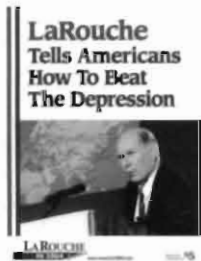
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*EIR (ISSN 0273-6314) is published weekly (50 issues)  
except for the second week of July and the last week of  
December, by EIR News Service Inc., 317 Pennsylvania  
Ave., S.E., 3rd Floor, Washington, DC 20003. (202)  
396-0398. For subscriptions: (703) 777-9451, or toll-  
free, 888-EIR-3258.*

*World Wide Web site: <http://www.larouche.pub.com>  
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*European Headquarters: Executive Intelligence Review  
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D-65013 Wiesbaden, Bahnstrasse 9-A, D-65205,  
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0963, 55-46-2597, 55-46-0931, 55-46-0933 y 55-46-2400.*

*Japan subscription sales: O.T.O. Research Corporation,  
Takeuchi Bldg., 1-34-12 Takatanobaba, Shinjuku-Ku, Tokyo  
160. Tel: (03) 3208-7821.*

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prohibited. Periodicals postage paid at Washington D.C.,  
and at an additional mailing offices.*

*Domestic subscriptions: 3 months—\$125, 6 months—\$225,  
1 year—\$396, Single issue—\$10*

*Postmaster: Send all address changes to EIR, P.O. Box  
17390, Washington, D.C. 20041-0390.*

## From the Associate Editor

**T**he initiative that Lyndon LaRouche launched in the July 19 issue of *EIR*, to knock out the two-headed McCain-Lieberman monster from U.S. politics, is the kind of creative flanking maneuver that can change the course of history. In the strategic tradition of Hannibal at Cannae in 216 B.C., or the Von Schlieffen Plan in 1914, or Sherman in Georgia in 1864, LaRouche knows that the way to achieve victory is not to attack an enemy head-on, but to outwit him, and hit him on the flank where he least expects it.

That's what LaRouche did in 1982, for example, when he devised the policy that became known as President Reagan's Strategic Defense Initiative. And, as he told an Internet radio audience on July 27 (see *Feature*), "because I am what I am, I do this kind of thing often; sometimes it's less significant; sometimes it's more significant. This time, I think it's *really* significant."

Why? Because the economy is collapsing; because our poorly qualified President, unsure of what to do about the crisis, is being pushed toward war against Iraq by the "Clash of Civilizations" faction inside and outside his administration; and because no effective opposition can emerge to this policy, as long as the McCain-Lieberman duo has a hammerlock on Washington politics. Behind them are the bigtime organized crime networks that turned the American banking system into a laundromat for drug money and other criminal enterprises, while wrecking the productive economy.

If we knock them out, what happens? Suddenly, new options become possible. The traditional constituencies in the Democratic Party—labor, farmers, African Americans—can stop "going along to get along," and think about what the global financial situation is, and what can be done about it. "You have, then, *new politics in Washington*," LaRouche said. "You have a bipartisan combination, around which the nation can assemble, for a great national, ongoing, functional debate. That is, in which we are debating, more realistically all the time, what the issues are that we should deal with, and not have these things rammed down our throat. It is, in short, *the only shot we have*."

Our *Feature* provides the marching orders, and the explosive intelligence that will blow McCain and Lieberman out of the water, before Labor Day.

*Susan Welsh*

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Wreck What's Wrecking the Parties.

**Correction:** In "Fascist William Buckley Put Joe Lieberman in the Senate," in our July 26 issue, certain editorial errors were introduced. The place where *Triumph* magazine spawned the Christian Commonwealth Institute was the 16th-Century Escorial monastery, built by the Hapsburg King Philip II. Carlism came into being in the 19th Century, nearly two centuries after Philip's death.

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# Financial Armaggedon Is Unfolding in South America

by Gretchen Small

The decision was made on July 23-24 by the U.S. Federal Reserve, reliable European sources report, that any and all measures would be taken to keep the U.S. stock markets from melting down before the November 2002 mid-term elections. At stake was far more than the Republican Party's election prospects, or U.S. stocks. With J.P. Morgan-Chase executives forced to call a teleconference July 24 to dispel swelling rumors that they were facing insolvency, urgent action was required. The rumors of insolvency also included Citigroup, second only to J.P. Morgan-Chase as the top holder of derivatives in the United States. Were even one big U.S. bank to go under, it would trigger "financial Armaggedon" for the already terminal global system.

The "whatever necessary" decision led to the greatest stock market intervention ever by the U.S. Federal Reserve, supported by other G-7 central banks. It succeeded in halting the meltdown . . . at least for a week.

But, while the financial establishment was riveted on the chaos on Wall Street, another part of their global speculative bubble was bursting: Brazil, and with it, the entire South American financial system.

On July 29, the Brazilian currency, the real, plummeted by nearly 5.5% in a single day, after losing 5% in value the prior week. The next day, Associated Press asked worriedly, "Is Brazil heading for an Argentine-style meltdown?" as the Brazilian currency lost another 4.6%, and its country risk soared to 23.45%. This is an index (set, ironically enough, by the bankrupt J.P. Morgan-Chase) used to indicate risk of default. The only higher country-risk ratings in the world, are those of Argentina—which defaulted on \$95 billion in debt in late 2001—and neighboring Uruguay, which at the end of July had to declare a bank holiday, as it careened toward bankruptcy as well.

Officials from Brazil's Central Bank and Finance Ministry boarded planes to Washington, for emergency discussions

with the International Monetary Fund (IMF), to try to scare up sufficient funds to forestall national bankruptcy—an unlikely prospect.

## Most To Lose in U.S., Brazil

How big is the Brazilian foreign debt bubble? \$500 billion big. That is largest foreign debt in the world. It is dwarfed, however, by the United States' \$32 trillion in combined public and private debt. This U.S. debt, along with the world derivatives bubble, is by far and away the world's greatest financial bomb.

The Brazil developments caused panic on Wall Street. Top executives of the already-bankrupt Citigroup announced on Aug. 1 that they would now meet regularly to calculate how to "mitigate losses" in Brazil. Citigroup lost \$2.2 billion in Argentina, but had, as of March 2002, nearly \$13 billion to lose in Brazil. European exposure is even greater than American in Brazil, with Spanish interests guaranteed to go down when Brazil goes, because of enormous exposures in energy, telecommunications, and above all, banking.

On July 30, Uruguay, the "Switzerland of Ibero-America" whose economy largely revolves around its role as an international offshore banking center, was forced to declare a bank holiday, its first in 70 years. The expected next step: an Argentine-style bank deposit freeze.

Two countries in South America—Argentina and Uruguay—now have no banking system to speak of. Paraguay's system could blow tomorrow; Bolivia just suffered a damaging run on its banks. The bonds of every country in Ibero-America collapsed in the final week of July, as did many currencies, including Mexico's peso. No fewer than seven Ibero-American countries are now lining up, hat in hand, for urgent talks with the IMF.

Fools are running around calling this "contagion." It is, rather, a systemic blowout. Speaking on June 13 in São Paulo,

Brazil, at a luncheon hosted by that city's Commercial Association, Lyndon LaRouche prophetically warned Brazilians of what has since happened, the explosion of their system under them. "Governments must act to put the system into bankruptcy reorganization. If you do not do it, you have the worst possible result," he told them. "Brazil, like every other nation on this planet, including Japan, is the victim of an Anglo-American dictate to try to perpetuate that bankrupt system. If we continue, this will blow up, and this could probably happen in the next two to three months. What is happening in Argentina is a *warning*."

## Uruguay Goes Down

In collapse, Uruguay, though small both geographically and financially, poses a political problem for the IMF and Wall Street. This was their "success story" in the region, matched only by Chile. In a statement proving ironically prophetic, the State Department's pre-trip background briefing on Assistant Secretary of State Otto Reich's July 7-12 trip to South America, declared that, in Reich's view, Uruguay "represents what we hope the hemisphere will become."

At the beginning of 2002, Uruguay had a minimal country-risk rating of just over 2%; today it stands at 31%, rated second worldwide only to Argentina. Its bonds were rated investment grade as late as May 2002; today, they are six levels below investment grade.

Over the course of 2002, bank deposits dropped by 40%. On June 20, Uruguay floated its currency for the first time in 20 years. Since then, its peso has dropped almost 40% against the dollar, and the bleeding of bank deposits, and consequently central bank foreign reserves, has escalated. The nation's reserves dropped by over 70% from the beginning of the year, 27% in the first 16 days of July alone. The \$500 million loan disbursed by the IMF in mid-June was gone within two weeks; \$100 million a day left the banking system over the course of July; and by July 31, reserves were reported at \$665 million.

The government suspended operation at two banks on July 30, and declared a general bank holiday, first for a day, then for the rest of the week. Depositors are permitted only to withdraw a limited amount of pesos, and no dollars, from ATM machines.

The same IMF and U.S. Treasury which have strangled Argentina of credit, quickly stepped in to bail out bank haven Uruguay. The government has already secured an increase in the IMF bailout arranged only in June, and is to receive an emergency disbursement of \$1.5 billion on Aug. 5, followed (they say) by another \$2.1 billion to be disbursed shortly thereafter. The total bailout package under way for Uruguay, \$4.7 billion, equals one-quarter of its GDP.

## The Bicycle Has Stopped

There has not been a similar massive run on the banks in Brazil yet, but that is coming. On July 29, as the real plummeted, rumors began to circulate that Brazil might declare a bank

holiday. According to the daily *Folha de São Paulo* of July 30, an extreme scarcity of dollars relative to panicked buying, created a \$2-3 billion "hole" in Brazilian bank accounting on July 29, as the banks tried to cover the demands of their clients for dollars to pay their debts.

In the 1980s, the speculative financial pyramids built around the national debts in Ibero-America, were dubbed "the bicycle." A bicycle remains upright, as long as you keep pedaling. So, too, in the debt game, debts were paid as they came due, by taking on new, bigger debts. The debt piled up, but as long as the money kept coming in, the speculative game stayed "upright."

Brazil's late July blowout is occurring because the bicyclist has stopped pedaling for Brazil. Foreign direct investment (FDI) has dried up, as global financial capital evaporates in the global crisis, or is sucked into the United States to keep the stock market bubble from exploding. In recent years, FDI was one of the principal mechanisms by which Brazil secured a sufficient inflow of capital to provide the liquidity to cover debt payments. Privatizations have ground to a near-halt, as the U.S. energy companies go under, which were expected to buy what Brazil hoped to sell this year.

The Brazilian private sector, which owes over \$150 billion in foreign debt, has found that it can no longer roll over its loans. Between January and May 2002, only 58% of private foreign obligations were rolled over, whereas 96.5% were renewed in 2001. In June, the figure dropped to 22%, which means that Brazilian companies have only the option of raising the cash to pay off three-quarters of their loans—or default.

This is no small thing. The estimate is that Brazilian private firms have \$10.6 billion in foreign debts coming due by Dec. 31. And, because every devaluation of Brazil's real makes paying off dollar debts more expensive, by late July companies began panic-buying of dollars, to try to pre-pay debts before the currency dropped lower. The panic accelerated the devaluation, as the dollar's value soared because of the scarcity.

Worse, Brazil has found that its *trade credits* are being cut off, usually the last thing to go in a crisis. Since March, international credit lines available to Brazil for imports and exports, have dropped by almost half, from \$10.8 billion, to \$5.7 billion.

The even more explosive charge lying under the Brazil debt bubble, however, is the government's domestic debt—the 1 trillion reals worth of government bonds, of which around 150 billion come due by the end of 2002. This government debt has quintupled since 1994, when President Fernando Henrique Cardoso came into office. It has been paid by the same "bicycle" principle as the private sector, but as investors became more nervous about the mounting debt, the financial team running the show enticed investors to keep "pedaling," by offering dollar-indexed domestic bonds, and floating interest-rate bonds.

The "solution" of yesterday's crisis, has become the

nightmare of today's. Some 40% of Brazil's trillion-dollar domestic public debt is now dollarized. That means that every time the real devalues, Brazil's debt increases. By Bloomberg News Service's calculation, every percentage point devaluation increases Brazil's government debt by \$1.4 billion. To see the absurdity of the situation, consider that on July 29 alone, the run on the real due to panic about Brazil's ability to pay its debt, increased Brazil's debt by a whopping \$7.56 billion, without the country receiving a single loan.

### Capital Controls Now!

In this situation, the fixation on getting another \$10-20 billion in new money from the IMF is ludicrous. It cannot solve the problem, even temporarily. And, given the IMF's conditionality, that all the candidates in the October 2002 Presidential race sign on to any agreement the Cardoso government might reach with the IMF, a new bailout is not likely to come quickly, if at all.

Brazil's debt is unpayable, and everyone in the know, knows this, and is planning accordingly. The "big money" is pulling out now, only hoping that the IMF kicks in enough capital to ensure that foreign looters can get all of their money out before Brazil goes bust, and its banking system implodes as in Argentina and Uruguay. The issue is, will Brazil let the game continue until it is stripped of everything but its debts, and then default like Argentina? Or, will it heed LaRouche, and stop the bleeding now?

Brazilian Central Bank President Arminio Fraga, mega-speculator George Soros' old employee, assured investors on a teleconference arranged by UBS Warburg on Aug. 2, that he ruled out any imposition of capital controls to defend the currency. But that is precisely what needs to be done, immediately, as the Ibero-American Solidarity Movement (MSIA), LaRouche's movement in Brazil, emphasized in a statement issued July 30. Brazil must break with the "rules of the game" of the failed international financial system. It must dump Fraga; impose capital controls, as Malaysia did in 1998; and use its considerable weight in the global arena to initiate an international movement for convening a "New Bretton Woods Conference," to discuss the reorganization of the world financial system. This was proposed in numerous international forums since 1997 by LaRouche, and since echoed by others. That, combined with concrete measures to promote Ibero-American integration, is Brazil's only option for survival.

As LaRouche told Brazilians from São Paulo, the issue is: "Can we survive? Can civilization survive? Can Brazil survive? Isn't that the question here? . . . You see what is happening to Argentina? . . . And where can you find the leaders who will avoid denial? To look the ugly truth in the eye, to look the dangerous truth in the eye, and say, 'I'm going to do whatever is necessary to save this nation, and civilization, this nation being my immediate responsibility.' "

# Michael Steinhardt's 1991 Corner of the U.S. Treasury Market

by Richard Freeman

In 1991, Michael Steinhardt, in coordination with Salomon Brothers, conducted one of the biggest corners of the U.S. Treasury market in U.S. history, turning America's sovereign debt into a speculative plaything. It was an attack on the sovereignty of the United States.

Steinhardt is the son of the notorious Sol "Red" Steinhardt, a leading figure in the Meyer Lansky National Crime Syndicate (see "The Real Scandal: McCain and Lieberman," *EIR*, July 19, 2002). Michael Steinhardt fronted his father's ill-gotten gains into several financial vehicles and Wall Street investments, which eventually evolved into his Steinhardt Management Co., one of the world's largest and dirtiest leveraged hedge funds. During the 1980s and 1990s, Steinhardt used his hedge fund to enforce a major transformation: building up the U.S. speculative bubble, and destroying the productive economy and necessary economic-financial institutions in America and around the world.

Meanwhile, Steinhardt became critical to the election of Joe Lieberman (D-Conn.) to the U.S. Senate. In the mid-1980s, Steinhardt helped create and finance, and then chaired, the Democratic Leadership Council (DLC), as a vehicle to crush both the legacy of Franklin D. Roosevelt and any support for the Constitution's General Welfare clause inside the Democratic Party. The DLC helped finance and steer Lieberman's career. When Steinhardt stepped down as DLC chair in 1995, Lieberman took over that post. In 1991, Steinhardt formed the secretive Mega group of approximately 50 billionaires, which supports the war drive of the fascist Ariel Sharon government of Israel, and is a major force behind the "Clash of Civilizations" policy that was advanced with the Sept. 11 attacks. The Mega group both finances and sets a good deal of the policy for its empty, but dangerous vessel, Joe Lieberman.

Steinhardt's menacing 1991 Treasury corner offers a clinical study of the thinking and criminal behavior of those who would use Lieberman to destroy America today.

### Strategic Implications

In his 1991 Treasury raid, Steinhardt made as much as hundreds of millions of dollars, and paralyzed a portion of the U.S. Treasury market. *EIR* is investigating other strategic functions this raid might have had, given that it was launched at a time when the U.S. banking system was collapsing, and



a few short months after the start of Operation Desert Storm against Iraq.

The Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) jointly brought charges against Steinhardt and a closely allied hedge fund, Caxton Corp.,<sup>1</sup> for violating the Sherman Anti-Trust Act and conspiracy in illegally manipulating and squeezing the Treasury market. In 1994, Steinhardt and his associates settled the case by paying \$76 million in fines and settlements—one of the largest fines in U.S. history. But it appears he should have faced criminal charges as well. *EIR* is investigating who operated on his behalf to keep him out of jail.

In the joint SEC-DOJ complaint, *United States of America v. Steinhardt Management Company; and Caxton Corporation*, the DOJ and SEC state: “The complaint alleges that, beginning in April 1991 and continuing into September 1991, the defendant entities and others (collectively, the ‘conspirators’) violated Section 1 of the Sherman Act by agreeing to coordinate their actions in trading the two-year Treasury notes auctioned by the United States Treasury on April 24, 1991 (‘April Notes’). During that period the conspirators coordinated trading in the secondary markets for the April Notes.”

There are two points about a Treasury auction that make the significance of Steinhardt’s action clear. First, for a week prior to and a few weeks after a Treasury auction, investors can buy this Treasury in what is called the “when-issued” or primary market. After that market is closed, investors can buy that Treasury security in the secondary markets (which are of two types: either the cash secondary market, or the financing secondary market).


Second, each Treasury auction issues Treasury securities that are unique to that auction. In each auction, which occurs

1. The case makes clear that in the April 1991 two-year Treasury note squeeze, Steinhardt’s co-conspirator was Bruce Kovner, of Caxton Corp. Kovner got his start beginning in the early 1980s working for Lord Jacob Rothschild, and then for Global Asset Management, which was set up and controlled by the late Baron Edmund de Rothschild. Rothschild financed and put into business Bernie Cornfeld, Robert Vesco, and Drexel Burnham Lambert. Kovner and Steinhardt are close: According to DOJ-SEC records, starting in 1990 Kovner became president of Steinhardt Management for one year. Today, Kovner shows up in several important posts: In 2001, he became vice-chairman of the American Enterprise Institute, one of the leading institutions pushing for a “Clash of Civilizations.” At the start of 2002, he joined the board of *The Sun*, a newspaper set up by Hollinger Corp. (Steinhardt is also on the board of *The Sun*). Kovner is also one of the biggest funders of the “school vouchers” movement, and a member of the Publication Committee of Irving Kristol’s *Public Interest* magazine.

Page 1

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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 :  
 UNITED STATES OF AMERICA, :  
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 Plaintiff, :  
 :  
 - v - :  
 :  
 STEINHARDT MANAGEMENT COMPANY, : 94 Civ. 9044 JMP  
 INC.; and CAXTON CORPORATION, :  
 :  
 Defendants, :  
 :  
 -and- :  
 :  
 \$12,500,000 THAT IS THE PROPERTY :  
 OF STEINHARDT MANAGEMENT :  
 COMPANY, INC.; :  
 :  
 Steinhardt Management :  
 Company, Inc., :  
 Real Party in Interest :  
 :  
 -and- :  
 :  
 \$12,500,000 THAT IS THE PROPERTY :  
 OF CAXTON CORPORATION, :  
 :  
 Caxton Corporation, :  
 Real Party in Interest. :  
 -----X



COMPETITIVE IMPACT STATEMENT  
 Pursuant to Section 2(b) of the Antitrust Procedures and Penalties Act, 15 U.S.C. § 16(b)-(h), the United States submits this Competitive Impact Statement relating to the proposed Final Judgment submitted for entry in this civil antitrust proceeding.

Page 2

I.  
 NATURE AND PURPOSE OF THE PROCEEDING

On December 16, the United States filed a civil antitrust complaint alleging that Steinhardt Management Company, Inc. (“SMC”), Caxton Corporation (“Caxton”) and others conspired to restrain competition in markets for specified United States Treasury securities, in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1. The complaint seeks injunctive relief and forfeiture of property owned by SMC and Caxton pursuant to the alleged conspiracy under Section 6 of the Sherman Act, 15 U.S.C. § 6.

The complaint alleges that, beginning in April 1991 and continuing into September 1991, the defendant entities and others (collectively, the “conspirators”) violated Section 1 of the Sherman Act by agreeing to coordinate their actions in trading the two-year Treasury notes

on a specific date, every Treasury security is given an identification number, called the CUSIP number, which is the same for all securities issued on that date. So, for the April 24, 1991 auction of two-year Treasury notes—which Steinhardt cornered—an investor who wished to trade in those notes, which included those who took a short or long position, when it came time to make delivery, had to deliver a two-year Treasury note which carried *the specific CUSIP number connected to April 24, 1991*. In most cases, an investor could not fulfill the contract by substituting another two-year note with a different CUSIP number. As a seasoned speculator, Steinhardt knew this.

Starting in May, a few weeks after the April 24, 1991 two-year Treasury note had been issued, Steinhardt and his co-conspirators began their squeeze: They bought or controlled \$20 billion worth of the \$12 billion in April 24, 1991 two-year Treasury notes that had been issued; that is, they controlled more than 150% of the issue. Those investors who had taken a short position, i.e., bet that the price would fall, could not obtain the notes with the specific CUSIP number in the

secondary market to cover their short position. Not only did they suffer large losses (and in some cases, apparently, default on their contracts), but in their attempt to get their hands on the two-year notes, *they bid the price of the two-year notes up*. There were others who were not short-sellers, but who had reasons to want to purchase two-year notes. They also could not obtain the notes.

Steinhardt and his co-conspirators had taken long positions, betting that the price of the two-year Treasury notes would go up. Further, Steinhardt worked with dealers to prevent anyone else from getting their hands on two-year notes. As they tightened the squeeze, the price rose, and Steinhardt et al. made a financial killing.

The SEC-DOJ complaint describes what happened: “Beginning in or about April 1991, the defendant entities agreed on a scheme to acquire control of the supply of April Notes and to limit the supply of the issue in the cash and financing markets in order to cause a squeeze. This scheme ensured that persons who had sold notes short in the when-issued market or the post-settlement cash market could obtain such notes only by purchasing them at artificially high and non-competitive prices in the cash market. . . . This course of conduct continued for a period of time during which the defendant entities, with the assistance of others earned supracompetitive rates on transactions in the April Notes.

“Through numerous purchases made through various dealers, in the when-issued market, the cash market, and at auction, SMC [Steinhardt Management Co.] and Caxton obtained substantial positions in the April Notes. Indeed, from May until mid-September 1991, the defendant entities controlled more than the ‘floating supply’ of the issue [i.e., more than 100%], giving them the power to cause short sellers of the April Notes to fail to meet their security-specific delivery obligations.”

The complaint discusses how SMC and Caxton “gave tacit assurances to each other that they would continue to hold their substantial long positions in the April Notes, and would limit the supply of April Notes that they would make available . . . to the markets.”

The SEC-DOJ complaint also discusses how they concluded with primary Treasury dealers to restrict supply of April notes: “The conspirators began to implement their squeeze on May 23, 1991. An essential part of the scheme involved the defendant entities entering into financing agreements with two primary dealers to ensure that the supply of April Notes available to shorts in the secondary market would be reduced.”

### The Timing of the Squeeze

The timing of the squeeze is interesting in light of world events. In February 1991, President George H.W. Bush invaded Iraq. As often happens during war, Desert Storm sent investors around the world fleeing into the “safe investment” of U.S. Treasury securities. The increased demand sent the price of all Treasuries—ranging from one-year bills to two-year notes, to 30-year bonds—upward. In the Spring of 1991 the war ended, but the ensuing tension kept the purchase of U.S. Treasury securities high. This heightened the already strangling effect that the Steinhardt corner had on the two-year Treasury notes market, pushing their price even higher, destroying the shorts.

There may be strategic considerations involved in Steinhardt’s decision to corner the market in Treasury notes when he did, which further investigation will perhaps reveal. There certainly were things happening in the financial realm. Before discussing them, let us consider three other points.

First, Steinhardt made a lot of money from the corner operation, which, according to the DOJ-SEC complaint, was carried on for five months. It is very possible that this operation alone yielded a \$200 million profit. In his recent book, *No Bull*, Steinhardt states: “Despite the enormous burden of the Treasury scandal, our bond bet had been a huge win for our investors. From mid-1990 through 1993, we had made more than \$600 million on our interest-rate view.” What Steinhardt called “our interest-rate view,” means that Steinhardt bet on the direction of U.S. interest rates, and the way one does that, most of the time, is through bets on U.S. Treasury securities.

Second, Steinhardt paralyzed part of the U.S. Treasury

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market, with significant consequences. The DOJ-SEC complaint states: “The conspiracy had a dangerous probability of damaging the Treasury of the United States. As noted in the *Joint Report on the Government Securities Market* issued by the Treasury, the SEC, and the Federal Reserve Board, ‘an acute, protracted squeeze resulting from illegal coordinated conduct, such as the one alleged here, ‘can cause lasting damage to the marketplace, especially if market participants attribute the shortage to market manipulation.’ ” Above all, this represented an attempt to *disrupt and render ineffective a part of the market of the sovereign debt of the United States*. In addition to directly causing a monetary loss to the U.S. Treasury, the Steinhardt attack disrupted the Treasury market, upon which the United States depends to finance its budget deficit and for other purposes.

### Part of a Bigger Operation

Third, immediately afterward, Salomon Brothers investment bank set up a squeeze for U.S. Treasury two-year notes dated for May 1991. Salomon was charged by the SEC and DOJ with “colluding with unnamed parties.” One newspaper article suggested that Salomon Brothers and Steinhardt Management participated with each other in the squeezes of the April two-year Treasury notes and the May two-year Treasury notes. This indicates that a larger operation was afoot.

A proper investigation also requires looking at the strategic financial picture at the time. In the Spring of 1991, Citibank, then America’s largest bank, had gone under, and under the terms of a Memorandum of Understanding that Citibank signed with the Federal Reserve Board, the Fed had sent hundreds of inspectors and other government officials into the bank to run it on a life-support system, to keep it, and the American banking system, from collapsing. Did there exist a relationship between the Steinhardt and Salomon corners/squeezes, and Fed Chairman Alan Greenspan’s attempt to save Citibank and other banks?

Further, in September 1992, George Soros’s Quantum Fund launched an attack against the British pound, which made Soros a lot of money, and also broke Britain out of the European Rate Mechanism. Speculative raids, while designed to make a lot of money, are frequently enfolded within an operation that also is meant to enforce a policy shift. Could the Steinhardt/Salomon attacks have involved enforcing a major policy shift? Is there a broader policy continuity between the Steinhardt and Soros raids?

### The SEC-DOJ Investigation

In June 1991, the SEC began an informal investigation of the U.S. Treasury markets, and in August 1991 it turned this into a formal investigation and issued subpoenas to Steinhardt and others. Throughout 1992, the SEC Enforcement Division’s investigation continued. In the meantime, starting some time in 1991, civil suits commenced against Steinhardt and other defendants. On Dec. 16, 1994, the DOJ

and SEC announced that “two of the country’s leading investment fund managers, Steinhardt Management Company, Inc. and Caxton Corporation, have agreed to pay \$76 million to settle antitrust and securities charges” which had been filed by the DOJ and SEC in the U.S. District Court in New York City.

Steinhardt Management had to pay \$40 million, of which \$12.5 million was to be forfeited to the United States under the antitrust laws, \$6.5 million was to be paid to the SEC as a penalty for violating the securities laws, and \$21 million was to be placed into a disgorgement fund to be administered by the courts to compensate victims of the violation.

Steinhardt himself makes clear that the Steinhardt corner and the Salomon Brothers corner were viewed by the victims and others as effectively one operation. In *No Bull*, Steinhardt writes, “Eventually a large group of small investors filed a number of class-action suits, later rolled into one suit, against Salomon, Caxton, and Steinhardt.”

The Steinhardt squeeze on the U.S. Treasury market was more severe than that of Salomon Brothers. The Dec. 16, 1994 *Wall Street Journal* said, “The [Steinhardt] April 1991 note squeeze, known as the ‘forgotten squeeze,’ received less attention than the May 1991 squeeze on two-year Treasury notes, which led to the Salomon Brothers, Inc. Treasury-auction scandal. But some market participants say the April squeeze was more severe.”

### Why Didn’t Steinhardt Go to Jail?

While the DOJ and SEC brought a civil case against Steinhardt, it would appear that they should have brought a criminal case, which could have meant jail time for Steinhardt. Today, the DOJ brings criminal charges for insider trading; it would appear that it might have brought charges for illegally rigging an entire market.

The case against Steinhardt was started under the senior Bush Administration, but a good part of the investigation and the settlement was worked out under the Clinton Administration. This raises the question of who might have blocked the responsible agencies—the DOJ and SEC—from bringing criminal charges against Steinhardt. The Gore forces in the Clinton Administration certainly didn’t want the head and chief funder of the DLC, Steinhardt, to go to jail. *EIR* is investigating what role these forces might have played to keep Steinhardt out of jail.

In 1994, Steinhardt Management experienced losses. The Sept. 7, 1994 *Wall Street Journal* reported that in March 1994, Steinhardt’s firm had suffered a \$1 billion loss. In 1993, Steinhardt Management and the hedge funds it managed had more than \$5 billion in capital, a significant sum for a hedge fund; by late 1994, Steinhardt Management and the hedge funds it managed had \$2.7 billion, a fall of nearly half. In 1995, Steinhardt liquidated Steinhardt Management, and returned to investors that portion of the capital that was due them.

# Great Projects Top South American Summit

by Gretchen Small

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

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

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

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

IIRSA has drawn up plans for long-needed projects to integrate the continent from north to south, from the Orinoco River in Venezuela to the southern tip of Argentina, and from east to west—joining, finally, the Atlantic to the Pacific. A series of beautiful color maps, depicting the *corridors of development* which are envisioned growing around these infra-

structure "great projects," can be viewed at [www.iirsa.org](http://www.iirsa.org). The overview map is shown here.

IIRSA's progress was a principal item on the agenda of the July 25-26 second summit in Guayaquil. The Heads of State were presented reports on all 162 transport, energy, and telecommunications infrastructure projects identified thus far by IIRSA.

## Development Is a Human Right

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

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

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

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

Ibero-America is extremely vulnerable, Noboa acknowledged. And a principal factor in that vulnerability is "the heavy weight of servicing the foreign debt," which permanently channels off the resources which we need so our people can reach "the standard of living to which they have a right as human beings."



*This map by the IIRSA project of the South American Presidents shows the economic integration of the continent that they are seeking. The priorities are the integration of the big rivers into one navigation system (shown in black), and the building of modern road-rail “corridors of development” (indicated in gray).*

### **Free Markets Are Not Functioning**

In an echo of the future envisioned by Fujimori, Noboa reminded his fellow heads of state, that the project begun in Brasilia two years ago, seeks not only to build physical projects which connect and integrate the region, but to realize

something even greater, “the construction of an integrated space” which can politically defend the fundamental interests of South American peoples. Having laid the bases for a “South American Project,” Noboa asked the meeting in Guayaquil to “consolidate, deepen, and expand it. Current reality demands an overview and common action.”

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

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

The Presidents were also adamant, that they will not accept any supranational intervention into

their neighbor. South America will not endorse any intervention by the United States, nor any other country, in the Colombian conflict, Noboa stated at the summit’s close; there will be no continental military force formed to intervene.

# Russians Debate Impact Of Dollar, Market Falls

by Rachel Douglas

The \$40 billion-plus in cash dollars inside Russia, and the fact that Russian currency reserves are held chiefly in dollars, make the weakening of the U.S. currency a burning issue. The week of July 22, exchange points in Moscow were swamped by people trying to exchange their dollars for euros, or demanding reliable advice on what else to do. Finance Minister Aleksei Kudrin urged calm. Russian stock markets dropped sharply for the first time in months, the giant Gazprom falling by 11% on July 24.

Most striking is that the strategic dimensions and systemic nature of the crisis are now being openly discussed across a broad spectrum of Russian media, no longer only by competent individual economists such as Sergei Glazyev or Tatyana Koryagina. A July 19 interview with Lyndon LaRouche in the widely read weekly *Vek* (*EIR*, Aug. 2) set a standard of reference: the world monetary system is dysfunctional, and must be replaced with proven methods of national banking and productive investment.

Also on July 19, Prof. Stanislav Menshikov, in his weekly column for the English-language *Moscow Tribune*, took up the subject of the U.S. “bubble” economy. Menshikov wrote that Alan Greenspan’s explanations about an epidemic of corporate greed were an understatement, since “the long boom of the 1990s has brought about an asset price inflation that has gone wildly astray for the first time since the 1920s.” The major banks, said Menshikov, “have also been involved in crediting the bubble and helping it grow beyond reasonable proportions.”

An important third analysis, in the weekly *Ekspert* on July 22, by economists Oleg Grigoryev and Mikhail Khazin, is our *Documentation*. Two years ago, in “Will the United States Manage To Bring On the Apocalypse?” (*EIR*, Aug. 18, 2000), this team argued that the so-called New Economy was a hoax, and its collapse would turn the United States into the epicenter of a coming crisis. Recalling that their forecast was “not accepted by the public at that time,” Khazin and Grigoryev document that their arguments have been vindicated, and outline next stages for the crisis. Khazin was formerly an expert in the Ministry of Economics and the Presidential Administration. Co-author Grigoryev has worked with Sergei Glazyev.

In June 2001, when Glazyev invited Lyndon LaRouche to keynote Parliamentary hearings “On Measures To Protect the National Economy Under Conditions of Global Financial Crisis,” nobody in the Russian government was talking in

those terms. Now, they’ve had their agenda changed. Even Finance Minister Kudrin, devoted to globalization, has to recognize “certain signs of an international financial crisis,” as he delicately put it on July 25.

Kudrin was sure that the U.S. Federal Reserve and the European Central Bank would “take measures,” but he didn’t sound sure they would work. Market capitalization has collapsed already, said the Russian Minister, and looming now is companies’ inability to service their debts, threatening “the stability of the banking system.”

Kudrin has also acknowledged, that Russia’s own foreign debt service will be at least \$300-400 million higher in fiscal 2003 than projected in the government’s budget plan. Other officials in his ministry told *Nezavisimaya Gazeta* that the extra debt service could exceed \$2 billion. Every rise of the euro against the dollar by one cent, according to Presidential economics adviser Andrei Illarionov, increases Russia’s foreign debt by \$100 million. This is because Russia has debts to European countries, which must be paid in euros, but most of its export earnings are denominated in dollars.

## Seeking Economic Security

The budget already prioritizes paying \$17 billion on the foreign debt, 2003 being the peak year for Russia’s debt-service payments. This sum is over 21% of a budget with no wiggle room. There are practically no reserves for emergencies. Early Summer floods in southern Russia, for example, became the chief cause of a doubling of state wage arrears, to 3.2 billion rubles (\$101 million), in June; payroll was diverted to disaster relief.

No decisive policy shift has yet followed from these events. But, what the widely read daily *Argumenty i Fakty* (*AiF*) termed “intriguing, even mysterious events” have taken place in the Russian establishment, around economic policy. On July 8, President Vladimir Putin held a meeting of the Security Council, to which Minister of Economic Development and Trade German Gref delivered a report Putin had demanded on “threats to Russia’s economic security.” Putin ordered the Security Council to update its “national economic security concept,” which was originally composed by Glazyev during his 1996 time at the Security Council.

On July 11, Putin assigned Gen. Col. Vladislav Putilin to Gref’s ministry as a deputy minister. Putilin is a military organization specialist, who has headed the Organization-Mobilization Directorate (GOMU) of the Armed Forces General Staff since 1997.

Two more economic policy decisions are reportedly in preparation, which could lead to momentous changes under global crash conditions. According to *Ekspert*, Presidential Administration deputy chief Dmitri Kozak is preparing legislation to shift control over most of Russia’s natural resources—including oil, natural gas, gold, diamonds, and ferrous and non-ferrous ores—to the federal government, declaring them federal property. And on July 26, Pravda.ru

reported that a team under Sergei Pugachov—a former banker, now member of the Federation Council, and close ally of the President—is working on a “mobilization program” for the economy, which would enhance the state’s ability to guide the economy.

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## Documentation

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# Will America Manage To Bring On Apocalypse?—II

*Appearing in the July 22 issue of the Russian weekly Ekspert, this article by economists Oleg Grigoryev and Mikhail Khazin came with an editorial introduction, proclaiming that “the crisis in the American economy is far from over” and urging attention to the coming “collapse of the world derivatives market.”*

How long will the American (world) economy exhibit the symptoms of crisis, and what will their long-term impact be? Practically all people in business are asking these questions, from the executives of giant corporations to middle-level traders. Answering them requires an examination of the real causes of the crisis—not only technical causes, but global ones. Otherwise, it is impossible to assess the underlying tendencies, which are determining the course of the processes unfolding.

### The Structural Crisis

To begin with, take the technical causes. The crisis in the U.S.A. is markedly structural, which defines its depth and scope. In the 1990s, a sector developed in the American economy that became known as the New Economy. Investment in this sector greatly exceeded the potential return on such investment. It was assumed that consumption of this sector’s goods and services would grow so rapidly (several times faster than the rate of growth in the economy as a whole), that with time there would be a return on investments in this sector, with an enormous margin of profit. This calculation did not prove to be justified. By 2000, it became clear that the new sector was unable to break even, never mind provide a profit to investors.

In theory, this awakening should have come sooner, but a certain role was played by massive propaganda about the amazing growth of productivity, which allegedly would result from the introduction of the new technologies. Now it is understood, that there was no such growth of productivity—this was indicated, for example, in research by the McKinsey company. Their studies showed that almost the entire increase

in labor productivity actually came from just six sectors: retail trade, wholesale trade, securities trade, semiconductors, computer manufacturing and telecom services.

In all other sectors of the economy, there was either a slight rise or a slight fall in productivity, which balance each other out.

Allow us here to quote the first version of is article of ours, published in *Ekspert* two years ago (Nov. 28, 2000) and not accepted by the public at that time: “So far, the new information sector has had no significant impact on the traditional sectors, in the sense of any significant increase in the latter’s efficiency, labor productivity or rate of profit.” In sum, we now have the classic case of a structural crisis, in which the volume of resources needed to maintain and develop one sector of the economy is out of all correspondence with its volume of sales [by that sector] to end-users.

### The Crisis and the Stock Market

According to the classic prescription, interest rates need to be raised during a structural crisis, in order for the dying sectors to cease to exist, as rapidly as possible. It is desirable to accompany this with an active government policy (with budget measures, as well as protectionist ones) of support for that sector of the economy which is slated to compensate for the losses.

Such a policy should have been initiated in 1998-1999, or even earlier (let us recall, that the National Association of Production Managers’ production index peaked in 1999). The problem was, however, that the part of the U.S. economy that would have been levelled through such a restructuring, now comprises around 12-15% of GDP. Another segment, of approximately the same size, is associated with the service sector that grew on the basis of the New Economy during these years.

The U.S. elite was not prepared to admit the inevitability of slashing almost one-quarter of the national economy—especially insofar as the effects of such a restructuring would hit differently in different places. Hardest hit, for example, would be the Wall Street investment banks—the U.S. financial elite, which controls not only the Federal Reserve System (as direct shareholders), but also the Democratic Party (being the source of practically all of its campaign contributions) and, in part, the Republican Party (approximately 30% of the Republicans’ campaign contributions came from this source).

Therefore the U.S. Federal Reserve, instead of raising interest rates, first kept them steady for a long time, and then—when the symptoms of crisis surfaced full force—began to lower them. This temporarily ameliorated local problems, but deepened the general crisis.

This action has prolonged the existence of clearly non-viable sectors of the economy, which are sucking the juice out of other, quite viable parts of the economy, including by absorbing the majority of available credit. After the new President took office, and especially after Sept. 11, U.S. mon-



*Some Russian economists also foresaw, in published articles two years ago, the collapse of the U.S. New Economy and specifically the collapses of firms like WorldCom. Now they are causing new debate in Russia over the prospect of a 25% “wring-out” of America’s GDP.*

etary authorities somewhat corrected their policy (in this, a certain role was played by splits among the sponsors of the Republican Party). Alongside the strong dollar policy and the lowering of interest rates (a fairly strange combination of policies, and, in fairness, it should be noted that Treasury Secretary O’Neill has always been skeptical about the strong dollar policy), they began a sharp increase of protectionist measures and direct budgetary-spending support for the economy.

We should note that this cannot succeed, because the main help—both “liquidity” and budget funds—is going precisely into those sectors of the economy, which should dramatically shrink in the process of restructuring (banks and other financial institutions, as well as defense orders, all connected with the New Economy).

Beyond a doubt, this situation played a big role in the accounting scandals of recent months. New Economy companies had to show growth in sales, in order not to forfeit their ability to attract capital. At the same time, Old Economy companies had to hide, from shareholders and investors, their losses from unprofitable investment in new technologies. They also had to mask the problems they have had in connection with attracting capital, in competition with new, seemingly more lucrative sectors.

The average P/E ratio for the market as a whole during the 20th Century was approximately 12-15, whereas in the past year it has hovered around 40 for the S&P 500 and the Dow Jones. Since this ratio usually falls during a crisis to below the average level (to about 8-10), it may be forecast with confidence that the U.S. stock market will decline still farther, by a factor of two or three. If we take into account

that negative phenomena are not going to disappear before the completion of a restructuring of the American economy (i.e., the reduction of U.S. GDP by approximately one-fourth); and that companies’ earnings will continue to decline; the stock markets could fall even lower.

The more the indexes fall, the more assets will be devalued within the U.S. financial system, which will aggravate the crisis and make government support necessary. When stock prices fall, for example, many banks will call in loans, collateralized by those stocks—especially, loans that were made for re-equipping with new technologies which brought no increase in earnings (although they made the stock indexes rise). And there is no certainty that these loans will be repaid.

Under these circumstances, inflation comes into the picture. Due to acute competition from imports, it has been limited (while the trade deficit and current account deficit have increased by as much as 10% in one

month), but the current U.S. leadership’s protectionist policy and the steep increase in the money supply will change this.

## **The Crisis and World Markets**

The current decline of the dollar results from its poor performance in one of its three basic functions—as the national currency of the U.S.A. That means it is connected with the weakness of the U.S. economy.

In the not-too-distant future, this process will be compounded by a weakening of the dollar’s second function—as a world reserve currency. One view, although it is still a somewhat fringe view, is that the introduction of the so-called pink dollar notes in the U.S., planned for this Fall, will be exploited for purposes of a currency reform à la Gerashchenko-93, in order to prevent the penetration of cash and electronic dollars into the United States from abroad. There are plenty of pretexts for doing this, in the course of tracing terrorist financing.

The main blow against the world economy, however, will come not from this, but from the dollar’s inability to perform its third function—as a common unit of account. The world economy rests on global markets—oil, metals, food and gold. The heart of the globalization process was the incorporation of more and more markets onto this list. And the U.S. economy became a service economy, largely because it no longer produced, but rather serviced (as well as controlled) these unified markets.

But the basis for these markets to function, is price forecasting based on futures trading in dollars. A steep and unpredictable fall of the dollar will inexorably destroy this entire mechanism. First of all, because the total volume of futures



traded exceeds the physical volume of goods by orders of magnitude. At the moment, nobody would dream of demanding that these contracts be covered by the delivery of material goods (the difference in prices is compensated by a monetary equivalent). Under conditions of a rapid increase in prices for material assets, however, the situation will change, and the majority of global operators will go bankrupt or disappear.

An example is the gold market, which will play a key role in the near future. The derivatives obligations of just the six largest U.S. banks (not counting the investment giants) would be expressed physically as 28,000 tons of gold. Remember, the total reserves of all the Central Banks in the world are around 31,000 tons, and world gold production is 2,500 tons annually. And while the cost of a ton of gold, sold for U.S. dollars, is almost the same in Australia, South Africa, Latin America or Canada (adjusting for the cost of transport), with the collapse of markets and the dollar's loss of its function as a common unit of account, the cost of that same ton of gold, sold for Australian dollars, rands, pesos or rubles, could vary by 50-80%

Attempts to make the process of the dollar's decline intelligible for forecasting, inevitably encounter skepticism from participants in the market, who have grown accustomed to optimistic propaganda over many years, even though its connection with reality is weak.

A catastrophe will ensue. Major corporations, bureaucratized, with a single global policy, will be unable to maintain the same profit level worldwide. Producers will have to enlarge their marketing services, which will be costly, especially since there are no specialists trained for such a situation. Producer countries will begin to defend their markets, using all the procedures developed under the WTO, even as the WTO practically ceases to exist. Or (we again cite Part I of our analysis), "the interaction of mechanisms for defending national markets, will define world economic development in the first post-crisis years."

## Causes and Tendencies

It is not entirely clear, why the American and the world economy are developing according to this scenario. We are trying to answer this question, since this research will make it possible to forecast the global consequences of the world economic crisis. In our view, the crisis of the model of globalization constructed during the past decade, has three causes.

First, the control mechanisms for the global markets were constructed "top-down." In order words, the system created in the United States for controlling and managing world markets, which brought the U.S.A. a transition to the post-industrial society and a growth of the service sector to 70% of GDP, was guided exclusively from above, and could not react to signals from below. Resources, meanwhile, moved exclusively from bottom to top. In effect, globalization was organized on the model and likeness of the European colonial empires, under which the colonies were denied the right to

have their own resources, either material or intellectual, which were transported to the colonial powers.

The second reason is the crisis of local markets. The lack of adequate support from above, and the removal of resources, led to a crisis in individual local markets, which began to spread to all economic sectors and regions of the world.

We shall cite just two of the many reasons for this. The numerous, and not minor, automobile production markets of Europe have gone into decline over the past 15 years. The auto industry is disappearing in Britain and Sweden, becoming subsidiaries of U.S. and German auto. The Italian market is in crisis. Therefore these markets cannot serve as leaders for these countries' economies, neither technologically nor conceptually. Or, take an example from another sector. During those same 15 years, integration into the international system has destroyed the gem-cutting industry in Russia. As a result, we have lost over half the added value which we could have produced, while the total revenues of the cut gems industry have fallen almost by half.

There are more than a few such examples. The existing system of management in world markets was capable of destroying a local market, but not supporting it. Symptoms of crisis have increased. It should be noted that foreign investors, who withdrew over 60% of their assets from the U.S. stock market in May 2001-May 2002 (a reduction of foreign investment in those markets by a factor of two and a half), are now faced with a situation where there is nowhere to invest these assets. Local markets and producers are unprepared to assimilate such amounts of money rapidly. Thus, the Russian stock market, instead of rising when the U.S. market fell, also fell.

The third reason for the crisis of the globalization model is the absence of fundamentally new products. Looking at consumer goods, the last fundamentally new product was the personal computer. Everything else represents improvements and development of already-existing products. The entire New Economy boom, incidentally, was based on the PC; nothing new has been invented since that time. Under conditions of globalization, it becomes more and more difficult to invent anything, since the financing for such research is reduced. Suffice it to compare the density of "wild" ideas, suitable for use by a significant number of consumers, in science and technology journals in the 1960s, and today.

The pathway out of the crisis lies through the revival of local markets. Every effort should be made to restore them, with all their national and regional peculiarities.

The revival of local markets is inseparable from the question of how they are managed, since the experience of liberalization has shown that they don't prosper on their own. This means that the world may expect a transition to greater control over local markets, with an emphasis on medium- and long-term planning. At the present time, only the state is capable of exercising such control. Those nations, which most effectively carry out the planning function, will have significant advantages in the aftermath of the crisis period.

# Poverty Spreading in Germany's Big Cities

by Rainer Apel

Updating German municipal finances for the first six months of 2002, the DST, the national organization of the German cities, warned at several occasions during the last week of July, that the survival of core functions of urban life was at risk. The discrepancy that three times more municipal money is being spent for social welfare, than for urgent urban development, is one crisis symptom cited by the DST. Revenues from corporate and trade taxes have been a mainstay for the cities; but in 2001, they shrank to zero; municipalities no longer can even think of somehow managing budget cuts. The sad "leader" in this trend is the city of Ludwigshafen, dominated by the BASF pharmaceutical giant, which reported a drop of income from the trade tax of 68.5% in 2001. Seemingly better off are cities like Cottbus reported "only" a 21% drop.

Municipal finances are being eroded additionally by the need, under German law, to *reimburse* many companies for pre-paid taxes on last year's projected corporate income, now wiped out by the economic depression. Corporate losses in recent months, and revised profit reports for last year, force the cities to plunder their budgets to be able to reimburse the companies.

## 'Bankrupt in Munich'

Munich, Germany's third-largest city, must collect 120 million euros (about \$120 million) to reimburse Hypovereinsbank, Germany's second-largest, for "overpaid taxes." Announcing that, and stressing it cannot find any such sum in its already-squeezed austerity budget, the Munich municipal administration on July 25 produced headlines throughout the nation that spoke of "bankruptcy in Munich," adding that many more German cities were in the same situation.

Another problem is the national government's obsession with budget-balancing; as of January 2001, it decreased the municipal share of the trade tax from 30% to 20%, thereby improving the tax revenues of the national budget a bit.

Anticipating this explosion of alarmist reports at the end of July, Stephan Articus, general manager of the DST, warned in a speech in Berlin already on July 5, that Germany's cities were engulfed by the same collapse dynamic that can be seen in Argentina. He said that municipalities needed extra borrowing, this year, of 8 billion euros just to balance short-term liquidity bottlenecks. German cities have eliminated 550,000 public sector jobs since 1992, cut net investments in urban infrastructure and services by 34%, or 11 billion euros annu-

ally, over the same ten-year period, and now, the main purpose of their borrowings is to cover short-term liabilities, Articus said. "These are conditions similar to those in Argentina," he added—which reminded many that this point had been made by the Civil Rights Solidarity Movement (BüSo) in mid-June 2001, when the Berlin Senate collapsed beneath uncoverable debt and cascading banking crises.

Of all municipalities, the city-state of Berlin, Germany's capital and largest city with 3.4 million inhabitants, is in the most dramatic situation. On July 24, the Berlin Senate presented its first report on social affairs, also known as the "poverty report," since 1991. Berlin, which has eliminated almost 75% of its productive sector jobs since 1990 and embarked upon establishing "new economy" and other service-sector enterprises, today can cover only 40% of its current budget by tax revenues. The new poverty report shows that 20% of the Berlin households were depending on unemployment benefits or social welfare in 2001, whereas it was only 7% in 1991; and 12.8% of all Berlin's citizens live below the official poverty level. Single mothers with children under six are in a worse situation: 28% live in poverty, and the poverty rate among single mothers with children under three, might be twice as high, which reveals the acceleration of this process of pauperization in the most recent years.

## Suicide by Deindustrialization

In districts with jobless rates above 20-22%—like Kreuzberg, Mitte, Neukölln—the overall poverty figure is 23-27%. Only 41% of Berlin households live on income from a regular job—ten years ago, it was 82%. Since every worker who is jobless for more than 32 months becomes ineligible for unemployment benefits, and becomes a welfare recipient, the destruction of industrial employment has turned suicidal for Berlin.

Munich, with 1.3 million inhabitants, in 2001 still had more jobs in the productive sector than Berlin with its 3.5 million. But the collapse of the new economy haunts Munich. Its loss of jobs from June 2001-June 2002 is unmatched by any other big city of Germany: an increase of unemployment by 31%; and among citizens under age 25, even 66%. One cannot rule out that because of this dramatic development, Munich might be in a worse situation than Berlin next year.

But Berlin's citizens have a per-capita exposure to debt that is seen nowhere else in Germany, and is even several times the per-capita debt of Argentines. As for Argentina, there is no way to recovery for Berlin or other German municipalities, without a thorough bankruptcy reorganization of urban finances. Urban life will have a future only once funds for investments in public infrastructure and vital urban services gain priority over debt repayments, and tax revenues from expanded real production begin flowing again into municipal treasuries. The BüSo's national chairwoman Helga Zepp-LaRouche, a candidate in Berlin for the national elections on Sept. 22, has been calling for exactly this solution.

# U.S. Hospitals Face Critical Drug Shortages

Part 2, by Linda Everett

As President Bush was releasing his proposal for a Cabinet-level Department of Homeland Security on July 16, calling for the most sweeping changes in government since 1947 to protect the United States against a “new wave of terrorism,” hospitals across the United States were finding it impossible to meet the basic, daily needs of their patients, due to the worst-ever shortage of 39 critical hospital drug products. The shortages are not only crippling hospitals in terms of time and resources spent, they are also contributing to an increase in hospital medical errors, related deaths, and “near misses.”

As Homeland Security Director Tom Ridge tells the country’s approximately 5,000 hospitals to prepare to treat thousands of emergency victims of terror attacks, hospital doctors cannot even procure a whole range of basic sterile injectable drugs, from antibiotics to certain surgical anesthetics, and corticosteroids for premature infants.

Other national shortages and delayed drugs as of July, included medications for snake bites, emphysema, hepatitis A and B, and more. During 2001, thousands of patients needing tetanus went untreated; children with hemophilia were warned not to play sports, because there was a shortage of medical pharmaceuticals to treat them if they are injured. The American College of Physicians and the American Society of Internal Medicine warned in December 2001, that their doctors have to scramble to find everything from beta-blockers and fungicides to hard-to-find antibiotics like oxacillin, gentamicin, and penicillin G.

### Federal Agencies Are Not Acting

When *EIR* first discovered this crisis months ago, we asked the Office of Emergency Preparedness, the Office of Homeland Defense, the Secretary of the Department of Health and Human Services, the Food and Drug Administration (FDA), and the U.S. Centers For Disease Control and Prevention: “How can American hospitals become adequately equipped in terms of emergency preparedness, if they cannot respond to the daily needs of patients now?” No Federal agency or its representative had heard of the crisis, either in media or government warnings, and most believed that none existed. These are agencies charged with protecting the general welfare; and as Democratic Presidential pre-candidate Lyndon LaRouche observes, a government’s true authority

exists entirely on the foundation of its ability to promote and protect the general welfare.

The FDA told *EIR* that the issue of medical shortages is not under its purview. But the United States faces here an emergency that is demonstrative of the global economic collapse, and one driven by “shareholder values” that have allowed pharmaceutical giants and “health maintenance organizations” to loot the entire field of health care.

The University of Utah Center for Drug Information told *EIR* that drug shortages have become a “crushing” problem for hospitals, and are wreaking havoc. Some hospitals have had to cancel surgeries and resort to designating a full-time pharmacy staff member to do nothing but look for alternative sources for drugs, or to find substitutes for those that are no longer available. Hospitals are rationing drugs, and spending more and more unreimbursed time and resources in training doctors and nurses how to use unfamiliar drugs and deliver new, untried smaller dosages of those on hand. For instance, when some surgical anesthetics in particular dosages are not available, doctors are forced to use stronger drugs, whose dosages they are not experienced with, increasing the likelihood of overdoses and deaths. A representative of the American Association of Health Systems Pharmacists (AAHP), the organization representing hospital pharmacists, told *EIR* that there have already been patient deaths due to this, and that medical errors are increasing as hospitals try to contend with these shortages.

Note that the 1999 Institute of Medicine report, “To Err Is Human,” found that 98,000 preventable deaths occur annually in U.S. hospitals due to medical errors. A report this year has established that an equal number of patients die annually from diseases acquired while hospitalized. The results when hospitals or pharmacies are forced to compound “new” medications on the spot, are predictable. In June 2001, three patients at one California hospital died of bacterial meningitis, contracted after receiving injections of a medication which was contaminated, when a pharmacy compounded it as a substitute for marketed injectable corticosteroids, which were not available. In 2000, two Navy recruits died of adenovirus infections (thousands of others were sickened), which are usually rampant in boot camp barracks. Until then, the spread of the virus had been prevented by immunizing recruits, but Wyeth Laboratories decided to stop producing vaccine that year.

### ‘An Omen of What’s To Come’

The shortages or long delays on back-orders of hospital drug products (including childhood vaccines) did not exist five or ten years ago, AAHP representatives told *EIR*, but now, they are growing daily. Throughout the 1990s, there was considerable consolidation of both the brand-name and generic drug industries. The recent takeover of Pharmacia by the drug giant Pfizer created the world’s largest pharmaceutical company. GlaxoSmith-Kline, Europe’s biggest drug



*While emergency response to terror attacks or other disasters is the focus of attention, Federal agencies ignore America's "other security threat": the growing shortages—at any price—of 40 vital hospital drugs and vaccines.*



maker, was also reported to be at the point of another megamerger. Where there were half a dozen manufacturers of a given vaccine or drug product a decade ago, today there is often one.

The drug companies themselves can have any number of problems. They may have manufacturing difficulties; or because the production of many biologics, such as blood products, and new medications requires very controlled, sterile conditions, companies may fail the FDA's more stringent inspection of the drug-manufacturing process. Very often, the companies simply decide to end production of what they consider "unprofitable" drugs, such as those used only by a small population, who, nonetheless, depend upon them. The National Organization of Rare Disorders warned in the late 1980s, that the crisis in supply of little-used but needed drugs (called "orphan drugs") for unusual disorders, was "an omen of what's to come" to common diseases." They have been proven right.

A small component of the shortages stems from the increased costs and difficulty of procuring bulk quantities of raw materials. Some 80% of such raw materials are imported.

The causes of unavailability of raw materials are varied—anything from natural disasters to economic, political or social upheaval in the countries of origin. To track which raw materials are at risk and what countries are involved is difficult—information is often proprietary, and drug companies don't want to reveal the ingredients of their products.

The more unique or rare the plant products used as a basis in a drug, the more limited the raw material, and the more likely the shortage. The Generic Pharmaceutical Association, the trade companies' group, told *EIR* that as the costs of raw materials go up, smaller manufacturers will also stop production, because they cannot afford the diminished returns.

But such shortages are not apparent in Canada, where thousands of Americans now go regularly to fill their prescriptions. Thus, when a manufacturer says it has discontinued production of a drug due to a raw material shortage, the true reason may lie elsewhere. An example of an America-only shortage is tubocurarine chloride, a long-acting neuromuscular blocking agent, which has been discontinued by drug makers Abbott, Geneva, and Eli Lilly, all three of which say they cannot obtain the raw material. But over the last year, both

Abbott and Lilly have had a lot of what FDA calls “good manufacturing procedure problems,” and have dropped production of dozens of medications. They chose to “clean house,” as one source said, to weed out what they thought were unprofitable products.

Hospitals, too, are caught short, due to the post-industrial policy of “just in time inventories.” With the financial strictures of “managed” health care, hospitals can only afford to stock a 24- to 48-hour supply of drugs; they lack any backup supplies. But no matter how dire this crisis, *EIR* was told repeatedly that the government, and specifically the FDA, cannot tell the unregulated drug companies what to do or what to produce. It may be time, *EIR* was told by those working on the problem, to start treating drug production like an essential utility—regulating it—to assure the nation’s medical and public health needs.

### **Profit Is the Driving Force**

A major driver in the shortages is the free-market control over drug manufacturing and drug availability in the country. “Profit is the driving force here,” *EIR* was told. Drug companies may say they are having “manufacturing difficulties,” but more likely they are increasingly failing to pass FDA regulations, because they refuse to upgrade their equipment. Such investment doesn’t provide the quick turnaround in profits that Wall Street “shareholder value” demands. On May 18, 2002, the FDA fined Schering-Plough \$500 million for poor manufacturing practices in 90% of its drug products since 1998. The FDA fine covered 125 prescription and non-prescription drugs produced by Schering-Plough. As part of the settlement, the company was to pay an additional \$175 million if it failed to improve manufacturing practices at all four of its plants. Rather than upgrade its laboratories and factories, Schering-Plough simply decided to suspend production of 73 products. As with suspension of influenza vaccine production by two makers last year, the result is instant shortages.

Companies now must give the FDA some notice when they suspend production of a drug. But as recently as 1997, when the National Organization of Rare Disorders (NORD), among others, tried to pass legislation to force drug companies to give a one-year mandatory notice of discontinuance, the Pharmaceutical Research and Manufacturing Association (PhRMA)—the drug industry trade group—“fought like crazy” to eliminate the provision, according to Abby Myers, Executive Director of NORD. The health of the sickest in America depends upon the for-profit whims of this industry.

Drug companies often don’t tell hospitals how long a shortage might last or why it exists, because this may have unfavorable impact on their stock price (and be good news for their competitors). For instance, in August 2001, Merck alerted hospitals that it was having manufacturing difficulties with several of its vaccines, which would be delayed for a few weeks. But, the company knew these products were going to

be “off-life” (not produced) for some time. It was only in January 2002, that hospitals had finally found out the truth: the FDA had cited Merck for regulatory problems.

A small percentage of the shortages may be contrived through illegitimate hoarding, evidence of which came to light when some hospitals reported that, as soon as a shortage becomes apparent, they were hit with faxed offers to provide the needed drug at a two or three times its original costs. How much organized crime is involved in such actions is not yet known. But there are several instances, over the last two years, in which drug products have been tampered with after they left the manufacturing plant, or in which counterfeit lots of the most expensive drugs have been found. The counterfeits include growth hormones—often used by athletes—and an anemia treatment for patients in renal failure or dialysis. A single treatment of either costs thousands of dollars. Generally, the main ingredient in the counterfeit lots is dangerously diluted. The FDA has undertaken a criminal investigation.

### **FDR Example of the 1930s**

When a brand-name drug company, or even a generic drug maker decides a drug is no longer profitable and discontinues its production, that crisis hits that minority of patients whose lives and well-being depend on little-used or older drugs. Although the FDA already consults with companies that broker among various manufacturers to find those that might take up production of a particular drug, more aggressive action is needed to head off the increasingly endangered production of medicines critical to the survival and decent standard of living for the entire population. The current situation has reduced hospitals to finding their own medicines—a ludicrous and dangerous situation.

Government action could offer entrepreneurs a “parity payment” to assure the production costs of manufacturing necessary drugs that would not otherwise be produced, due to low volume of sales, lack of profitability, or default of big producers. This would make it worthwhile for small companies to commit years, and a considerable amount of retooling of their manufacturing capability, to produce these. When a smaller manufacturer steps forward to produce a drug that a pharmaceutical giant discontinues, it can take years to start up production, get it approved, and get the product into hospitals. This can only be done quickly enough, if the country bears in mind the example of the 1930s’ urgent, sweeping recovery President Franklin Delano Roosevelt achieved, in transforming the nation’s economy through capital-intensive investment and infrastructure.

The potentials for Federal-state legislation and regulatory action against drug companies’ underproduction and induced shortages, will be dealt with in the third part of this series. Whatever the limits we now face in producing medicines needed, we must launch such a mandate for scientific progress, beyond the present and future limits of our dominion over nature, its diseases, and its disabilities.

# Malaysia Adopts Plan for Food Self-Sufficiency

by Michael Billington

Last week's *EIR* (Aug. 2, 2002) ran an exclusive interview with scientist Mohd Peter Davis from Malaysia, regarding his proposal to the Malaysian government, first presented in March of this year to a Bio-Industry Forum, for an ambitious transformation of the nation's agricultural program to achieve food self-sufficiency in the face of a collapsing world economy. On July 28, the Malaysian government announced that it will, indeed, transform the system along these lines.

After encouraging prospective graduates for years to pursue information technology and business degrees, the government has decided that it needs agricultural graduates, with a plan to make the country a net food exporter in eight years.

Agriculture Minister Effendi Norwawi said that a new agriculture college would be set up to educate a new breed of farmers and professionals, who will help modernize the agriculture sector and raise food production. He said that the establishment of the college had been approved by the Cabinet the week of July 29.

The government has set a target for the country to produce 81.5 billion ringgit (\$37.4 billion) worth of food in the next five years. Agriculture Minister Effendi said that the federal government would work with Universiti Putra Malaysia (UPM), which is where Davis teaches and does his research,



*Widely introducing cultivation of the sweet potato was one key strategy in the national food plan presented in March: to produce a carbohydrate-sufficient diet not dependent on imports; and to build national production of livestock in the tropics where maize can't be grown.*



*The Malaysian government has just announced that it will transform its national food/agricultural policy, along lines similar to the proposals described by Mohd Peter Davis in *EIR* last week. Here, Davis presents the proposals in March at a Kuala Lumpur bio-industry conference.*

to ensure that the college achieves its objectives. "An estimated 30,000 technically skilled people and some 10,000 professionals are needed for the sector in the next seven years," Effendi said.

Davis' original proposal, co-signed by UPM's Deputy Vice Chancellor Makhdzir Madan, was titled "Food Production for Malaysia During a Collapsing World Economy." It drew on the economic forecast of the unfolding world depression by *EIR*'s founder, Lyndon LaRouche, warning that Malaysia, like all countries today, could suddenly find itself cut off from normal access to imported food supplies—not unlike what happened under the Japanese occupation during World War II. To meet that potentiality, he proposed specific measures, including: building up meat production increasing rice production from the current 70% to 100% of domestic requirements, assuring nutrition for children, the introduction of the sweet potato as a uniquely appropriate new source of carbohydrates for Malaysian conditions, and the implementation of the necessary education and research facilities to achieve those results.

In the *EIR* interview, Davis pointed out that Malaysia's official policy called for food self-sufficiency, but that the programs to achieve self-sufficiency were never implemented. The new program announced by Minister Effendi is a major step in that direction. Reached for comment by *EIR*, Davis was delighted that the nation is responding to the crisis, not by hoping that the economic crisis will go away, but by preparing to provide for the general welfare in any eventuality.

# Southeast Asia Responds To the Global Collapse

by Mike Billington

The reality of the collapse of the U.S. economy, and the International Monetary Fund (IMF) system, is finally sinking in in Southeast Asia. While the region has taken steps before toward economic integration and joint financial defense, since the 1997-98 speculative assault which ravaged its economies, those measures were tempered by a lingering delusion that the United States would forever be the “importer of last resort” for all of Asia. There was a second, related delusion, that despite the crash of the “new economy” over the past two years, an American recovery was just around the corner.

However, exports from the ten members of the Association of Southeast Asian Nations (ASEAN) to the United States declined last year by 4.7%, while foreign direct investment in ASEAN collapsed in the first half of 2002 by over 70%. The delusions are disintegrating.

Mustapa Mohamed, the head of Malaysia’s National Economic Action Council, and one of Malaysia’s leading planners, told a seminar on July 31: “There is a need to reduce dependency on foreign direct investment—even if it plays an important role in the country’s economy—by identifying new sources of growth and aggressively developing these new sectors. . . . The capital market will have to gear itself up for a greater role for domestic investment in the overall economy.”

## Economics Takes Priority Over Terrorism

Acknowledging the crisis is the first step to finding a solution. Less than two months ago, on June 11, the same Mustapa Mohamed had said confidently that “the U.S. economy and that of the rest of the world are beginning to show signs of consolidation post-Sept. 11,” adding that this would be a “catalyst to expedite the growth of the Malaysian economy.”

The Foreign Ministers of ASEAN met on July 29-30 in Brunei. Although most of the Western press coverage focused on agreements regarding terrorism, the first issue of concern was the economy. The host of the event, Brunei’s Sultan Hassanah Bolkiah, in his keynote address, made reference to the stock market crash in the West, warning that “events outside our control” should not determine the region’s fate. “For the hundreds of millions of people we represent,” he said, “the most pressing item of business on our regional agenda is economic progress. It is the biggest challenge for our Ministers.”

The ASEAN Ministers agreed upon a “Roadmap for the Integration of ASEAN.” Beside strengthening the existing

regional institutions, trade agreements, and investment plans, the Roadmap calls for concentration on the sub-regional growth plans, such as the Asian Railroad connecting Singapore with Kunming by rail; the Mekong Basin development project; the Trans-ASEAN Gas Pipeline Project, bringing gas from Indonesia’s Natuna fields into Malaysia, Singapore, and Thailand; and other large-scale regional projects.

Other discussions for such a roadmap are taking place in less open fora. For instance, Olarn Chaipravat, the senior adviser to Thailand’s Finance Ministry, on July 28 spelled out a “roadmap” for ASEAN+3, which links ASEAN with China, Japan, and South Korea.

Addressing the dollar collapse, Olarn said that the bilateral “currency swap” arrangements among the ASEAN+3 nations—designed to defend against speculative attacks on their currencies—will reach \$65 billion over the next two years. Olarn proposed the following steps: “persuade Malaysia, China and Hong Kong, which currently have their currency regimes pegged to the U.S. dollar, to ‘soften’ their peg, to bring the overall grouping’s currency regimes closer to each other; establish the Asian Currency Fund (a new name for the still-born Asian Monetary Fund); set up a regional surveillance and coordination body, which could be put under the auspices of the ASEAN secretariat or the Asian Development Bank. . . . Once all these are firmly in place, member countries may consider the introduction of a common currency while maintaining individual countries’ sovereignty.”

## Time for AMF and New International System

There has been no new official discussion, however, of the urgent need for a new *international* financial system to replace the bankrupt IMF-centered banking structure. The numerous calls in the region for a “new international financial architecture” after the 1997-98 crisis, were silenced by Washington’s refusal to even discuss the issue. Were the region’s leaders to reassert their earlier demand for international action, at this time of global financial breakdown, their efforts at regional integration and development would take on a new urgency, and would contribute to the necessary international transformation as well.

In that light, there were serious discussions at the first ASEAN Central Bank Governors’ Forum in Yogyakarta, Indonesia, on July 30, regarding efforts to break the stranglehold of the IMF over the regional institutions. Bank Indonesia Governor Sjahril Sabirin, speaking at the end of the Forum, said that the “currency swap” agreements among the ASEAN+3 nations needed to be relieved of their IMF connections. As they now stand, only 10% of the funds available under the swap agreements would be available immediately to a nation in crisis, while the remainder would be tied to their adherence to conditionalities imposed by the IMF.

Sjahril told the press: “We are trying [to negotiate] so that the swap agreement would no longer be tied with such conditions. And other countries seem to endorse our stance.”

# Global Financial Reform Now!

by Lothar Komp

*This presentation by EIR's European Economics Intelligence Director was given to a working group of the Austrian Social Democratic Party in Vienna on July 20. It has been translated from the German.*

A good half-century after the Bretton Woods Conference and 30 years after the world currency order was destroyed without a replacement, the post-war financial system is de facto bankrupt. Since the end of the 1980s, the world financial system has survived only through increasingly desperate bailout actions by the global crisis managers, according to the formula: "If you are in trouble, double." Room was found for the speculative financial bubbles only by pumping more and more liquidity into the financial markets, each time more than the last, which directly feeds the generation of new speculative bubbles and continually increases the harm to the physical economy. It is high time that the procrastination over a declaration of global bankruptcy be ended, to make the world's governments free to take the pathway to an completely reconstituted new worldwide financial, currency, and economic system.

Since the end of the 1980s, one financial catastrophe has followed on the tail of the other. In October 1987, the stock markets suffered their greatest crash since World War II. A little bit later, the U.S. junk bond market imploded and the savings and loan crisis erupted. The 1990s began with the collapse of the Japanese real estate and stock market bubble, from which neither Japan's banks nor its real economy have yet recovered.

In January 1995, even according to the words of then-IMF Managing Director Michel Camdessus, the financial system stood immediately at the brink of a "true world catastrophe." The U.S. government and the International Monetary Fund (IMF), in order to support Mexico, had to take action, cloaked by night and fog, tying up what was then the unprecedentedly large sum of \$52 billion for an emergency rescue package. The U.S. dollar was strained nearly to the breaking point. Then came the collapse of Barings Bank. And in Spring 1995, the Japanese banking system, with \$1.2 trillion in bad debt exposure, stood at the edge of the collective abyss.

Individual governments were promoting a global financial reform at the Summer 1995 meeting of the Group of

Seven. But instead of adopting this, the most important central banks of the world activated their would-be "wonder weapon": global reflation. Short-term interest rates would be lowered step by step, in order to thereby place enormous sums of additional liquidity at the disposal of the international financial system. In Japan, the short-term interest rates would even be lowered to one-half of a percentage point in order to create risk-free financial earnings for the banks. The leading central banks' reflation tactic kindled a new round of price explosion on the worldwide bond markets.

From the Summer of 1997, the single remaining region of growth in the world, Southeast Asia, came into the crosshairs of the monetary speculators. The sudden collapse of their currencies by up to 50-80% of their value had, in the meantime, given the signal for foreign capital to take to panicked flight. Thereupon the banking systems of the ambushed nations broke down; this then dragged their collective economies over the precipice together. In July 1998, Chinese Foreign Minister Tang Jiaxun spoke of "damage like that in a war." IMF rescue packages to the tune of approximately \$200 billion all-told were only approved by the Western creditors in the face of collapse. Then, in August 1998, the Russian debt-bomb exploded. Finally, in the Fall of 1998, the collapse of the LTCM hedge fund followed.

A secondary effect of the financial crisis in Asia, Russia, and Latin America was the bundling together of a powerful negative capital stream, which now flowed into the presumptive safe haven, the U.S.A. The myth of the "New Economy" and the excessive domestic credit extension in the United States did the rest, allowing the pumping up, in the late 1990s, of the greatest speculative bubble of all time.

But this, too, is now finished. Even though Alan Greenspan lowered interest rates 11 times in 12 months, the American economy can no longer even get up on its feet. Both corporations and private households are hopelessly over their heads in debt. The showcase corporations of the "New Economy" have revealed themselves to be swindlers and imposters. Since March 2000, the stock markets have imploded. For the first time since 1939-41, the U.S. stock market will have fallen for the third year in a row as a consequence. Since Spring 2000, \$7 trillion of paper values have already gone up in smoke. A couple more trillions of dollars have also



evaporated in Europe and Asia. An end to the core meltdown on the worldwide stock markets is nowhere in sight. Simultaneously, an avalanche of mega-bankruptcies is sweeping back across America and Europe. Five of the eight largest corporate bankruptcies in U.S. history have occurred since December 2001 alone.

The global financial and economic crisis has worked its way back from the periphery right on into the center of the system. The Federal Reserve has long since expended all of its ammunition. The American government, incapable and unwilling to act against the systemic breakdown, is seeking its salvation instead by means of military adventures.

### **LaRouche and the ‘New Bretton Woods’**

The demands for a global system repair are bound up above all with the name of Lyndon LaRouche. Long ago, LaRouche had analyzed that the economic and financial-political paradigm shift that occurred in the mid-1960s—including the abrogation of the international currency system in 1971; the displacing of production and investment by service and consumer sectors; the neo-liberal prosperity doctrines of the 1980s and 1990s; and finally the “New Economy” delusion—had led the world onto a course toward catastrophe. In the Spring of 1994, LaRouche published an evaluation that an unavoidable impending disintegration of the global financial markets, at first in the form of a gradual, sliding collapse, comparable to a mudslide, was to be expected. Subsequent developments have verified this evaluation in the most complete way possible.

In April 1995, LaRouche published an appeal to the leading governments of the world, with the title “Global Financial Crisis: To Be, Or Not To Be.” LaRouche emphasized that he was among those very few economists worldwide who had described in advance the then-unfolding systemic collapse and its essential causes. LaRouche compared the leading governments of the world with the tragic figure of Hamlet in Shakespeare’s drama: Would they recognize the fact of the bankruptcy of the global financial system and begin to implement the measures required for a general reorganization, in the context of a bankruptcy procedure? If so, then, working out such a plan of concerted action would require some general stipulations to be considered, which LaRouche summarized in seven points:

- As long as governments hold fast to the political rules of the game or axioms of the existing international monetary and financial system, the presently accelerating disintegration of this system were inescapable.
- The only comparable 20th-Century situation that approximates the present process of the world currency and financial system is the monetary and financial breakdown of the Weimar Republic in 1922-23.
- There is no possibility of halting the general financial collapse, nor the subsequent disintegration of the global cur-

rency and financial system, as long as the system of the IMF and the central banks of all the leading economic nations and their corresponding governments do not resign themselves to a reorganization. Every attempt at a reform of the IMF, which does not break with its prevailing fundamental principles, would only make the situation worse.

- In the past 30 or so years, the population has been led to believe that traditional, successful economic policies must be given up in favor of a “post-industrial society” and related utopian thinking. An economic new beginning can therefore only be successful if, along with these ideas, the heretofore-accepted errors of governments and of a broad portion of the population are also recognized as such.

- The result of this policy can be symptomatically seen from the smaller and smaller portion of daily financial transactions that retain any relationship whatsoever to trade in physical goods. Since the beginning of the 1980s, we see that the worldwide ratio of goods output per person, per household, or per utilized surface area, is sinking, while the nominal financial value is climbing furiously. The continuous growth of this financial bubble is only possible along with the cannibalization of the shrinking real economy, upon which the existence of nations and their populations depends.

- The bankruptcy procedures for global monetary and financial institutions, must proceed along with a series of positive measures, such that, on the basis of local statutes in the various nations, relatively insignificant differences could be settled. In the case of the U.S.A., the following steps must be introduced:

- An insolvency procedure for the financial institutions of the old system, conducted in such a way that social chaos and uncompensated damages to the normal citizen are prevented.

- A monetary reform that, corresponding to Article 1 of the U.S. Constitution, makes the issuance of banknotes subordinate to the U.S. Treasury, rather than to the Federal Reserve.

- The resumption of the traditional protectionist policy for the defense of productive investment.

- Resumption of traditional economic policy, which represented the basis of all successful national economy in the era prior to 1964, and thus the increase of the productive powers of labor through a capital- and energy-intensive economic method, investments in research and development, and in the improvement of infrastructure.

For this purpose, the reintroduction of a National Bank, according to the example of the first U.S. Treasury Secretary, Alexander Hamilton, is required.

Of the manifold activities which LaRouche and his collaborators have pursued toward the success of a “New Bretton Woods,” only a few may be mentioned here:

In February 1997, Schiller Institute President Helga Zepp-LaRouche and the Ukrainian parliamentarian Natalia Vi-

trenko drew up an urgent call to President Clinton to immediately convene a “New Bretton Woods Conference” of the most important nations, to place the international financial system under a bankruptcy reorganization, and to create, through a fundamental reform, the conditions for a real economic recovery. Several hundred parliamentarians from all over the world and many other personalities all endorsed this call.

In November 1997, Executive Intelligence Review News Service in Bonn-Bad Godesberg, Germany, organized an all-day seminar to bring to center stage of political discussion the urgent necessity of a New Bretton Woods monetary system. Among the 140 participants were numerous entrepreneurs from the *Mittelstand* [small and medium-sized industry], trade unionists, and representatives of economic associations from Germany, politicians from Eastern Europe, delegations from 20 embassies, and foreign economic representatives, as well as a speaker from an African exile association.

LaRouche’s proposals attracted particular attention in Italy. On Feb. 16, 2000, an Italian Member of the European Parliament submitted a written interrogatory, calling upon the European Commission to organize a “conference comparable to the Bretton Woods 1944 international conference,” whose goal would be “to establish a new world monetary order, to eliminate step-by-step the mechanisms which have led to the rise of the speculative bubble, and which can set into motion dirigist programs for the revitalization of the real economy.”

Following a meeting of LaRouche with Italian Members of Parliament in Rome, 25 senators in the Italian Senate put forward a motion on Oct. 19, 2000, by which the government of Italy was charged with working toward a New Bretton Woods conference.

A resolution transmitted to the Italian Parliament on Feb. 26, 2002, which promoted the call for a New Bretton Woods conference, was signed by 45 representatives and 49 senators of all parties.

### **Bankruptcy, a New Order, and Reconstruction**

In view of the advancing process of economic and financial disintegration, all proposals which merely aim at minor corrections to the system are on the wrong track. Among them are not only those put forward over decades by the Bank for International Settlements (BIS) for the elaboration of a “new



*The 1944 Bretton Woods International Monetary Conference founded the post-war financial system, which, despite its inequities and other defects, made possible extraordinary worldwide economic growth during the 1950s and 1960s. The system was killed on Aug. 15, 1971, by President Nixon.*

financial architecture”—the regulation of offshore financial centers, the domestication of “hedge funds,” and the like—but also the perhaps well-meaning, but in today’s situation, totally insufficient efforts by a few non-governmental organizations to pour sand in the machinery of the financial system.

By contrast, the minimal requirements for a global financial and economic reform must encompass the following three areas:

- A form of bankruptcy proceeding involving the existing structure of the worldwide financial instruments, because their volume stands in such gross disproportion to the substance of the real economy, such that nothing less than an orderly sorting-out process can prevent an impending chaotic breakdown.
- A new financial and monetary policy framework of principles based on recent past experience: on the one hand, that of the relatively successful framework represented by the post-war Bretton Woods system up to the mid-1960s; on the other hand, the colossal policy failure of the step-by-step paradigm shift carried out over the last three decades.
- A productive reconstruction of the world economy, including the establishment or broadening of credit institutions requisite for this purpose.
  - In particular, the following points can be elaborated:
    1. *Sorting out*
      - Fictitious financial paper must be sorted out. Obviously, speculative, fictitious capital must be written off through governmental decree, without compensation or reimbursement.
      - Financial paper of an unclear nature must be frozen.



Lyndon H. LaRouche, Jr. on Feb. 15, 1997, elaborates his proposal for a New Bretton Woods financial reorganization.

- Servicing government debt will be suspended through a moratorium, in order to guarantee that financing of vitally important state functions be safeguarded.

#### 2. Reorganization

- Financial instruments that are covered by productive, real economic capacities must be protected.

- The means of financing pension funds, medical insurance, and other socially unwaivable obligations of public and private institutions must be protected so that they remain capable of functioning.

- Regular savings accounts must be protected and remain viable.

- The functioning of private banks that serve the financing and marketing of real, productive economic activities must be preserved.

#### 3. Dirigistic financing and a National Bank

- On the basis of the financial sovereignty of the nation-state, a public National Bank or Kreditanstalt für Wiederaufbau [Reconstruction Credit Corporation] creates long-term, low-interest credits. These credits flow exclusively into the reactivation and productive expansion of heavy industry, medium and small industrial enterprises, and agriculture. Great national and transnational infrastructure projects function as “drivers” for the entire economy.

- State and public credits will be anchored within private banks with traditional lending business relationships to heavy industry, medium and small industrial enterprises, and agriculture.

- It shall be resolved that transcontinental great infrastructure projects, such as the Eurasian Land-Bridge or universal space travel projects—for example, the Mars coloniza-

tion project—will serve as the catalyst for an economic recovery.

#### 4. A New Bretton Woods System

- The governments responsible for setting these goals must come together at an international emergency conference, within which, under present conditions, the United States and China have the key roles.

- A new world monetary system will be created—a New Bretton Woods—such that the political economies will be based on fixed-parity exchange rates, the gold reserve standard, and the categorical prioritization of the real economy’s development (and reconstruction).

The Bretton Woods international monetary and financial system, which was effectively destroyed on Aug. 15, 1971, by U.S. President Richard Nixon, rendered possible, despite its very consider-

able defects, the extraordinary worldwide economic growth of the 1950s and 1960s. At that time, the currency and financial system was tightly coupled to the real (physical) economy and based upon nation-states and national economies. Fixed exchange rates as well as the gold-reserve standard made currency speculation unattractive within the Bretton Woods system. The household and corporate economic goals setting were long-term and the expansion of real production was carried out. The securing of full-employment was a government policy goal.

Of historical relevance in this context, is the argument which Dr. Wilhelm Lautenbach [of Germany] had developed in a 1931 memorandum for a conference of the Friedrich List Society. Lautenbach made clear that under conditions of depression and international financial crises, economic development is possible neither by leaving things to the so-called forces of the marketplace—because a deficit of buying power encounters an apparent oversupply of goods—nor through austerity measures to balance the state balance of payments, because that only achieves the reduction of tax revenues, thus merely exacerbating the crisis. Lautenbach proposed, on the contrary, the creation of credit for those productive projects in which one would normally invest in a prosperous economy, and also providing credit for the general welfare, as these measures will enhance the productivity of the production process.

Had Lautenbach been able to put into effect his proposals for dirigist economic-driver financing, the political and economic conditions which made possible Hitler’s seizure of power two years later would not have existed. We ought not to repeat the same mistake!

## Will the U.S. Strike Iraq?

by Lyndon H. LaRouche, Jr.

*This article was written on July 23, 2002, for the Turkish magazine Yarin. Subheads are added.*

At the moment I am writing this, there are chiefly three conflicting sets of policies respecting a projected military assault on Iraq by the combined forces of the U.S.A. and Britain's Blair government.

The first faction is building for a probable, August, September, or early October attack on Iraq. This is a policy currently led by political ideologues associated with the U.S. Defense Department's Paul Wolfowitz, with U.S. Senators John McCain and Joseph Lieberman, and with Bush Administration advisor Richard Perle.

The second view, shared among many high-ranking professionals in the U.S.A., the United Kingdom, and continental Europe, is that the first group's plans for a early such war represent recklessly incompetent planning, and would be a war whose aftermath would be either a disaster for the U.S.A, or, simply an unjustified, costly, and reckless folly. This group is prepared to support that war, if it occurs, but would probably do so despite their belief that it would be a terrible piece of folly.

I am among those of a growing number, who express a third view. I view the drive toward an expansion of Prime Minister Sharon's efforts to expand the attack on the Palestinians into larger areas of the Middle East and beyond, as a reflection of that so-called "Clash of Civilizations" policy for a war against Islam which has been developed by Bernard Lewis, Zbigniew Brzezinski, and Samuel P. Huntington.

Objections along the lines of the third group have been stated prominently in significant parts of the leading press of the U.S.A. and Europe. Daily contacts with leading circles in most relevant parts of the world, show that, presently, sympathy



*Arlington National Cemetery, 1991: A father kneels at the funeral of his son, killed in Desert Storm. Many who, like LaRouche, oppose a Clash of Civilizations war against Islam, "see and condemn the U.S. drive for war as the Bush Administration's reaction to the accelerating financial collapse now in full swing . . . which must be prevented, if we are to avoid probably terrible consequences for civilization as a whole."*

for the third view is spreading among leading circles in, or close to many among the world's governments. Many among such circles see and condemn the U.S. drive for war as the Bush Administration's reaction to the accelerating financial collapse now in full swing in the U.S.A. and other parts of the Americas, as in Europe and Japan. Some state their objections publicly; others only privately.

Not all in the third group would adopt my argument exactly; but, the views among us would converge on agreement that the U.S. ideologues' drive for an early war on Iraq, is a foolish idea, which must be prevented, if we are to avoid probably terrible consequences for civilization as a whole.

### **Financial Breakdown Driving War**

This drive toward general, prolonged warfare, was set into motion by the escalating international financial crisis which was in the process of breaking out during August 2001. That financial crisis was not the cause of the military policies now aimed at the Middle East; but, the worsening financial crisis, combined with the shock of Sept. 11, 2001, set the military operations into motion. The military operations launched by the U.S.A. in the aftermath of Sept. 11, 2001 are based chiefly on what Samuel P. Huntington and his associates, such as British Arab Bureau veteran Bernard Lewis and former Carter National Security Advisor Zbigniew Brzezinski, had been pushing as a proposed "Clash of Civilizations" war against Islam.

Continental Europe's reluctance to support such a war,

is combined with tough opposition to Prime Minister Tony Blair's pro-war policy from inside the United Kingdom itself. Nonetheless, it were unlikely that the war could be prevented, unless two leading factors inside the United States itself are brought under control. First, as long as the U.S. government continues to deny, hysterically, that a full-scale global financial crisis is occurring now, the present Bush government will continue to be obsessed with the idea of using a foreign war as a way of distracting the U.S. population's attention from a now visibly onrushing financial crisis situation. The second factor is the influence of a pair of Senators, Republican John McCain and Democrat Joseph Lieberman. These Senators, and their allies, such as Paul Wolfowitz and Richard Perle, within the Bush Administration, are the principal source of pro-war pressures on President George Bush.

However, the war is not yet inevitable. First, the international financial system is in the terminal phase of a general international financial collapse. A collapse of the U.S. mortgage bubble, combined with the collapse of one or more key financial institutions, would unleash an economic crisis of the sort which would disrupt both the political and the economic ability of the Bush Administration to launch and sustain an invasion of Iraq. Second, such a financial eruption, combined with a loss of the McCain-Lieberman circles' influence over both the Democratic and Republican parties, would be sufficient to change current Middle East war-policies.

I believe that this drive toward a "Clash of Civilizations" war can be stopped before the trend toward the continuation



*Lyndon LaRouche on the U.S. economic crisis, published in a previous issue of Yarin, a monthly read widely among government and political circles in Turkey.*

of such a war becomes irreversible. I am acting accordingly, from inside the U.S.A. at this time. I explain.

First, the onrushing collapse of the present world monetary-financial system is inevitable. The events of the past several weeks, and the grandiose measures taken jointly by governments and central bankers toward the close of the week, may have brought the world to the brink of a banking catastrophe. A continuation of this past week's mobilization of governments and central bankers in the attempt to stall for time, may have made conditions much worse than if they simply let the system go, and implemented the emergency measures I have proposed for preventing a financial collapse from turning into an economic collapse as well.

### **The Lieberman-McCain Record**

The following are matters of public record. Publishing that published record at this time, would be sufficient to topple Senators McCain and Lieberman from the positions of strategic influence inside the U.S.A. today. The reports of these facts are now in the process of being circulated in millions of copies throughout the U.S.A. Briefly, those facts are the following.

Both Senators have heavily documented, crucial connections to the traditional organized-crime networks in the U.S.A. and Canada. For example, McCain's personal wealth came through connections to the notorious whisky-bootlegging and racketeering networks of the Bronfman family and Meyer Lansky. Lieberman's promotion from relative obscurity, to the U.S. Senate, occurred in 1988, through the combined efforts of a leading U.S. pro-fascist, William F. Buckley, in cooperation with both a notorious Cuban-exile network in Florida, and Michael Steinhardt, the son of a leading racketeering

teering boss of Lansky's network. Both are integrated, on the public record, into the circles of the so-called "Mega" group, a crowd of billionaires grouped around the Bronfman interests and Michael Steinhardt.

For example, all of my leading enemies inside the Democratic Party are associated with that combination of billionaires traditionally associated with organized crime interests. This group within the Democratic Party leadership, is associated with what is called the Democratic Leadership Council (DLC), which was founded by the same Michael Steinhardt associated with the "Mega" circle, and with Buckley, and the Florida ruffians. This "Mega" group, together with its assets currently inside the Bush Administration, is the hard core of the political pressure for launching a Middle East war against Iraq and other targets, as early as the August-October interval.

Prior to the mass-circulation of these facts, Senator Lieberman was the most influential elected official within the Democratic Party, and a leading pre-candidate for the year 2004 Democratic Presidential nomination. Now, that is changing. No man who has been proven to have obtained high office through the combined backing of the extreme right-wing William F. Buckley, Buckley's backer from the Bronfman-Lansky families Michael Steinhardt, and Florida-based Cuban veterans of Cuba's former, Meyer Lansky-controlled Batista dictatorship, could be considered as a leading liberal candidate for the Democratic Party's Presidential nomination.

The mass exposure of the existing evidence against both McCain and Lieberman, will have predictable political effects on current U.S. policy-making. This will have an early impact on the heated U.S. Congressional and other election-campaigns, for the early November elections. It will have a useful effect on both the present U.S. Congress and the Bush Administration.

The combined impact of the great world-wide financial collapse, now in progress, and the breaking of the grip of the "Mega" crowd on the administration's policy-making, will push the U.S.A. toward closer coordination with Europe on global economic issues.

Already, the number of voices, in Europe and the U.S.A., calling for a return to the methods of 1933-1945 President Franklin Roosevelt, signals the possibility for building a bipartisan U.S. coalition around returning to the successful economic-recovery methods of the 1945-1965 period of U.S. cooperation in the reconstruction of post-war Europe. No U.S. President wishes to go down in history as a new President Herbert Hoover. Breaking the grip of the "Mega" crowd over U.S. strategic policy-shaping, if that succeeds, would break up the McCain-Lieberman bloc's power over U.S. foreign policy. If that succeeds, there will be new politics in Washington, D.C., and, probably, a new bi-partisan U.S. policy-shaping combination.

The situation is very dangerous, but, at least, there is visible reason to believe this danger could be overcome.

# LaRouche: 5 Million Leaflets To Stop McCain-Lieberman Is the Strategic Flank

*Here is an edited transcript of The LaRouche Show Internet radio program on July 27, 2002. The LaRouche Show airs weekly, on Saturdays, at 3-4 p.m. (Eastern Time), with Lyndon LaRouche as occasional guest. It can be accessed from [www.larouchepub.com](http://www.larouchepub.com).*

**Michele Steinberg:** Welcome to The LaRouche Show, the weekly webcast dialogue over the Internet, and this is Michele Steinberg, your host. I want to introduce today's guest: The electable Lyndon LaRouche, the economist who forecast the economic rumblings, the earthquakes that are shaking the globe; the economist who is running for the Democratic Party Presidential nomination in 2004.

As we speak, a campaign leaflet, called "The Electable LaRouche" is being distributed across the United States. Today, Mr. LaRouche is going to give us a strategic briefing, the kind of briefing that he has given in Rome, Italy; Brazil; in the United Arab Emirates.

Lyn, are you on? Go ahead, please.

**Lyndon LaRouche:** Yes. Well, I can announce, that a decision was made today, that the leaflet distribution will be—in the near future a total of 5 million will be distributed throughout the United States. There will be some modifications in the leaflet, as events which have developed in the process will need to be referenced or reported in the course of it; but, essentially, it will be the same leaflet. It will be out over this period, in the weeks immediately ahead, and it will cover at least 5 million distribution.

And that should, actually, if done properly, should make a change in the strategic situation of the United States. And I'll explain why: We have evidence—it's essentially all in the public domain, it just has not been put together before, in this way, and presented—that Senators McCain and Lieberman, have been operating since, essentially, July of 2001, if not earlier, as a team, aimed to push the United States into the kind of war which we've discussed, in terms of the idea of a Clash of Civilizations war. Now, this decision to go to that war by these circles, was made *before* Sept. 11, 2001—months, or actually years before, in some cases. So, that this was not a surprise. But, Lieberman and McCain began to come to the surface as something much more significant.

In the course of time, we had a report from the *New Yorker* magazine, which indicated that Lieberman and McCain were involved in what was called a "Bull Moose" campaign to

outflank both George Bush and whoever the Democratic nominee might otherwise be, in the year 2004. This would be run, from the McCain side—Our investigation showed that McCain's operation, the "Bull Moose" operation, was running, in fact, through an organization known as the Hudson Institute, which is an Indianapolis-founded think-tank, or something (I don't think the "thinking" is so good, but it's a tank, anyway). And it's operating out of Washington, with this Bull Moose campaign, as the *New Yorker* had reported.

Now, the two characters are interesting. Of the two, Lieberman is the important one; McCain is less important. But it's the combination of McCain and Lieberman, and what that combination reveals, in terms of the people behind them, and the motives behind them, is what is significant.

## Economic Crisis and War

The point is: That we are now headed toward a war, an Iraq war, an expansion of the current war going on in Israel. That's the way it is. It might be extended to Syria; it might involve operations in Lebanon; it might also include, even, a nuclear missile dropped on a nuclear energy site in Iran, or something else. It is intended to go into a full-scale conflict against the Islamic populations of the world, either *against* them, or in stirring up wars, in which they fight one another, or fight other groups.

So, this is the thing we have to stop, because this would mean the end of civilization.

Now, the timing of this present crisis, is determined largely by what was happening last Summer, that is, the Summer of 2001: At that time, the financial crisis, which we have been talking about, was coming to a head. As of September 2001—before the bombing of the New York towers and Washington, by these planes—it was already clear, that this crisis was about to hit with full force. Despite the Treasury Department, and the Federal Reserve System, and J.P. Morgan Chase, and Citigroup, and others, running what was called a "Plunge Protection Committee," it was obvious that the ability of these banks and other financial institutions, *and* the Treasury, and the Fed, to control the dike—that is, to keep this wall of crisis from overrunning the United States—their power was limited; and sooner or later, this system was going to go down. We'd run to the end of the scheme.

So, what had had happened is, the Sept. 11 events triggered an attempt to cover up the financial crisis, by unleashing



*A LaRouche organizer speaking with students in Washington, D.C., about the importance of putting LaRouche's ideas up front in the Democratic Party's 2000 election campaign. His 2004 campaign is issuing 5 million leaflets, which will require 2,000 activists a day on the streets, exposing the strategic threat to the country from the fascist- and mob-backed combine of Senators Joe Lieberman and John McCain.*

this attack on Afghanistan and the targeting of al-Qaeda as the "Enemy #1 of the Universe," or something. This attempt, to keep the reality of the financial crash out of the public eye, and to somehow control the world by putting the United States into a period of perpetual war and police-state measures, under which the explosion of the population against the financial crisis could be kept under control. That's been the general situation.

Now, in general, as most of you probably know, you've picked up here or there, that there's a lot of resistance to going ahead with the Iraq war; there's a lot of doubt, about what's going on in Afghanistan. There's a lot of doubt about other things. And Bush's popularity is sliding. Actually, it was not *his* popularity, it was the popularity that any President attracts when the American people sense that the nation is under attack, and therefore they will tend to rally around the President, even if he was some stuffed dummy. So, Bush has a certain popularity, which is not to his credit, as much as it is to the circumstances. But that's wearing down.

Now, immediately, Bush was pushed into tolerating not only what Sharon is doing in Israel, against the Palestinians, but also, to push ahead with this proposed Iraq war. There's *tremendous* opposition to this idea of an Iraq war, from continental Europe; Russia, as well as Western Europe; from Turkey itself, which does not wish to be pushed into participating in such a war with Iraq—for many reasons; even in the United Kingdom, despite the fact that Blair, the Prime Minister, is fully on board *for* the war at an early, the fact is, that high-level people *in* the United Kingdom, who are opposed to the

war, from Labour and from some of the old crocodiles: They think this is stupid; they think the United States has lost its mind; and they're against it.

Our own military, in general, has made it clear, that they think that what is being talked about by people like Wolfowitz and others, for a planned Iraq war, is totally *incompetent*: It's over-reach, it's erroneous, the risk is beyond belief, and it's not worth it.

We have, from people in the U.S. intelligence community who have been involved in this, saying, there is no danger from weapons of mass destruction, as such. Maybe a little mustard gas, or something, but no real horror-show of modern, sophisticated mass-destruction weapons coming from Iraq: They just don't have them. The idea, that there's a suspicion they might have them, is not substantiated by *any* expert, who's frankly speaking on this thing. And no one has given a report, yet, *to anyone*, nor is there indicated that a report has

been received—even under security wraps—which would indicate there's *any* evidence, that Iraq has weapons of mass destruction it's about to deploy.

But, nonetheless, they're pushing ahead with this war. And many in the world, more and more, know this is a hoax, this is a fake. And they want to prevent it. But nonetheless, this thing keeps crashing on.

Bush is not the big problem. Bush *is* a problem, his limitations are spectacular—if nothing else about his qualifications! But, he is not really the author of this drive toward war; he's the man who is being pushed into becoming the "author of record" for the war, and there's nervousness in the Bush camp, about what this means. But the pressure is great, with the November general election—that is, Congressional and other elections coming up, on the state level—they're nervous. Karl Rove, who is probably a roving idiot, actually, is pushing the President as hard as possible, to say, "You've got to go with the war. You've got to back Sharon, and go with the war, otherwise you might lose the Congress, with the coming November elections."

### Replay of Hoover's Last Years

**Steinberg:** You're listening to Lyndon LaRouche, Presidential candidate for the Democratic Party nomination in 2004.

Go ahead. You are hitting the topic that many of our questioners are already asking: "How can we intervene to stop this Iraq war? What's its relationship to the economic collapse?"

**LaRouche:** Okay. So, now you've got a situation, in



which Bush is actually, in sense, somewhat reluctant; or people around him are reluctant, the intelligent ones, the sane ones, and are saying, "Let's not do it. How can we get out of this thing?" or, "Let's make it a quick air strike. Maybe we can cover ourselves by running an air strike, even if it's not a full-scale war; at least we'll show people, we're trying." That would mean, like B-2 bombers, flying in relay from between the United States and Iraq. You know, the chickens leaving the United States, flying over Iraq, dropping their bombs, and the chicken flies back to the United States, gets maintained (*presumably*, if there's the money to do that); gets reloaded with bombs and goes out again—maybe with the same crew, maybe with a different crew; who knows what?

But this kind of thing is what's in the wind, right now, for as early as late August, or by early October—somewhere in that timeframe. And the smell of an early-August *possibility* is getting stronger, and people in Europe and elsewhere are talking about the smell of an August launch of air attacks on Iraq; with a small force deployed in the area, not to take Iraq on, but to make a feint, see what they can do. But the idea is, to show that we're really conducting the war, by doing a spectacular bombing, which CNN will assure the American people is spectacular, whether it's spectacular, or not.

Okay. So, the point is: Serious people, probably like Paul O'Neill, the Secretary of the Treasury, they've put under wraps, think two things: First of all, as you may have picked up from *some* of the press and some commentary, some people are echoing me, when I say that what the Bush Administration has been doing—and also, the Democrats who are going along with this, even some of the Clinton Democrats—what they're doing, is, they're acting like Herbert Hoover, back between 1929 and 1932, particularly during the period that Hoover was running for reelection (unsuccessfully, at that time), when he was promising everybody a "chicken in every pot" and two cars in every garage, and similar kinds of things. And the world was going down, and the United States with it.

So, Hoover, by promising, there was going to be a recovery—"there will be a recovery"; "there will be a recovery"; "there will be a recovery." "The recovery is on: You just have to wait and see it." "The circus is coming to town: It's called the recovery." "Line up on the streets. Be first in line, to see the circus—the recovery coming into town" (not describing what the recovery would look like). Well, Mr. Hoover's behavior elected Franklin Roosevelt. That is, beyond doubt, Hoover's attitude of negligence and denial, in respect to the reality of one of the greatest financial crashes in modern history, was the thing that wiped Hoover out, and made it much easier for Franklin Roosevelt to lead the people through a revolutionary change, back in the direction of the principles of our Constitution, as opposed to the kind of fun and games that had been going on for most of the century, up to that point.

We're now in a similar situation. We have a new Hoover Administration—a Hoover remake, and a poor example of a Hoover remake at that—which is promising a "recovery," "a

recovery," "a recovery." We have banks, major banks, are about to go under, largely because of financial derivatives, because of the imminence of a real estate collapse, especially, say, in the Northern Virginia area, where we're already seeing the chain-reaction effects of a real-estate collapse, as a result of people losing their jobs, as a result of the collapse of things like WorldCom, and so forth.

So, the collapse is on. Some people say, in the administration, and elsewhere, "Well, let's face the fact that we've got a collapse on our hands." The others are saying, "No! We've got to cover this up. We've got to conceal it. I don't care if we have to throw the kitchen sink in. We're going to throw it in, up to the last ditch, the keep this appearance of the promise of a future recovery on the table." But it's not there.

The more desperate they become around the economy, the more desperate they become about having a war. They have the silly idea, expressed by Defense Secretary Rumsfeld, that you don't have to worry about the economy, because "we're going to get a nice, big war going for a long period of time, and nobody's going to worry about the economy, because the war's going to keep their minds occupied." Well, that's not going to work. And intelligent people in the world, who are less panic-stricken than Donald Rumsfeld is, know it.

## The Roosevelt Alternatives

So, the question is: How do we get the country out of this mess? We have a President, who's no great shakes. But, he's an elected President. And our institution of the Presidency is extremely important, as I explain in this leaflet, which many of you have probably seen, or seen advance material on. So, the situation is, that if we save the Presidency as a functioning institution, and free the Bush Presidency from the grip of two things: the grip of lunatics within the Bush camp, such as Tom DeLay, or good old stupid Phil Gramm—the Senator—people like that; and, if we get realistic people on the Republican side, in the administration, freed, *to be realistic*; and, if we get a bipartisan pressure, from a bunch of Democrats who are influential in the Congress and elsewhere, who will face the reality of this financial crisis, and think about the Roosevelt alternatives to a Hoover Depression, then, maybe we can come out of this. It's the only shot in town.

Now, actually, the crash, which is coming on fast, is an advantage: Because, it's obvious that, with a crash of the type that's coming—major banks going under, and so forth—you're going to start a war, because you don't have the logistics, you don't have the economic basis to conduct a large-scale war. Europe won't go with it, others won't go with it: not under conditions of an actual, systemic collapse. So, the war would be off.

But the *pressure* of the financial collapse, must be brought to bear now. We've got to have a vehicle, to shift the chairs around Washington, around the Presidency—both from the Democratic side and from the Republican side, from the administration side—so that they will sit back, and say, "Okay.

The Depression is here. We're not going to act like *Hoover*. We're not going to be fools like Hoover was"—and Hoover was a very bright guy, brighter than George Bush. But he was stupid in his policy. And, this administration has got to realize that it *must not be stupid* in its policy; not merely to keep its power and credibility, but to perform its function *for* the United States as the U.S. Presidency. That needs Democratic pressure.

Now, the problem on the Democratic side—there are many problems on the Democratic side. The Democratic Party is a mess. But, the problem is, largely, that we have this guy Lieberman, running as sort of—he's the straight-man, running behind the clown, Gore. You know, Clinton could have elected almost anybody—except Al Gore. And Gore is unelectable, because he's not capable of getting elected! But, Lieberman is dangerous. The feature is this: Lieberman, together with McCain, represents a margin of influence, in both parties, in the Senate and in the Congress in general, which is now controlling the situation, under the direction of a group which is headed in New York, called the "Mega" group. This is the hard core surface of the problem. Now, Lieberman is not what most people think he is. The evidence which we have, and which we've been reporting in part, evidence which is on the record—not speculation, but hard, documented evidence, on the record: Lieberman was brought into the Congress, by whom? By the combination of William F. Buckley, of *National Review*, the nation's #1 fascist; in cahoots with a friend of Buckley's, Michael Steinhardt, the son of the one of the bosses for Meyer Lansky's mob. He was brought in with the collusion with the *gusanos*, so-called—that is, Lansky's former mobsters, who moved to Florida, away from Castro, and did terrorist acts and so forth—generally nasty people, about as right-wing as you can get, and about as nasty as you can get. But also, their existence—they were tools of Meyer Lansky's mob, when Meyer Lansky's mob, through Batista, was running Cuba.

So, these mobsters—right-wing killers, or fascists like Buckley—are the actual people who put Lieberman in the Senate. And, Buckley acted with support from Michael Steinhardt, who was the co-founder of the Democratic Leadership Council, on the Democratic Party side, which has taken control of the Democratic Party.

So therefore, you have a man, who is connected to organized crime; to fascists, who are sometimes a little bit of both; who represent the Lansky mob: That's Lieberman.

On the other side, McCain: McCain, in Arizona, his entire personal wealth is chiefly the result of association with what became known as the "Keating Five," some years back, back in the 1980s. And this crowd, was a crowd which was working with Sam Bronfman's "Joe Bananas," that is, another part of Canadian-American organized crime, which set up its operations in Arizona. And it was these guys, tied to this mob, organized crime, into which, shall we say, McCain married, and got the backing to have his personal fortune.

So, McCain represents exactly the same people, that Lieberman represents. And what Lieberman *pretends* to represent, in public, with his profile, is not what he is. Furthermore, no one, no Democratic Party majority—or even a minority—is ever going to nominate for President, a Joe Lieberman, with Joe Lieberman's open credentials, of ties to Cubans—that is, these Lansky thugs in Florida; with ties to Michael Steinhardt, part of the Lansky mob's son, who continued his father's business, when his father went to jail; or, to this leading fascist in the United States, William F. Buckley. You might elect that for nomination to something. But you're not going to elect it as the leader of the Democratic Party, or the Presidential candidate.

So therefore, the point is this: If we make clear, what the facts are about the connection between McCain and Lieberman; if we make clear their connections to organized crime; if we make clear the fraud of Lieberman's Democratic profile; if we make clear, why Lieberman, as a Vice Presidential candidate with Al Gore, went down to Florida to try to get the help of the Cuban Lansky mob, to help win the election for Gore—ah! Things all begin to make sense. And, the Michael Steinhardt case in general.

### **'The Only Shot We Have'**

So, now you've got a picture. If this dirty picture, which is all hard fact, and there's a lot more, can be presented succinctly, and for a purpose—that is, with a mission-orientation to it—I think we can eliminate the McCain-Lieberman factor in the American politics, at this time, in a *fairly short* period of time; and it *must be* a short period of time. That's why we talk about 5 million leaflets. We must have an immediate, hard impact, within the immediate future, to knock out the illusion about what the McCain-Lieberman connection is.

If we knock them out, what happens? Immediately, there are a lot of sharks in the Democratic Party, who have been sitting back, and watching the Gore-Lieberman show, in the Democratic Party. Saying, "Well, Gore and the DLC, and Lieberman, they've got this thing locked up. We really don't have a chance to win the Presidential nomination." Well, if you knock out Lieberman, and knock out McCain—who are big factors in the Senate, representing a tilt factor, or margin—then, you suddenly have loosened things up. What happens is, you get the constituencies, in the Democratic Party, and around the Democratic Party—the so-called African-Americans; civil rights groups; labor, traditional Democrats, and some leading politicians who have political ambitions: And if they think that Lieberman, Gore, and so forth, are out of the picture, they're going to start thinking about which among them might be the contender for the nomination?

If you get that kind of picture, if you get a picture in the White House, that this is what's going on around them, you get a clear picture, going throughout the political process, of what the financial situation is, and what can be done about it: You have, then, *new politics in Washington*. You have a



*In cahoots with “Catholic” fascist William F. Buckley to put Joe Lieberman in the Senate, was Democratic Leadership Council co-founder Michael Steinhardt (left), whose father was a boss for Meyer Lansky’s (right) National Crime Syndicate.*

bipartisan combination, around which the nation can assemble, for a great national, ongoing, functional debate. That is, in which we are debating, more realistically all the time, what the issues are that we should deal with, and not have these things rammed down our throat.

It is, in short, the only shot we have. And, because I am what I am, I do this kind of thing often; sometimes it’s less significant; sometimes it’s more significant. This time, I think it’s *really* significant. I think we’re at a crucial point: We’re going to have to decide, are we going to save this nation and the world, from the Hell, which would be unleashed if you have a Hoover state of denial, still continuing, about the economic crisis in the United States and worldwide? If you have a *commitment to this perpetual war*, this pointless perpetual war, of which the extension to Iraq is only one example. If you have that, then we may have lost civilization, for some time to come.

So, we’re now at a point, that we, in our situation *inside* the United States: If we can change the situation in Washington, and shift it, with the effort which is within our means, then we can create a situation in which there are options. Otherwise *there are none*. And, *Lieberman and McCain represent a challenge we are capable of dealing with*. So, we hit that flank. If we can turn that flank, we create new political openings, in the U.S. population as well as in the political parties. That’s our *only chance*, and that’s what I’m committed to doing.

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## Dialogue with LaRouche

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**Steinberg:** . . . You’re listening to Lyndon LaRouche, candidate for the Democratic Party Presidential nomination in 2004: the electable Lyndon LaRouche. And Mr. LaRouche has just announced that his campaign will be putting out 5 million copies of a leaflet, which has a form, at this point, that people can read on his website, which is: [www.larouchein2004.com](http://www.larouchein2004.com). . . .

Again, Lyndon LaRouche has spoken about his Presidential campaign, for 2004 in the Democratic Party, and knocking out the leading figure right now, Joseph Lieberman—who, it turns out, was put into the Senate by the right-wing fascist, William F. Buckley, and his *National Review* crowd. And, this has been documented, Lyn, in an EIR Special Report, called “The Real Scandal: McCain and Lieberman.” People can get that on the [www.larouche.com](http://www.larouche.com) website.

## Getting Congress the Message

We’re going to go ahead and take some questions, at this point, that have come in by e-mail. The first one [is] from an individual, F.H. in California, which gets to the point of the near-term war danger that you have raised.

“Dear Lyndon LaRouche,

“Next Wednesday and Thursday, July 31 and Aug. 1, the Senate Foreign Relations Committee will hold hearings on the Bush Administration’s war plans for Iraq. These hearings will be the first public Congressional debate on war with Iraq. Unfortunately, the hearings could be used to further war plans, by only calling pro-invasion witnesses, or by those present only asking superficial questions. In order to ensure, fair and balanced hearings, Congress needs to hear from you. Sen. Barbara Boxer [D] sits on the committee. She is my representative here in Sacramento. What question should I suggest to her. Senators Helms [R-N.C.] and Biden [D-Del.] will hear from me, although I am not in their district.

“Thank you for your attention.”

**LaRouche:** Okay. Well, Barbara Boxer is not a bad person. I think the best thing to do, is to get exactly what is in the leaflet, and indicate the other publications we have—if we get it to her fine; the other stuff, too—*on this question*. If she sees, and understands what I’m saying, and what’s documented in this printed material, then she is going to understand, as others will, *exactly* what the real issue is, that has to be addressed in dealing with this so-called “military operation.”

The whole thing is, in a situation like this, to deal with the military operation, as such, may be a loser. In other words, you’re going in there to argue, “Well, this is no good”; or “this is wrong.” Or, “you have no grounds.” But you have the argument that’s already being made, from top military people, to the administration, saying, “This is incompetent; we shouldn’t do it.” You have the argument, that is being made to the White House from London—not from Blair, who’s for it—but in terms of all the other people in the United Kingdom, who think they have some influence in the United States. The majority of them—which includes not only Labour opponents of Blair—leading people; old people, senior; but also, senior crocodiles, the hard-core British military types, who are saying, “Don’t do it!”

So, just going in with the military evidence, is not going to stop it. So, don’t argue the war. Change the subject. The subject is: We’re going to this war, only to attempt to run

away from a Depression, and we're going into this, because the administration is afraid of the Lieberman-McCain problem; and what's behind Lieberman and McCain, in terms of Mega, and so forth.

If that gets across, if the American people get a sense, that this is corruption; if the members of the Congress realize that we're coming at them on the issue of a corruption that *really stinks*; and if they *don't* deal with the McCain-Lieberman problem, the stink of corruption, combined with the impact of an onrushing depression, *is going to wipe their careers out!*

And, that's the way to deal with them. And, those who are friendly, while they may be stubborn about it, give them the information, focus the thing on the Lieberman-McCain angle, and you cause enough confusion in the flanks of the guys assembled for the hearings, that you have an effect.

And *we*, of course, *will be deploying*—I hope we can get up to 2,000 people deploying daily, in the streets of this country; that will be enough, with this kind of leaflet distribution—to stir things up, and force a shock effect which will change the way the discussion goes.

## How to Beat the Depression

**Steinberg:** Lyn, we have someone from our organizers' conference line, who has a question. Actually, we have a number of those. Let's hear first from Gene in Washington State. Gene, can you hear me?

**Q:** Yes. To consider this meltdown of our money system, why don't they go back and use the notes that Roosevelt used during World War II, to use United States' interest-free notes for all infrastructure? Especially here in Washington State, where unemployment is rising, because of the Boeing layoffs and the effects on down the line?

**LaRouche:** Yeah, exactly. The key thing is, we've got a labor force—We're going to have a lot of unemployment. The unemployment is going to hit hard in areas of employment, which are essentially useless. That is, a lot of the employment in services, unskilled services, or so-called "tech" services, are not exactly employable today. The tech industry is never going to come back, in that form. Though you have a lot of other unemployed, or *underemployed*, or *misemployed*. What are you going to do?

We know, from past experience, that the only way that you can get a fast increase in employment, is largely through public infrastructure. Now, this means government spending on the Federal, state, and local level, according to the jurisdiction and the nature of the situation. But, with Federal government-backing for the states and municipalities, on these programs, just as we did back in the '30s.

If you have useful infrastructure—and we certainly have a lot that needs to be fixed; that is, economically essential infrastructure. We have a health-care system that is disintegrating, as a result of the HMO policy. We need to put it back into effect. People are worried about disease, protection against disease; against other kinds of disease problems.

Without a health-care system, you can not deal with it. So, put the health-care system back to work.

Put our transportation system back to work—modernize it. Increase our investment in power plants; and so forth. These things are either directly government expenditures—that is, at the Federal, state or local level—or, they are public utilities, which should be regulated. And we need more power plants, so let's start putting them in.

Now, the program is not simply to limit growth to public utilities, and these kinds of things. The point is, to use the growth of employment in public utilities, as a way of stimulating the market for the growth in the private sector, especially in the entrepreneurial sector. And, that's the way we can get things started again.

That's what we *must* do. And there's no reason we *shouldn't* do it.

## International Leadership

**Steinberg:** Let's stay on this economic issue. We're getting questions all over the world on this, as you had, when you were in Brazil and spoke to the Argentina friends, and also the Brazilian diplomats and VIPs who sponsored your tour there.

This question is from one of our long-time *EIR* supporters in Philippines, C.V. and he says, "The economic situation is desperate. We have been approached by many people, who, though they acknowledge LaRouche's expertise, are still concerned with 'my money, where to put it in a depression.' How do we advise them and convince them that supporting you, is the only real solution?"

**LaRouche:** This is a real problem, because you have a populist tendency—and, of course, there's a lot of populism in many countries—to say, "Well, let's find an issue, and let's mobilize popular opinion around an issue. And that's the way we're going to fix things." And often, they will start with, "let's take things that everybody can agree upon, like local gripes." Well, that is the best way to fail I can imagine.

To make a turn in policy, means you have to force a change in the ruling principles, by which policy is made. The change in principles requires leadership, by people who are actually leaders, or who become leaders in the process. Leaders do not go around trying to play up to people's gripes. They may take note of them; they listen to them. They say, "Well, let's look at the solution to all these problems. There are other problems like this. What is our solution? How can we change things, so we can get a solution? What do we have to change about this society, to allow this solution to occur?" And therefore, the crisis in every part of the world, is leadership.

Now, what we can do—obviously, in the Philippines, that's obvious: leadership. There are a limited number of leaders. What's happened to the Philippines over years, there has been a loss of leadership, that is, entrenched leadership, in-depth leadership. This is the problem. But, we have also the problem throughout the developing sector in general. We

have it in continental Europe. In country after country, in South Asia, in East Asia, we have a sense, “We can do nothing. Let’s concentrate on local issues.” Well, that’s not going to work. It’s not going to work in Indonesia, it’s not going to work in other parts of Southeast Asia, it won’t work in the Indian Subcontinent, it won’t in Africa. These are dependent countries. Their existence depends upon orders passed out, passed down the line by international financial institutions, monetary institutions, and chiefly, in the end, the British and American government—the British monarchy and the U.S. government.

So therefore, if you don’t change the leadership initiative, from the U.S., you won’t do anything good for the Philippines. You can’t. *It’s impossible*. Therefore, we have the responsibility, being the so-called “official world power” (which we are in a sense), that we, from the inside must give the signal. And, there are people in the United Kingdom, who are opponents of these crazy policies. They will tend to cooperate with us. We’ve got to have an initiative from the United States which they can latch onto. We have people in Europe, on the continent of Europe, all throughout continental Europe: They will work with us. But, *they will not take the initiative*. They will follow, if we give them the chance to cooperate, and they will, then, give their *initiative* within the context of cooperation with us.

Africa is a hopeless situation: Don’t blame the Africans—they’re totally controlled. The Middle East: For example, my invitation to speak at the Zayed Centre in Abu Dhabi, which was done, actually, by a whole group of Arab nations, was to have my voice there. These countries, which have some capability, want international leadership to provide options within which they can work.

The Philippines needs options, within which the Philippines can work. This means, essentially, a *regional* development approach, with new credit and new projects, around which the economy can be rebuilt. And, that will be credible to people in places like the Philippines, because, if they try to get some local issue, push a local issue, they’ll find they fail. Or they get shot down, because somebody says they’re rioting. Then they give up, discouraged. And, because they picked the wrong fight, a fight which they could not *win*, they were defeated and crushed. This has happened, often.

What we have to do is, concentrate on building leadership, international leadership, among international circles, who can be looked at by people in various countries, as the friends to whom they turn to provide leadership in their own country, knowing that there are people from *outside* their country, who are also fighting against the big institutions, for the same cause. And that’s the way it has to be done. It’s simply leadership.

The point is, that the way the word “democracy” has been misused: Democracy has been misused, increasingly, since Roosevelt, in the United States, to say that anybody who actually shows leadership is some kind of a tyrant. And what you

have to do, is, you have to appeal to popular anger and go with the wave of popular anger, and you’re a “leader.” You respond to “community issues”—this kind of fakery. And, they’re always defeated. As long as people cling to community issues, *they’re going to be defeated*, even if the issues themselves are legitimate. Because the problem is not the community problem; the problem is the *system*, and the world system is run from the top-down, largely today, by the Anglo-American oligarchy.

And so, we have it right here. If we show, that we are willing to fight that, and come up with approaches which *will work*, we will find people in these countries will be inspired, justly, with the confidence to think about how they should approach the thing, *in* that context. *We must create the context*.

### Socratic Dialogue Breeds Optimism

**Steinberg:** . . . I have a question, Lyn, about the movement we need to create, that international forces could hook up with, that you were discussing before.

This is from a student, Richard, from Iowa State University: “Firstly, thank you. You’ve had a profound impact on my life. I know I am well on my way towards becoming a sane human being, and for this, I’m indebted to your efforts and the efforts of your associates.

“I’m a student at Iowa State University, and I am involved in the distribution of your campaign materials, and ultimately your ideas, and the ideas of your revolutionary ancestors: Plato, Gauss, Leibniz, etc. I’m sorry to say, that I’m frequently hit by a debilitating doubt as to the value of my efforts. My question is, what is the reason that I can apply to my thinking to permanently expel this type of doubt from my mind, especially, when *you* face such opposition, and remain so full of hope? What principle can I apply to my thinking?”

**LaRouche:** The best principle is to find somebody who wants to know something, and engage in the kind of dialogue, a Socratic dialogue with them, by which they actually come to—not merely to be able to repeat after you; but to actually know what you’re both talking about.

Leadership—Let me just go back to what I said otherwise, but I think it’s the only honest, effective answer to this question: What’s the difference between man and an ape? Man has been able to develop discoveries of principle, to transmit the experience of making those discoveries of principle, from one generation to the next, and from one society to the next. This is the reason why we have billions of people on the planet, whereas, if man were an ape, the human species would never have exceeded several million living individuals on this planet, under the conditions which we know to have existed during the past 2 million years.

So man is different. And human relations are essentially, those relations which define the difference between the beast and the human being. A human being can make a discovery—an experimentally valid discovery, of a universal principle; and then, present that act of discovery to someone else, and



*LaRouche explained how he remains an optimist: You have to engage a fellow human being in a Socratic dialogue, which defines the difference between “the beast and the human being. A human being can make . . . an experimentally valid discovery, of a universal principle; and then, present that act of discovery to someone else, and work back and forth with them, until they are able to reconstruct, in their own mind, the same experience.” Here, the children of LaRouche organizers construct one of the Platonic solids, a dodecahedron.*

work back and forth with them, until they are able to reconstruct, in their own mind, the same experience. Thus, you are imparting knowledge in the only way knowledge can be. Not by textbooks. Not by lectures, as such. But actually engaging in discussing specific problems, which involve discovery of original ideas.

So the way to feel good, in a sense, when you’re fighting against the toil of the so-called philistines, is to simply concentrate on the fact, that there are people in the environment, who *are*, in one sense or another, responsive to problems, which involve ideas—ideas like fundamental physical principles, for example. It’s the exchange of those ideas between one person and another, whether it’s in physical science or Classical art, or anything else; or politics. Those ideas, that exchange, defines a *truly human relationship*.

The problem is, in society today, with the way the thing is structured, we don’t have really human relationships, running around loose in society. We have *inhuman* relationships; bes-

tial-type relationships; relationships, which could be replicated by any band of Rhesus monkeys, rather than human beings.

And, the source of strength, is the strength and joy of sharing with another human being, the kind of act of discovery, the kind of knowledge, which can be passed on to someone else, and passed on to generations to come: That kind of relationship is the one that gives you a sense of joy and strength. And that’s the thing you have to keep turning back to, as I do, when you run up against the notorious Yahoos.

## Justice for Victims of War Crimes

**Steinberg:** Lyn, I’ve seen over the years, that that question of hope, that you bring into the political situation, goes across many borders. I have a question from a Palestinian friend, a diplomat, who is not on the call today, but asked this during the week. He said, “Your input into the Middle East situation has been most welcome. Do you see that the latest atrocities against the Palestinian people in Gaza fall under the categories of ‘war crimes’? And what do you suggest, to move the world community, which appears to be so indifferent to this tragedy?”

**LaRouche:** What I’ve done is, I’ve said, “Yes, this is horrible.” But these crimes carry a penalty with them. Some people say an International Criminal Court, but I wouldn’t trust an International Criminal Court. It’s not the right idea. Obviously, these are war crimes, and war crimes and crimes against humanity come, actually, under a provision that was used already in the Nuremberg proceedings, especially in the attempt to define this as a matter of principle by Robert Jackson, who was a Supreme Court Justice, who was on the commission there. That, in war, a nation which wins a war, has a right to impose certain conditions of peace upon the defeated nation, in negotiations. Crimes against humanity fall into the same category: A crime against humanity, is actually an act of war, which may or may not be the cause for going to war, but it has the legal characteristics of an act of war, under international law. It is a rational kind of international law, moral law.

So thus, the case of crimes against the Palestinians is a case of crimes against humanity, and they are actually war crimes, at the same time. Some of them may not call it a war, but actually there is a *war in fact* being conducted presently, against the Palestinians. You have a military occupation force—the Israeli military occupation force, is occupying the territories of the Palestinians, that is, the recognized territory; occupying the cities; imprisoning the victims, as if they were captives in a war; and perpetrating atrocities upon those citizenries, as people in possession—that is, military force in possession, under conditions of *an act of war*. The fact that the Palestinian state was not constituted, does not make this less an act of war!

All right, so, that has to be recognized. Now, where do you go from there? The first thing is, to state the fact, and insist upon the fact of the matter. You’ve got to think about

the person who's dying, or the person who's lost a member of their family, as a result of these atrocities. What do you say to them? How will you look in the future, when somebody asks you, to account for your part, in that suffering, of that victim? You have to say, "First, one thing we can not do: We can not reverse a killing. You can't bring a dead person back to life. But, we must not let their loss go unjustified. We must do something that makes the loss of that person, by that family meaningful; something that brings tears of hope to their eyes, at a later point." If we bring justice in the Middle East, then, there will be tears, not so much of anger (also anger, of course), but also hope. This struggle, this suffering, this decades of suffering, *was not for nothing*. In the end, there was a purpose, and the purpose is what we have today. The price we paid, in this suffering, was a purpose, which we accept. And, you've got to provide that.

And, our job is, while having that attitude and expressing that, and acting on the basis of our capabilities to try to intervene in the situation, to stop the crimes—that means intervention; it does not mean acts of protest, it means *intervention*, of one kind or another: shutting down recognition of Israel, those kinds of things; *acts tantamount to the brink of war* are required to deal with that.

The other way to deal with it, is outflank it: I believe, that if we sink—we *really expose*, internationally, the *filth* on the Lieberman-McCain connection, and what that expresses, like the Mega group in U.S. politics—this will cause a *revulsion* to explode from within a population, which is already disgusted with this—internationally—but afraid to say so; and under those conditions, we will find effective remedies we can take, not as revenge, but as justice. Because we have to think about the soul of the dead person. We have to think about how their suffering looks to the eyes of the future. Did they suffering for *nothing*? Or is their suffering, does it have a reward for their descendants? For their family; for their people? Does it mean something? Is it a suffering, which makes them a hero, in the eyes of the future?

Our first job is to make heroes of those, who suffer injustice.

## How To Get a Mule's Attention

**Steinberg:** . . . Lyn, we have less than five minutes, but we do have a question from the LaRouche movement organizers' conference line. Can we go to that now?

We have a question from Cyril, in Missouri.

**Q:** The Lieberman-McCain thing is a priority, of course. But, beyond that, I'm trying to contact, through my contact with Senator Feinstein of California, who wrote me a letter about the Attorney General. I'm trying to get them to understand insight into physical economics, and I think that's a long-range priority, to understand how the economy can and must be run on those principles. And, I've got copies of the book, Mr. LaRouche, and I've been trying to get these copies into their hands—Senator Feinstein and eight other Democratic Senators that I've written to. I haven't gotten a response

yet, but that's the way I'm going. Don't you think this priority of understanding physical economics is a long-term priority?

**LaRouche:** Oh sure! But the important thing, in a case like this is, how do you get their attention? So therefore, we figure that 5 million leaflets, with this information that I've just referred to, today, will certainly get their attention.

Look, just think of the impact of what I'm doing; what I've decided to do. A lot of people working with me, did the research and checking and so forth, and we made a collective decision to go with this. But I pushed it, and said, "This Is what I want to do."

The point is, we have the evidence: You've got a guy who is running, putatively as the leader of the Democratic Party; putatively (if you discount Al Gore, who's effectively out of it anyway, sooner or later), he was to be the putative nominee, for President, in the year 2004. The Presidential campaign for 2004, is already under way, the process of developing that. It's not waiting until after November of this year, 2002. Okay.

Now, the way the Democratic Party is thinking, right now, including Senator Feinstein, *they're thinking in terms, that Lieberman is, in point of fact, pragmatically, the probable nominee for Presidential candidacy of the Democratic Party for 2004*. They're thinking that, therefore, the way *they* play, within the Congress, within the Democratic Party functions as a whole, that they have to go along with the Lieberman equation. And have to not get too nervous about the Lieberman-McCain connection.

All right, now, if we go out with the record, on how Lieberman came into the Senate, through the backing of Bill Buckley, who was financed in this, by the son of a famous Lansky gangster, who himself is not too clean: Michael Steinhardt; who's part of the Mega group that is behind the war effort, right now. It was this guy, who is tied to these Cubans in Florida, who are part of the old Lansky killer mob—the thugs: This guy is running, as the Democratic nominee for the year 2004?!

Tell a Democrat that they're thinking of nominating a guy with those credentials, with those connections to Buckley, and to McCain, who's also deeply involved in organized-crime associations: And they're going to vote for him? No. Suddenly they have to change their way of thinking! They're no longer thinking about Lieberman as a candidate. "Well, how do we get rid of this guy? We gotta get somebody else in there!" And, that's the way you get their attention.

What you have to do, is convince them, first—you know, it's like the old story about the two-by-four and the mule. One farmer's trying to sell the mule to the other. The first farmer, who's trying to sell it, said the mule is—you know, it's a famous old gag—said, "This is a very obedient mule." So, he said, "Tell him to move." He wouldn't move. So, the seller said, "That's easy." He picked up a two by four, and whacked the mule over the head, and the mule did as he wanted. He said, "You've got to get his attention first." And that's the case with the Democratic Party leadership, including Senator Feinstein.

# LaRouche's Flanking Attack on McCain And Lieberman Draws Its First Blood

by Jeffrey Steinberg and Marielle Kronberg

As Sen. Joe Lieberman (D-Conn.) began to speak at the annual Democratic Leadership Council meeting in New York City on July 29, a strange thing happened: He was exposed as a dirty-money-funded, war-mongering blackmailer of President Bush and the U.S. Presidency.

Just two days after Democratic Presidential pre-candidate Lyndon LaRouche hung the Constitutional survival of the United States, and therefore the world, on politically destroying Lieberman and his alter ego, Sen. John McCain (R-Ariz), an intervention by LaRouche supporters at the DLC meeting clobbered Lieberman, stunned the DLC crowd, and generated some productive havoc, which soon spilled over into the opening shots of a national media assault on the two war-party Senators.

Before Lieberman's speech, LaRouche campaign leaflets blasting him and McCain were placed on every chair in the hall, and copies of the *EIR* McCain-Lieberman special off-print were somehow distributed as part of the DLC's official program. Meanwhile, outside the hall, LaRouche activists held a rally, distributing thousands of leaflets.

## 'Hey, Joe! I Brung da Money'

Back inside, as Lieberman spoke from the podium, a short, stocky figure emerged from backstage, wearing a black shirt, white tie, and black hat with feathers. This mysterious figure said (very loudly), "Hey Joey, this is Vinnie 'Water' Moccasinio. I got the sack of money. Where do you want me to put the money? I got the money from Mikey Steinhardt." The unmistakable reference was to hedge-fund manager and patron of both the DLC and Lieberman, Michael Steinhardt, a shady mega-speculator who was caught, in 1991, running an insider-trading assault on the sovereign Treasury debt of the United States. Steinhardt's father, Sol "Red" Steinhardt, was a seminal figure in the Meyer Lansky National Crime Syndicate.

Lieberman looked up, but kept talking—at first. Senator Hillary Clinton (D-N.Y.), who was sitting on the stage, looked stunned. The stocky figure continued, still louder, "Hey, Joey, where do you want me to put the money? I got the money from Steinhardt." Now Lieberman, too, was stunned, not to mention the audience.

Finally, security reacted, and dragged the figure away; as he was being dragged out, he could be heard protesting, "They don't treat the family right any more. Back in Havana they

treat the family right." Thus "Vinnie" was pointing to the Meyer Lansky Havana casino mob origins of Michael Steinhardt's fortune—as, indeed, of that of Senator McCain (see "Knock Out Lieberman and McCain To Save The Republic," *EIR*, Aug. 2).

Shortly after order was restored, three LaRouche supporters slipped into the back of the auditorium. They were singing a newly written song, to the theme of the 1960s "Patty Duke Show" on TV, and it went, in part, like this:

Republicans have John McCain  
He'd nuke Iraq to kill Hussein.  
But Lieberman's a Democrat,  
Who wants to murder Arafat.  
Yeah, they are both insane.

[refrain]  
'Cause they're fascists,  
Identical fascists, there's no doubt.  
If Bush doesn't bomb Iraq now  
They'll try to throw him out.

Now John McCain is a Bull Moose  
(You know he's got a few screws loose).  
No Democrat would vote for Joe  
Who knew Bill Buckley loves him so!  
Have you heard the news?

After the first verse, 15 security men descended and, without thinking, put the trio into the overflow room, where they were able to sing the whole song to the crowd there, until they were escorted out. It was about then that pandemonium erupted.

## Lieberman, DLC 'Themes'

With LaRouche supporters exposing Lieberman's fascist pedigree at the DLC meeting, Lieberman et al. were busy exposing themselves. Democratic pollster Mark Penn gave the clearest idea of the message of Lieberman and his circle to the DLC crowd: "Any strategy that focuses on seniors who supported Franklin Roosevelt is out of date."

During the DLC event, the Progressive Policy Institute, the DLC's official think-tank, issued a report calling for America's prison system to be opened up to corporations seeking cheap, captive labor, in an overt imitation of the infa-



A major, though comic role in the intervention which shocked Sen. Joe Lieberman at the DLC convention in New York July 29, was played by "Vinnie 'Water' Moccasini," seen here (right) with a bag of money for Lieberman from Wall Street boss Michael Steinhardt (below). The convention was enveloped by LaRouche mass leafletting.



mous slave-labor program of Adolf Hitler's "liberal" Economics Minister Hjalmar Schacht.

The report, "Prison Labor: It's More Than Breaking Rocks," by PPI Vice President Robert D. Atkinson, argued that putting prisoners to work "reduces inmate recidivism, thereby reducing crime and lowering prison costs. Second, if done right, it produces 'profits' which can be used to offset the taxpayer-financed costs of incarcerating prisoners. . . . Let the market decide how to employ prison labor," the report urged, but Atkinson also insisted that "all Federal prisoners who can work do work, provided that work is available." His final words: "Just as Congress should not give in to protectionists on trade, they should not give in to protectionists on prison labor."

Back at the floor of the DLC convention, Lieberman himself called together a group of reporters to unleash a personal attack on his former running-mate Al Gore's turn to "class-war populism" during the 2000 campaign: "It made it more difficult for us to gain the support of the middle-class, independent voters who don't see America as 'us vs. them.'" Lieberman's idea of the political base of the "new Democratic Party" was described in *The Nation* magazine on Aug. 1 as "white office-park males."

The war-on-Iraq theme with which Lieberman keeps hammering the President, was on display most clearly at a July 28 press conference at which Senator Joe blasted the administration for supposedly stalling on going to war against Iraq. Admitting that "the President is the one who must decide," Lieb-

erman went on, and then whined, "I'm disturbed by the indecision of the Bush White House on this question, on-again and off-again. The Bush Administration has been talking a good game about getting rid of Saddam, but I'm not sure they're prepared to do it."

The Iraq issue is particularly sensitive, given that Lieberman and McCain are threatening the President with a three-way race in November 2004, with McCain playing the role of "Bull Moose" spoiler—unless Bush goes along with every demand of the war party. In February, McCain's blackmail gambit was revealed in *New Yorker* magazine. That same month Lieberman, McCain, Deputy Defense Secretary Paul Wolfowitz, and

Defense Policy Board Chairman Richard Perle were appearing at the annual Wehrkunde defense policy conference in Munich, performing like a gang of Roman imperial pro-consuls, threatening Europe with reprisals if they didn't back war on Iraq. It was with this group that the all-out drive to push the President into an early attack on Iraq, began.

### **'LaRouche Is Back!'**

By the end of the DLC "conversation" in New York City on July 30, over 1 million leaflets had been circulated by LaRouche in 2004 campaign workers all across America, denouncing Lieberman and McCain as the source of the "real corruption" in American political life. In an Internet-radio broadcast on July 27, LaRouche had announced that his campaign would circulate 5 million campaign flyers, exposing various aspects of the McCain-Lieberman treachery, by Labor Day—a level of political mobilization that no other candidate could even approach.

A second leaflet of the campaign is now circulating in the millions, entitled "The Electable LaRouche," issued by the candidate on July 26. There, LaRouche explains his strategic objective: "My job right now, is to save the Presidency of the U.S.A., while George W. Bush is President. Considering what Bush and his administration are doing to themselves, saving the Constitutional institution known as the Presidency, is no easy chore. The first step toward saving the Presidency is to pull the plug on two U.S. Senators whose combined leading influence today is the greatest single threat to the nation and

its Presidency at this time: Senators John McCain and Joseph Lieberman.”

In short, by the closing days of July, word had gotten out everywhere that Lyndon LaRouche had declared political war on the McCain-Lieberman duo, and that the truth about the duplicity and corruption of these two “Manchurian candidates” would soon come spilling out for all to see. Word on the floor of the DLC convention was: “LaRouche is back!”

Within days after the DLC event, the LaRouche campaign was showing the first signs of drawing blood. Whereas Lieberman and McCain have enjoyed a longstanding honeymoon with the Washington, D.C. Beltway media, suddenly, a plethora of articles appeared, blasting away at the two Senators:

## My Job Is To Save The Presidency

*From the 5 million-run leaflet, “The Electable LaRouche.”*

Some people who ought to know better, exclaim, “But, LaRouche is not electable!” . . . If that exclamation were true, why did most of the U.S. system spend so much on desperate efforts to prevent my winning, over so many decades? When all that and related matters are considered, especially considering the amount of money spent, over so many years, on trying to stop me, and considering the way the world’s monetary-financial system is crashing today, I am, intrinsically, the most electable U.S. Presidential candidate since Dwight Eisenhower. . . .

My job right now, is to save the Presidency of the U.S.A., while George W. Bush is President. Considering what Bush and his administration are doing to themselves, saving the Constitutional institution known as the Presidency, is no easy chore. The first step toward saving the Presidency is to pull the plug on two U.S. Senators whose combined leading influence today is the greatest single threat to the nation and its Presidency at this time: Senators John McCain and Joseph Lieberman.

In short: to save the U.S.A. from what threatens to become the worst crisis in its history as a constitutional Republic, we must defend the institution of the Presidency. To that end, McCain and Lieberman, and certain foul connections and interests which they represent, must be removed from the influential roles they have played since the 2000 Presidential primary- and general-election campaigns.

• On Aug. 1, *The Nation* published a scathing attack on Lieberman and the DLC by Robert Borosage. His Aug. 1 assault labeled Lieberman and the DLC as the witting partners of Newt Gingrich and the whole Conservative Revolution crowd, that rammed through the “Contract on America,” in the mid-1990s, facilitating the wild frenzy of corporate piracy and stock manipulation that is now exploding—in the faces of working families. “Lieberman, the DLC’s favored candidate for President, made the fight against honest accounting practices of executive stock options his personal mission,” Borosage wrote, adding that “Before the WorldCom revelations, when it looked like reform was going to be bottled up in the Senate, Lieberman and the DLC head, Al From, launched a PR drive to warn Democrats against being anti-business and doing too much. Lieberman, as chair of the Senate Operations Committee, has been notably reluctant to trace Enron’s use of political money and clout in the Bush and Clinton Administrations and Congress. Part of the reason may be that, according to FEC reports, the New Democrat Network PAC received more than \$250,000 in contributions from companies implicated in the Enron scandal.”

• Also on Aug. 1, Rupert Murdoch’s *New York Post* published a half-page column by Joshua Micah Marshall, labeling Lieberman a liar and a back-stabber, for his efforts to renege on his promise that he would not seek the Democratic Presidential nomination if Al Gore chose to run. Marshall noted that the “biggest development” at the DLC meeting was “Sen. Joe Lieberman’s big step in wriggling out of his pledge not to run against Al Gore for the 2004 Presidential nomination. Lieberman’s once-ironclad pledge started getting jiggly months ago. But this week he went quite a bit further” by attacking Gore as a class warfare populist. Marshall warned Lieberman that his double-crossing of Gore might tarnish his image with the media, and turn off Democratic voters, who already view him with suspicion for his alliances with right-wing Republicans like William Bennett on “values campaigns.”

• The *Washington Times* of Aug. 1 reported that many Democrats are revolting against Lieberman’s and the DLC’s continued bonding with big business, at a moment when a majority of Americans are furious at the criminality of corporate CEOs. The *Times* quoted Roger Hickey, co-director of the Campaign for America’s Future, who denounced Lieberman’s strategy of cozying up to big business. “You’ve got to wonder about making this a theme when the country is demanding action on corporate reform. . . . Here you have Lieberman lecturing the party that they should be very worried that they should not be seen as too anti-corporate. . . . The DLC and people like Sen. John Breaux are pointing the party in a politically stupid direction.”

### Even Buckley Takes Aim

The most telling indication of the impact of the LaRouche moves against McCain and Lieberman came from Lieber-

man's oldest political patron, arch-right-winger William F. Buckley, Jr., whose *National Review Online* carried three stinging attacks on McCain and Lieberman in July. While attacking Lieberman for covering up the Wall Street complicity with Enron, the attack on McCain was a direct hit: "John McCain fancies himself a reformer, a trustbuster, a progressive. But the truth is he's a hypocrite," Mark Levin wrote on July 11 in *National Review*. Levin proved his case by citing McCain's notorious dealings with junk bond swindler Charles Keating, but then added that McCain was the number one Senate recipient of campaign funds from Global Crossing, the number three recipient from WorldCom, the tenth

leading recipient from Arthur Andersen, and the twelfth from Enron. "McCain believes this activity to be corrupt, but he took the money anyway."

Just as LaRouche had anticipated when he first exposed the Lieberman-Buckley political alliance, both men will find themselves in deep trouble, once their collusion is put under the public spotlight. Not only is Lieberman deeply scarred by association with such a well-known pro-fascist, but also, Buckley's link to the "Get Bush" operations of McCain and Lieberman will not sit well with the White House; and so, like any good spook, Buckley is now running damage control, by uncapping his poison pens against McCain and Lieberman.

# Lieberman-McCain Cabal Plots Against U.S. Military Opposition to Iraq War

by Michele Steinberg

In a secret meeting of the Defense Policy Board (DPB) in the Pentagon on July 10, the war-mongers for an early attack on Iraq, led by DPB chief Richard Perle, plotted to ensure that "heads would have to roll" among ranking U.S. military officers, who oppose the drive for this war led by Perle and Deputy Defense Secretary Paul Wolfowitz.

Lyndon LaRouche, in his leading article above, points to the current face-off of three factions over Iraq, of which this bloodthirsty DPB meeting was one significant event. Reports of the session reminded LaRouche of Adolf Hitler's inner circle sitting and planning the assassinations of top German military officers, beginning with Gen. Kurt von Schleicher.

Details of the meeting are sparse, but *Washington Post* investigative reporter Thomas E. Ricks on Aug. 1 described it in his report of the brawl in and around the Bush Administration over the looming Iraq war. According to Ricks, Vice President Dick Cheney and Secretary of Defense Donald Rumsfeld are leading the pro-war faction, opposed by Secretary of State Colin Powell, CIA Director George Tenet, and the overwhelming majority of three- and four-star generals and admirals on active duty.

The biggest fear of the pro-Iraq war gang, Ricks reported, is that Rumsfeld will come under increasing pressure from the uniformed military command and will vacillate, delaying the war until the Presidential campaign is fully under way and there will be further reason to hold back. In this context, the Defense Policy Board meeting on July 10 particularly complained about Gen. Tommy Franks, the Commander of the U.S. Central Command, who has been named in many reports as the professional who is telling the politicians that a "successful" war against Iraq will require 250-300,000 troops.

This eerie session of back-room war-plotters is a real-life obverse of the *Seven Days in May* fictional account of a Cold War-era military coup. This time the plotters are the RAND Corporation-trained utopians and their associates, who fight their wars on video-game simulations, with no regard for the destruction of nation-states or the killing of civilians—as in the case of Afghanistan.

## 'Don't Even Consider It'

Just how serious the Joint Chiefs of Staff resistance is, was revealed by *Aviation Week & Space Technology's* "No Iraq Attack" article of July 15. Published amid wild hysterics from Rumsfeld about leaks of Pentagon war-planning documents on the Iraq war, author Frank Morring, Jr.'s article said that "Air Force Gen. Richard B. Myers, chairman of the Joint Chiefs of Staff, is firmly in the camp opposed to a big attack on Iraq." The article quoted a senior defense official, who said, "He's saying, 'Don't even consider it.'"

The unnamed source claimed there was no ongoing military preparation for such an attack: "In order to prepare the forces for a campaign in Iraq, you need to name the commanders, pull them together and give the forces involved two to three months of intensive training. Special operations people and bomber and fighter squadrons are all over the place right now. I don't know that we can do that without telegraphing our intent." The source also addressed other obstacles to an all-out military operation: "There's a real moral question involved, and nobody thinks President Bush will ask for a resolution of support from Congress before the elections in November. That's a bigger issue even than choosing the right war plan," the official concluded.



*Sen. Joseph Biden's hearings on Iraq heard exclusively pro-war witnesses, covering up the strong opposition both from ranking U.S. military officers, and from U.S. and UN professionals with experience in Iraq. The hearings followed the Congressional line of Senators John McCain and Joseph Lieberman, the "war and Wall Street" party.*

The Defense Policy Board insanity alone, puts the strongest possible urgency on getting out the 5 million-leaflet "strategic flank" defined by LaRouche to stop an Iraq war "response" to the current economic collapse. ("Do it, Mr. Bush; the market will rise 2000 points," as imperial warhawk Norman Podhoretz put it.)

But, developments in the U.S. Senate at the end of July show that flanking initiative, against the operations of Senators Joseph Lieberman (D-Conn.), and John McCain (R-Ariz.)—the two self-anointed Congressional and Presidential rivals to George W. Bush—to be essential to stop the Iraq war.

The war projected by Wolfowitz, Perle, and other DPB members like former CIA Director James Woolsey, could be the trigger for the Clash of Civilizations or a "Hundred Years' War" that the DPB had advocated in October 2001. That imperial drive got a boost when the Senate Foreign Relations Committee put on a pro-war "dog and pony show" July 31 and Aug. 1.

### **Biden Hearings Are a Sham**

A letter obtained by *EIR* proves that the Senate Foreign Relations Committee is withholding crucial information about Iraq from the Senate and the American people; information which could serve to stop the flight forward to war. The letter was from Hans von Sponek, former Assistant Secretary General of the United Nations, to a member of the Committee, and a similar letter was sent to each individual member by von Sponek. In the July 26 letter, von Sponek—who administered the UN "oil for food" program for Iraq until he resigned in 2000 to protest the continued sanctions against Iraq which were killing civilians—wrote, "As the Senate Foreign Relations Committee prepares to meet next week, you and your colleagues have, it seems, an extraordinary opportunity to

provide the U.S. government and the American people with a more complete picture of the realities in Iraq. I am persuaded that, if apprised of all the facts, many of your colleagues and your constituents would realize that Iraq, an exhausted nation, should not be subjected to another military attack. . . . I would be totally at the disposal of the Senate Foreign Relations Committee to testify about conditions in Iraq."

However, as the committee convened on July 31, von Sponek, and another of the world's leading experts on Iraq, Scott Ritter, who was chief UN weapons inspector in Iraq for seven years—were not allowed to testify from their first-hand knowledge. Instead came a procession of "performing" witnesses, largely presenting third- or fourth-hand testimony, to justify the war. This led even Sen. Lincoln Chaffee (R-R.I.) to protest on July 31, that all of the witnesses were totally for war, and no critics were allowed to testify. Ritter and von Sponek gave non-stop interviews on the evidence of the destruction of Iraq's economy and military capabilities.

Ritter had been in London July 16 and delivered a detailed briefing to members of the House of Commons on the realities in Iraq. He denounced the faction in the United States which wants war on Iraq at all costs (reported in last week's *EIR*).

An Aug. 1 press release from the Institute for Public Accuracy (IPA) indicated the value of the refused testimony; it quoted von Sponek that he had been in Iraq two weeks earlier, had visited sites purported to be weapons sites, and found them to be "defunct and destroyed." Two of the sites on the Tigris River singled out in recent anti-Iraq diatribes as "secret underground production centers for weapons of mass destruction" were among those he visited, where he reported finding birds nesting in the dusty ruins.

"Evidence of al-Qaeda/Iraq collaboration does not exist," von Sponek is quoted. "Six years of revisions to sanctions policy on Baghdad have repeatedly promised 'mitigation' of civilian suffering. Yet in 1999, UNICEF reported that more than 22% of the country's young children remain chronically malnourished. Credible opposition groups outside Iraq have called for delinking economic and military sanctions. At the March Arab summit in Beirut, all 22 Arab governments (including Kuwait) called for the same. If the economic embargo on Iraq is not in [Kuwait's] interest, then in whose interest is it?"

Former chief weapons inspector Ritter charged that "Sen. Joe Biden is running a sham hearing. It is clear that Biden and most of the Congressional leadership have pre-ordained a conclusion that seeks to remove Saddam Hussein from power regardless of the facts, and are using these hearings to provide political cover for a massive military attack on Iraq. . . . This isn't American democracy in action, it's the failure of American democracy.

### **'Senior Military Officers' Agree**

"Before we go to war with Iraq," Ritter continued, "we must be able to determine that Iraq poses a threat to the

national security of the United States. Such a determination must be backed up with substantive fact. I believe that Iraq does not pose a threat to the U.S. worthy of war. This conclusion is shared by many senior military officers. According to President Bush and his advisers, Iraq is known to possess weapons of mass destruction and is actively seeking to reconstitute the weapons production capabilities. I bear personal witness, through seven years as a chief weapons inspector in Iraq for the UN, to both the scope of Iraq's weapons of mass destruction programs, and the effectiveness of the UN weapons inspectors in ultimately eliminating them. While we were never able to provide 100% certainty regarding the disposition of Iraq's proscribed weaponry, we did ascertain a 90-95% level of verified disarmament. . . . It is clear that Senator Biden and his colleagues have no interest in such facts."

Rather than being an opening for members of Congress to challenge administration policy on a war on Iraq, the hearings simply ran cover for the policy of "regime change" by war. On July 31, twelve witnesses attested to the necessity of a U.S. imperial attack, arguing only the timing and configuration of a military action. Every species of propaganda and disinformation was asserted and repeated—without being challenged by the Senators, who appeared to be terrified to publicly oppose the "regime change" mantra.

Former UN Special Commission (UNSCOM) chairman Richard Butler, who has been accused of filing the false reports on Iraqi weapons production, which led to the Clinton Administration's 1999 Desert Fox air assault, was the leading witness. Iraqi defector Dr. Khidir Hamza, a nuclear engineer, was there to assert that the German intelligence agency BND, had established that Iraq would have a deliverable nuclear device by 2005. But the BND officially denies that it has made any such assessment. The existence of Iraqi intelligence links to alleged al-Qaeda hijacker Mohammed Atta was asserted as fact, despite repeated denials by the "source," the government of the Czech Republic.

Retired Air Force Lt. Gen. Thomas McInerney was there to promote the "quick, cheap," air attack "victory" idea, which, he said, doesn't require ground basing, and therefore avoids the nasty problem of the unanimous opposition of Arab states bordering Iraq to such a war—including opposition from Kuwait. Never was it mentioned that McInerney is on the payroll of neo-conservative Smith Richardson Foundation, and of the Business Executives for National Security (BENS), which is linked to the Likud party of Israeli Prime Minister Ariel Sharon.

The August 1 hearing began with a panel on what should be done to rebuild Iraq after an attack, and who the new leadership would be. The second panel, "Summing Up: National Security Perspectives," offered President Clinton's National Security Adviser Sandy Berger and Reagan's Defense Secretary Caspar Weinberger to give weight to what had already been said. Weinberger offered himself as an authority for

outrageous statements of unnamed friends and associates which he repeated; but even he suggested that he should not be a witness at a closed hearing, because he has no first-hand information. At one point, he compared the coming attack on Iraq to what was done successfully in tiny Grenada during the Reagan Administration, triggering stifled guffaws.

### The McCain-Lieberman Signature

What bureaucrat formally blocked the testimony from von Sponek, Ritter, and Arab witnesses with first-hand knowledge about Iraq, is irrelevant. The point identified by LaRouche, is that the Iraq war is the signature issue of the Lieberman-McCain assault on the U.S. Presidency, forcing the unqualified George W. Bush into an immoral, unnecessary, genocidal war. Blocking the testimony of von Sponek, and refusal to invite Ritter, is a *national scandal*, and an indication of the totalitarian control that the organized-crime-linked Lieberman-McCain duo is asserting in the Congress.

In February 2002, McCain and Lieberman led the U.S. Congressional representation in an imperial assault on the rest of the world at the 38th annual Munich International Conference on Security Policy ("Wehrkunde"), where they proclaimed the United States has the right and duty to do anything, anywhere, unilaterally, in the war against terrorism, starting with Iraq. The "Bull Moose" duo were accompanying the Defense Policy Board's Wolfowitz and Perle at the meeting. Reportedly, the Lieberman-McCain war stance overshadowed even the remarks of Deputy Secretary Wolfowitz, who is one of the most dangerous advocates of a perpetual war stance against what he referred to in a radio interview last year as "1 billion Muslims"

Senator Biden was dancing to the Lieberman-McCain tune himself by the end of the two days, after earlier posing as a reasonable "opponent" of White House unilateralism. By the end of the second day, Biden was singing the praises of White House cooperation, and saying that he could ensure passage of an Iraq war resolution as soon as one comes down the pike. Biden summed up the hearings saying: "My sense is that the President understands the political value of having a Congress with them as they take off. . . . They have told me there will be no move without a discussion with Congress and an authorization. They will get a good response if they answer some questions. But we have to lay it all out to the American people, first, including what the costs are. If we have a short, successful campaign and involve our allies, the costs could be reduced. If we can make the case that the threat is real and dire, and a free and democratic Iraq will make our lives easier, it will be worth the price."

At no time since the inauguration of George W. Bush has full-scale war been so close at hand. Only the LaRouche-led flanking operation can stop this Clash of Civilizations nightmare in the midst of an economic debacle for the Presidency.

## Sharon Slashes Budget, Wages War on Israel's Poor

by Dean Andromidas

Israel's Prime Minister Ariel Sharon has declared war on his own nation's poor, in order to finance his war against the Palestinians. On July 31, after a 13-hour debate, the Cabinet passed a budget for 2003 that calls for 8.7 billion shekels (NIS) in cuts (nearly \$2 billion), mostly from social programs. Sharon, who said the Cabinet had "showed the highest level of national responsibility," made sure that there would be no cuts in subsidies given to the Jewish settlements and settlers in the occupied territories.

The policy led to the resignation of one Cabinet minister, and the possibility that a government crisis will lead to early elections is being mooted. Some are forecasting a "social earthquake."

The cuts will hit National Insurance benefits, including an across-the-board cut in pensions, unemployment benefits, and income support. The announcement of cuts was preceded by a propaganda campaign demonizing Israel's unemployed as lazy freeloaders. Unemployment has officially reached 11%, the highest rate since the founding of the state in 1948. The situation is directly attributable to Sharon's refusal to negotiate a peace agreement with the Palestinians.

The most dramatic cuts will be in income support, which is given to those unable to work for medical reasons, or whose salaries fall way below the poverty line. Some 158,000 people, nearly 5% of the Israeli working population, receive this benefit. Ten thousand people will be cut from the rolls, and the rest will have their benefits cut by 25%. They will also have to pay municipal taxes, which they did not previously, and suffer other cuts in their benefits. One commentator wrote in the daily *Ha'aretz* on July 31, that this will "result in sending these families to look for scraps of food in refuse bins."

The government claims it wants Israelis to take jobs in the construction and agriculture sectors, which have hitherto

been dominated by foreign workers because they pay criminally low wages. For instance, Sharon recently signed orders calling for the deportation of 50,000 illegal workers—mostly Palestinians with Jordanian passports, who are staying with relatives in the Israeli Arab community. But the next day, he signed permits to allow 4,000 Thai workers to enter the country (Sharon, who owns a farm, employs only Thai workers there). Israeli television showed the slave-like conditions these Thais live in, and *Ha'aretz* called it a "slave market." The construction industry uses cheap Romanian labor. It is well known that the construction and real estate tycoons are big financial supporters of Sharon and his Likud party.

Another NIS 1 billion will be cut from education, following a NIS 550 million cut in the 2002 education budget. The cuts will eliminate 100,000 teaching hours, on top of the 20,000 cut in 2002. Teachers will be laid off, and various fees will be increased, all of which hits the poorest the hardest.

Another NIS 1.4 billion will come from cuts in all the government ministries.

### Defense and Settlements Untouched

A country of no more than 6 million, Israel has the fourth-largest military in the world, which accounts for nearly 20% of its budget. It is also subsidized by \$3 billion in U.S. military aid annually. As one Israeli military source pointed out, under the Israeli system, there is no legislative oversight of the Ministry of Defense. In most countries, the defense budget is submitted to the legislature for detailed review and approval. Not so in Israel. The Defense Ministry, in effect, simply submits a request for a total sum. In an emergency, like the current Intifada, any extra expenses are financed off-budget.

The official cut of NIS 3 billion in the defense budget is insignificant. Bank of Israel Governor David Klein had called



*Just as Ariel Sharon blew up peace talks with the Palestinians again, with his July 23 air strike on Gaza, including killing women and children in this building, he began to face internal economic disintegration in Israel itself, and the first serious resignations from his government as a result.*

for a NIS 10 billion cut in defense, telling Sharon that if he refuses to end the conflict with the Palestinians, the Israeli economy will face a collapse worse than Argentina's.

The other sector not to be cut will be the settlements, which receive billions of shekels that are virtually unaccounted for. The opposition Meretz Party has zeroed in on this fact, and issued a proposed alternative budget. Meretz Chairman Yossi Sarid said, "The government's budget is another nail in the coffin of Israel as a welfare state. Instead of a state that promotes justice and welfare for all, it is now becoming a state of profits and charity." He warned that a "social earthquake is coming."

Meretz member of Knesset (parliament) Ran Cohen detailed his party's alternative, which calls for NIS 11.9 billion in cuts, but an increase of investments of NIS 3.4 billion in human and physical infrastructure. This would include NIS 2 billion for railroad and water development projects; NIS 1.4 billion for education; and massive public housing programs to be financed by NIS 1 billion in the public housing companies' bank deposits.

The cuts that Meretz proposes would come from the following areas: eliminating 12 ministers from the bloated 30-member Cabinet. Eight of these ministers don't even have portfolios, but they do have offices, staffs, cars, and drivers that cost the government over 20 million shekels. The large number of ministers is Sharon's patronage to all the parties that joined his Likud-led coalition government. Cohen stressed, "An inflated government with 30 ministers does not have the moral right to cut anything, until it cuts itself."

## **Economy Careening Downward**

All economic indicators point to continuing collapse. Unemployment stands at 11% and is expected to reach 12% by the end of the year. Inflation is 9% and expected to reach 12-15% by the end of the year. The free fall of the shekel a few weeks ago, was stopped only after the Bank of Israel increased interest rates by an incredible 4.5 percentage points. Israel's unemployment, interest, and inflation rates are among the highest in any industrialized economy.

Gross Domestic Product per capita tumbled by 6% in 2001 and 2002, from \$17,892 in 2000, to \$17,189 in 2001, and is projected to collapse to \$16,640 by the end of 2002.

Israel's trade deficit for June alone reached \$900 million, which is based on \$2.9 billion in imports and \$2 billion in exports. By the end of the year, a deficit of at least \$4.4 billion is expected, an 18.9% increase over last year.

The hardest-hit sectors continue to be tourism and the high-tech sector. Hotel occupancy drags along at no more than 10%. Start-up of high-tech companies has virtually ceased,

while major telecommunications companies such as Comverse have announced massive layoffs.

The banking sector is suffering a tremendous increase in doubtful loans, especially in their exposure to the high-tech and hotel sectors. The amount of these problem loans is so high, that banks are unable to continue lending because they have to set aside increased capital reserves to comply with loan-loss provisions demanded by the Bank of Israel.

Tal Mahari, of Toren Insurance Agencies, which specializes in insurance for banks, told *Ha'aretz* (July 30) that certain international companies categorically refuse to insure both Israeli bank directors and the banks themselves. Those that do continue to sell insurance to Israeli banks and bankers, have raised premiums and deductibles.

## **Social Revolution Could Bring Sharon Down**

Just on the eve of the budget debate, Cabinet Minister David Levy, leader of the Geshar Party, handed Sharon his letter of resignation, citing the proposed budget cuts. Levy wrote: "The program currently being presented with your blessings expresses a lack of awareness of the depth of the hardship suffered by hundreds of thousands of families in Israel, sentencing them to abject poverty, and loss of human and civil dignity. There is not only an obvious injustice in this program, and not only insensitivity, but also a lack of foresight concerning the inescapably destructive results."

Levy, whose Geshar Party has two Knesset seats, is reputed for his opportunism and his right-wing views; nonetheless he knows that Sharon's policy is unsustainable and will

end up collapsing his government. He also knows that the big issue in the next election will not be saving the settlements, but the economic collapse.

Levy's warnings began to materialize the next day, when the Cabinet passed the budget with a slim majority of 14-12, with the ministers for both the Labor Party and the ultra-Orthodox religious Shas party voting against it. The Likud, the National Religious Party, the Center Party, and the ethnic Russian Yisrael B'Aliyah voted in favor. The Shas party was so enraged, that its spiritual leader, Rabbi Ovadia Yosef, told Israeli Radio, "We made him [Sharon]. He is ungrateful and has no path. Those who made him Prime Minister will make him chief of the garbage pails."

The vote has sparked debate over possible early elections. Histadrut labor federation head Amir Peretz, a Knesset member, blasted "these kinds of austerity measures," telling Israeli Radio, "The time has come to hold early elections."

Despite the loud noise being made by both Shas and the Labor Party about the budget, Sharon's government will not fall before November, since the Knesset does not debate the

budget until they return in October. Furthermore, Labor Party Chairman and Defense Minister Benjamin Ben-Eliezer, who has been rubber-stamping Sharon's most brutal security policies, said that he will not pull Labor out of the government before his party holds its leadership convention in November.

The biggest reason why the government will not fall before November, is the upcoming war against Iraq. Sharon, as well as Ben-Eliezer and Labor Party Foreign Minister Shimon Peres, are committed to participating in it. Even if the government were to fall in November, Sharon would remain the head of a caretaker government during the three months allotted to electioneering.

The only hope in the next elections could come from attempts under way to form a new social democratic party. Meretz, along with the ethnic Russian Democratic Choice Party and a faction of the Labor Party led by Yossi Beilin, recently held discussions to establish such a party. They are expected to call for a national convention in the next months. With the demise of the Labor Party, such a party could become the second largest party in Israel.

## The Cease-Fire Sharon Bombed

Instead of mass funerals for six-month-old Palestinian babies, American students studying at Hebrew University, and Israeli housewives, there could be peace negotiations under way. On July 23, a hard-fought month of initiatives for a cease-fire, by the European Union, Russia, and the United Nations, was drowned in blood, when Israeli Prime Minister Ariel Sharon's aerial bombing of a block of apartment buildings in the Gaza strip killed 17 people, including four infants and seven small children, and wounded more than 150 others. The ostensible purpose of the bombing was to kill a Hamas commander, Salah Shehadeh.

Hamas's inevitable revenge terrorist attack, laid at Sharon's door in advance by leading Israelis still pushing for peace, came on July 31 at Hebrew University. It killed five American citizens and two Israelis, wounding at least 97 others. Just ten days earlier, Hamas had been—according to its spiritual leader, Sheikh Ahmed Yassin—ready to negotiate a Fatah-proposed cease-fire and end of terrorist attacks. This had been widely reported in Israeli newspapers.

It is no secret that Hamas has been built up by Ariel Sharon. Radicals in Sharon's cabinet who want to assassinate Arafat, say that they *want* Hamas in power in Palestine. By the July 23 Gaza bombing, Sharon prevented the

organization from ceasing terrorism.

This week, Labor Party Knesset member Haim Ramon, Chairman of the Defense and Foreign Policy Committee, submitted into the Knesset record the proposal for a unilateral cease-fire by the Tanzim Palestinian militia of Fatah, received before the Gaza bombing. It said that Israel "must cease strangling our cities, killing our youths, taking our land for your settlements, ripping up our orchards, humiliating our women and children, detaining our young men in your squalid camps and demonizing those we choose to lead us. . . . Your occupation is illegitimate and we will resist it—your soldiers are occupiers and will be treated as such." But "Whether you stop these practices, or not, we will not shift our declaration. The rivers of blood that have so embittered our peoples will be stanchd. The suicide bombings will be brought to an end. By us. Now."

The statement warned Israelis "there are those in our society who will attempt to undermine and deter our efforts." And pointing directly to Sharon: "So too, there are those in your society and even at the very top of your government who may attempt to provoke us. They will try to underestimate this declaration. . . . These people are our enemies, they must also be yours. They are the enemies of peace."

After the Hebrew University massacre clearly resulting from Sharon's 2,000-pound bomb escalation, his cohorts in the "Wolfowitz cabal" inside the Bush Administration are clamoring for the United States to wipe out Yasser Arafat and the Palestinian Authority.

—Michele Steinberg



# New Alliances Form in Britain Against Planned War on Iraq

by Mark Burdman

It is certainly unprecedented, in the last two decades of British politics, that leading figures of the Labour Party left wing who usually oppose foreign military actions of the British government, should publicly praise the views of a former Chief of the Imperial Defense Staff, who served under Prime Minister Margaret Thatcher. Exactly that is now happening. The usual “left-right” alignments are being turned upside down, as opposition to British participation in the planned American-led war against Iraq spreads through higher echelons of the British military, religious, and political establishment.

There is no doubt, that British Prime Minister Tony Blair is personally committed to this war, and that his government has already set in motion, the basics of British participation in this war, including redeploying British forces previously stationed in Afghanistan and in the Balkans, into Near East and Gulf regions relevant to a massive attack on Iraq. The July 28 London *Observer*, a paper close to the ruling Labour Party, ran a front-page article, asserting that Blair and President George W. Bush have privately come to agreement on British participation in the war, even if the specific invasion plans have yet to be pinned down.

But the closer the moment comes to the outbreak of this war, various forces in Britain are set into motion against it. In many cases, these are people who, from an informed historical standpoint, know that an invasion of Iraq can only end in calamity.

## ‘What the Bloody Hell Do We Do When We Get There?’

On July 29, Field Marshal Lord Bramall, who was Chief of the Imperial Defense Staff from 1982-85, wrote a letter to the London *Times*, calling into question the wisdom of the coming war. Bramall warned that an invasion of Iraq could well “make things infinitely worse. Petrol rather than water would have been poured on the flames, and al-Qaeda would have gained more recruits.”

He went on: “America, with all the power at its disposal, and with no other superpower to gainsay it, can presumably and eventually achieve any military objective it wishes. I cannot help, however, but be reminded of that remark by a notably ‘hawkish’ General (later Field Marshal) Gerald Templar who,

when, during the Suez crisis (1956), Britain was planning a massive invasion of Egypt, through Alexandria, said something to the effect of: ‘Of course we can get to Cairo, but what I want to know is, what the bloody hell do we do when we get there?’ ”

Bramall’s letter was praised by Tam Dalyell, 70, the longest-standing member of the House of Commons (he is known as Father of the House). Speaking on July 29, Dalyell urged Blair to heed Bramall’s advice, adding, “Is it contemplated, occupying a resentful Iraq—and having been there in 1994 and 1998, I think it will be resentful—for my expected lifetime, and possibly yours?” Dalyell has been the most outspoken opponent in the House of Commons against a war against Iraq.

Bramall’s intervention was complemented by Sir Michael Rose, former commander of United Nations forces in Bosnia. General Rose was justifiably attacked by *EIR*, during the 1990s, for his role in overseeing the brutal Anglo-American policies in Bosnia in the years prior to the 1999 Kosovo war. But on the subject of Iraq, Rose has drawn the right conclusions. He is typical of that type of British military figure, whom Lyndon LaRouche, in a July 27 interview, characterized as those “senior crocodiles,” whose opposition to the Iraq war is becoming an important factor, in potentially impeding the momentum toward war.

Rose wrote an article for the July 29 *Evening Standard*, with the headline, “The Madness of Going To War With Iraq,” in which he stated, “There are huge political and military risks associated with launching large-scale ground forces into Iraq.”

On May 25, Rose had penned a commentary for the *Times*, warning that an invasion of Iraq would be an “enormous and terrible strategic blunder,” the which “would equate in terms of folly with Germany’s decision to attack Russia during the Second World War. . . . The risks and potentially negative consequences far outweigh any possible benefits.”

Of great importance, respecting British military figures’ resistance to this war, was the decision by the British Ministry of Defense, to announce during the week of July 22, much earlier than usual, that Chief of the Imperial Defense Staff Sir Michael Boyce is being replaced, and Boyce is to retire in the coming months. According to intelligence leaks, Boyce has

been opposed, behind the scenes, to the war, and has been skeptical of Pentagon claims about Saddam Hussein's links with al-Qaeda, and his alleged stockpiling of weapons of mass destruction. Boyce has reportedly criticized some American commanders for acting like a "20th-Century posse"; has expressed discontent over the conduct of the campaign in Afghanistan; and has been in conflict with the media team at Blair's 10 Downing Street, for replacing factual discussion of military-strategic realities with "spin."

According to a well-informed British strategist with access to many sources in the Ministry of Defense, the views expressed by Bramall, Rose, and Boyce are shared by one-half of the active and retired British military. The other half are toeing the Blair government line, and are moving into place those British units and capabilities that would be involved in an Iraq invasion.

### A New View From the Church of England

On the religious front, the key development is, the new Archbishop of Canterbury, Rev. Rowan Williams, upon being officially named to his post, immediately distanced himself from the "Blair line" on Iraq, saying he would support no military action that was not first backed by the United Nations. This is a departure from the war-loyal views of the previous Church head, Dr. George Carey.

Earlier, while his announcement to the post was still pending, Williams had signed a petition, together with leading Anglicans and Catholics, which appeared in a Catholic publication, strongly protesting a war with Iraq. A number of prominent Christian organizations in the U.K., such as Pax Christi and the Church of Scotland's Church and Nation Division, have signed on to such protests.

On July 29, Blair held a private meeting with Williams, details of which were not divulged.

### 'Never So Incoherent'

Approximately 160 British parliamentarians have signed on to a motion, introduced some months ago, calling into question British participation in a war against Iraq. The most active among these, such as Tam Dalyell and his Labour colleague Alice Mahon, are demanding that the Parliament, which formally recessed on July 25 and which is not scheduled to reconvene until October, immediately be recalled, for extended debate, should the government be considering bringing Britain into the Iraq war. Dalyell and Mahon have stated publicly, that their initiative is, in significant part, motivated by the July 16 briefing to the House of Commons by former leading United Nations weapons inspector in Iraq Scott Ritter, challenging the Anglo-American claim that Iraq possesses weapons of mass destruction (see last week's *EIR*).

Three times during the week of July 22—once before a British Labour Party parliamentarians' meeting, once during a House of Commons debate, and then at a press conference—Blair was peppered with questions about British intent toward



*British Prime Minister Tony Blair, promiser of the famous "dossier" on Iraq and weapons of mass destruction which has never appeared, faces a great deal of British opposition to his desire to put a British spearpoint on an American shaft to attack Iraq.*

Iraq. He was evasive, at times incoherent. At one point, he said discussion would only become necessary "when" a decision was made that war against Iraq would be necessary. This caused such an outcry, that 10 Downing Street immediately issued a clarification, saying that the Prime Minister had misspoken, and had intended to say "if," not "when"! At the same time, he has made clear, in a number of interviews and leaks from Downing Street, that he fully intends to join with the United States, in this war.

On July 31, senior *Times* commentator Simon Jenkins denounced the Blair policy respecting Iraq. "I cannot recall a time when British policy toward a troubled part of the world was so incoherent," he wrote, adding that the situation in Britain was "becoming surreal," as the likelihood of British involvement in the Iraq war was growing, although "soldiers do not want a war. Diplomats do not want a war. Politicians do not want a war."

Jenkins characterized Blair's behavior in the following terms: "When Tony Blair was asked at a press conference last week about an early attack on Iraq, his body language went absent without leave. His cheek muscles twitched, his eyes darted, and he reached beneath his desk for help. Was he seeking a panic button or a White House messenger? The answer was worse. He raised a comfort mug to hide his lips and took a large caffeine hit. He stumbled out a 'no comment.' . . .

"Mr. Blair is like an East European leader in the Soviet era, forced to support anything Moscow does without knowing what it is."

A City of London source commented to *EIR* July 30: "Blair is a weak man, and precisely because he is weak, he will join with the U.S. in this war. But the result will be, his government will be wrecked. There will be a massive revolt within his own party, and that will bring his government down, probably sooner rather than later."

# Ukraine Searches for Its Lost Dignity

by Taras Teliha

The draft 2003 budget for Ukraine, submitted to the Supreme Rada (parliament) by the government in June, has the usual components: sources of revenue, and categories of spending—science, culture, education, health care, social protection, and defense. The catch is that the whole country knows beforehand that this budget will most likely not be implemented, just like this year's, and last year's, and the budgets before them. Science, health care, and culture will remain on starvation rations.

If, by some miracle, this budget were actually to be implemented, the level of budget spending per citizen of Ukraine in 2003 would be approximately \$200. Even Russia and Kazakhstan, which have comparable economic situations, surpass Ukraine in this regard, with \$500 and \$280 per-capita budget spending, respectively. All basic economic parameters in Ukraine—such as the minimum and the average monthly wage (\$28 and \$70), the official subsistence minimum (\$75 per month: higher than the average wage!), and the minimum and maximum pension (\$14 and \$28)—directly or indirectly depend on the size of the budget.

Among Ukraine's near neighbors, Poland last year had GDP per-capita equivalent of \$4,150. In Russia it was \$1,800; Romania, \$1,650; Hungary, \$5,600; the Czech Republic, \$5,400; but only \$627 in Ukraine, according to the Razumkov Research Center.

Considering that prices for most goods and services in Ukraine are comparable with world and European prices, one wonders why life in the country has not come to a halt; and how Ukrainians manage not only not to die from hunger, but to ride through the streets of the ancient and beautiful capital city of Kiev, vacation at the best resorts in the world, buy villas and country houses in France, Spain, Cyprus, and the Canary Islands, and win or lose thousands of dollars in a single night at the casino, at home or abroad.

Of course, only the tiniest minority does these things. They made their fortune during the so-called reforms, which featured the Argentine-Russian brand of "shock therapy," prescribed by the International Monetary Fund (IMF) and World Bank, and implemented by advisers from those institutions coordinating homegrown specialists. By some coincidence, these were the people who got in on the privatization bonanza in Ukraine.

## The Sleep of Reason

What is happening with Ukraine? How did this major European country of 50 million people, blessed with an ideal climate, fertile soil, advanced industry, hard-working people and long-standing humanist traditions, end up in the abyss of an acute systemic crisis, which has mercilessly swallowed every part of life? The answer to this and related questions is as complex as it is simple.

Ukraine may serve as an exhibit, to demonstrate what happens when the central principle of a nation-state's existence is violated. The destruction of the Ukrainian economy, which brought with it the loss of true independence, is partly rooted in the depths of history, but other of its causes are visible right on the surface. In Ukraine, the majority of the institutions of power are, in effect, opposed to the survival of the nation-state. Constant betrayal of the national interest and trampling on the Ukrainian Constitution have become, during the past ten years of formal independence, the characteristic behavior of the authorities at all levels, from the provinces to the capital.

In place of a system of checks and balances among the legislative, executive, and judicial branches of power, Ukraine suffers a semi-criminal battle among clans, who get what they need by ceaselessly looting state property. Instead of a well-conceived development strategy, it has ad hoc decisions, and actions by the authorities often resemble an attempt to put out a forest fire with a few spoonfuls of water.

The sleep of reason certainly gives rise to a theater of the absurd. The authorities acknowledge that the illegal, or "shadow" sector of the Ukrainian economy comprises over one-half of the whole. Estimates developed by independent analysts suggest a higher figure, terribly higher: from two-thirds to three-fourths of the production of goods and, especially, services in Ukraine is deep in the "shadows." Hundreds of thousands are working abroad (chiefly in Russia, the Czech Republic, Poland, Italy, Portugal, and Germany). These people, many of them formerly employed as skilled workers in Ukraine, now live in miserable conditions in other countries, toiling under arduous and often illegal conditions, for monthly wages of \$200-400. Tens of thousands of Ukrainian women, even college graduates, have been recruited, lured, or kidnapped by international prostitution rings.

Despite measures adopted or attempted so far (monitoring of bank accounts, frequent large-scale investigations by the tax authorities, etc.), the implementation of the state budget has not only not improved, but constantly confronts the government with new problems. Capital continues to flee abroad, while investment in the Ukrainian economy is practically at a standstill.

As in Russia, money invested in Ukraine goes almost exclusively into sectors that can yield a quick profit, but which are difficult for the government to regulate. In the



*Ukrainian President Leonid Kuchma (right) with NATO chief Lord George Robertson. Despite relations with NATO, Kuchma is presiding over the worst poverty and unemployment in Eastern Europe; he may seek a third term even though his coalition got only 12% in March parliamentary elections.*

relatively successful candy, tobacco, alcohol, and fuel-refining industries, the funds invested from abroad (foreigners often own a controlling share of companies in these sectors) and by Ukrainian oligarchs, multiplied by cheap labor power, make miracles of a certain sort. Meanwhile, the pride of Ukraine—its mining, steel, machine-tool, and industrial machinery industries—remain in a pitiful slump. The condition of the country's infrastructure is grievous.

The oil refining industry in Ukraine has recently passed into the hands of major Russian oil companies, like LukOIL and the Tymen Oil Company (TNK). These shifts in ownership were followed by a steep hike in gasoline prices in Ukraine, in the range of 15-40%. The pumps are mostly Russian-owned.

Next, the Ukrainian government intends to hand the natural gas pipeline and storage network to a future consortium, which preliminary reports indicate will be formed by the major natural gas companies of Europe, plus, of course, Russia's Gazprom. In and of itself, the idea of international cooperation in an industry of strategic importance for Ukraine, is an attractive one, but only if it were implemented on the basis of equality among all the participants. Ukraine's experience in recent years ought to dictate a cautious approach to each such major project.

Suffice it to recall that the Chernobyl nuclear power plant was closed in exchange for a promise of credits, to be issued by Europe for completing units at the Rivnen and Khmel'nitsky nuclear power plants. But, Ukraine did not receive the promised credits. There was the lavishly advertised, but never implemented project to ship Caspian Sea

oil to Europe through a pipeline on the Odessa-Lviv-Broda route. Obviously, political factors came into play, as well as conjunctural economic ones.

### **'The Slaughter of the Innocents'**

Are those at the helm of the Ukrainian state merely incompetent people, who don't know where they are going and where they are leading the Ukrainian people? That would be a naive conclusion. With few exceptions, those in power are well aware of their own inadequacies as national leaders charged with protecting the general welfare. The cynicism they express in public is striking. In the Supreme Rada elected this past March, for example, many of the deputies who are organizing the "pro-Presidential" parliamentary grouping to back President Leonid Kuchma, openly state that they see the main function of a parliamentarian to be—lobbying for laws which benefit certain big companies. The pro-Kuchma slate got only 11.8% of the vote, but cobbled together the largest parliamentary group, using strong-arm tactics to recruit independent MPs. Officially named "For a United Ukraine," it has come to be called by a form of its Ukrainian acronym: *Za YedU*, which also translates as "For Feed"!

In recent years, especially during Kuchma's term in office since 1994, a new generation of political mutants has emerged. They have no concept of honor, conscience, national pride, or even an elementary sense of human dignity. One can expose them in broad daylight for abuses, publicly insult them, practically spit in their faces, but they won't react. They fear only one thing: being removed from the levers of distributing the national wealth; losing their place in the

corruption-riddled system of power. If somebody refuses to play by these unnatural rules, this system immediately rejects him, resorting even to criminal methods.

A whole sequence of mysterious deaths or outright murders of prominent Ukrainian politicians and journalists bears witness to this practice. Events like the murder of former National Bank chief Vadim Getman, the death of opposition leader Vyacheslav Chornovil in a suspicious automobile accident, and the kidnapping and likely murder of the online newspaper editor Georgi Gongadze, made many people long terribly for Ukraine to become a law-based state.

Instead, the current system of power in Ukraine rests on the politically false and morally ruinous sowing of fear and suspicion throughout society. The practices of collecting dirt on each and all, of hirings and firings from government office without any reasonable explanation, and of constant official lying, demoralize the public.

### **A New Wave?**

Where are the real leaders, the steadfast men of state who could guide Ukraine out of its economic and moral collapse? Must they, as in the legends of Ancient Rus, be invited to come from abroad?

Many ordinary Ukrainians have pinned their hopes on former Central Bank head and former Prime Minister Victor Yushchenko, whose "Our Ukraine" bloc received 24%, the highest vote in the March 2002 elections. Steering clear of political brawls in public, Yushchenko has cultivated the reputation of an honest and upstanding person. Recently he issued draft principles for cooperation among leading groups in the Supreme Rada, based on "democracy," "transparency," "rule of law," and "civil society." Notably absent from Yushchenko's program, however, is any economic policy of substance. He remains a candidate favored by financial and political establishment circles in the West, who argue that Yushchenko would "play by the rules" of accepted conduct.

In the setting of the international financial crash, naturally, such standards become meaningless.

To date, the main principle of power in Ukraine remains the political annihilation of one's opponents. During the eight years of Kuchma's Presidency, these techniques have been honed to perfection. Politicians who made the slightest splash (take Socialist Party leader Alexander Moroz, for example) were ostracized and pushed away to a safe distance. All means were used: intrigues, provocations, intimidation, slanders, and even carefully masked murders, as in the case of Vyacheslav Chornovil.

When Kuchma appointed Yushchenko Prime Minister at the end of 1999, the purpose was evidently to soothe the public, after the high level of scandals during the Presidential elections, but, at the same time, also to discredit Yushchenko in the eyes of the public by putting him in a position of responsibility. When Yushchenko and Vice Premier Yuliya Ty-

moshenko (herself a big wheel in the energy business sector) appeared to be too successful, particularly in settling Ukraine's disputed debts to Russia for natural gas, he was fired, and Tymoshenko jailed on tax evasion and other charges.

As potential Presidential candidates, Yushchenko remains atop the polls and Tymoshenko has outstripped Communist Party leader Petro Symonenko. Over two years remain before the next Presidential elections. Other possible candidates are the leaders of opposition parties, as well as three individuals from the "party of power": the new Speaker of the Supreme Rada, former chief of the Presidential staff Volodymyr Lytvyn; former Vice Speaker and now chief of the Presidential staff Victor Medvedchuk; and Kuchma himself. Many analysts consider it likely that there will be attempts to secure a third term for Kuchma, despite what the Constitution says.

The other most influential figures on the Ukrainian political scene continue to be Alexander Moroz, leader of the Socialists (his party received around 7% in the elections); and Natalia Vitrenko, chairman of the Progressive Socialist Party, which with 3.5% of the vote did not pass the 5% barrier to become an official parliamentary group this time. As a strong and charismatic leader, Vitrenko has her own electoral base. Currently, she is trying to get into the Supreme Rada in a by-election. For the moment, however, the deck is stacked against Moroz or Vitrenko becoming President.

### **Looking to the Future**

The situation in Ukraine after the Spring parliamentary elections remains tense. The "pro-Presidential" grouping is artificial, and is already fragmenting in the course of battle over political prizes. The clans have regrouped, and are fighting for pieces of the pie.

But Ukraine's real circumstances would dictate the need for speedy, decisive action. A change in national economic policy is urgent. Ukraine will likely get nothing from the IMF, which is just as well, but there are still old debts to be serviced. Virtually every area of public life needs to be reformed.

There exists every basis for Ukraine to create a strong, truly independent nation-state. Life does go on, and a few aspects of national life do change. The country's first modern highway is under construction, from the Polish border to Kiev. Other major infrastructure projects, such as the above-mentioned natural gas pipeline consortium, are being studied.

There are many pathways to international authority and dignity, which have been lost in the atmosphere of violence and fear that grew up in the short time since Ukraine achieved formal independence, just ten years ago this Summer. In order to find them, the Ukrainian people need the right to determine their own destiny. That right remains to be won.

# Insane Reports Blame U.S. Economy on—China

by Mary Burdman

Within a few days of each other in mid-July, the Pentagon and the “U.S.-China Security Review Commission” issued two ponderous reports on China, both variations on the Clash of Civilizations doctrine now driving Washington policymaking. The reports are dangerous miscalculations, whose implications were certainly not lost on policymakers in China, Russia, or Europe.

While right now, political and military attacks on Muslim nations are at the forefront of the strategy of the U.S. “utopian” planners, there is a broader reach of the policy for which Harvard Prof. Samuel Huntington is most notorious. The Clash of Civilizations formula also attacks “Confucian” cultures—i.e., China—as an inherent threat to the very survival of “the West.” Huntington—whose ideas have gained influence since Sept. 11, 2001—wrote, insanely, that the “economic development of China and other Asian societies,” and “population growth in Muslim countries,” *in and of themselves*, are “having, and will continue to have into the 21st Century, a highly destabilizing effect on global politics.”

In reality, the “destabilizing effect” is coming from the ongoing financial crash, the outcome of decades of the “Washington Consensus”—the post-industrial regime.

These two reports—issued at a critical time of political change in China—are breathtaking in their dying-empire arrogance. As the Review Commission’s Vice-Chairman, self-proclaimed “universal fascist” Michael Ledeen, intoned darkly while presenting the report July 15: “China . . . could well become the dominant national security issue for this country in the very near future.”

## ‘Self-Fulfilling Paranoia’

William A. Reinsch, the sole dissenter on the Commission, stated in his separate view that the report “attempts to blame China for virtually every economic problem the U.S. has,” and is an exercise in self-fulfilling paranoia. The economic/financial measures it demands, will only strangle the U.S. supply of capital and consumer imports, “at a particularly critical time for our economy.” Reinsch had been Undersecretary of Commerce in the Clinton Administration, which had, under the leadership of the late Commerce Secretary Ron Brown, advocated a policy of state-to-state economic initiatives between the United States and China, and other nations.

These two reports—the official Secretary of Defense’s “Annual Report on the Military Power of the People’s Repub-

lic of China,” and the first-ever “Report to Congress of the U.S.-China Security Review Commission”—score a direct hit against vital American interests. This is hardly surprising, considering their pedigree. The whole Clash of Civilizations fraud is nothing more than a popularized version of “geopolitics” given a “religious/cultural” rinse. Geopolitics, it should be remembered, was launched at the end of the 19th Century by British imperialist Halford Mackinder, to motivate the “maritime powers” (the British Empire and United States) to gain control of the “Eurasian heartland,” as the alleged way to control the world. Mackinder’s writings were adopted by the German geopolitician Karl Haushofer, who helped to write Adolf Hitler’s *Mein Kampf*; geopolitics was also policy of the 1930s-40s fascist-militarist regime in Japan. One influence on Huntington was the 19th-Century U.S. Mackinderite, Adm. Alfred Thayer Mahan, who proclaimed China to be the United States’ main strategic enemy.

Both reports unabashedly proclaim that China is *inherently* an opponent to the United States. The Pentagon report goes so far as to assert that China’s “grand strategy,” based on peace and development, non-use of force against other nations, and other such ideas, is itself a grand deception! Such “principled themes,” the Pentagon wrote, “should not obscure the ambitious nature of China’s national development program and the nature of China’s approach to the use of force, which is contingent, rather than inherently passive or defensive, as Chinese commentators often vigorously assert. In particular, Beijing *probably* calculates that ambiguity in international discourse helps to buy China time in developing its national power” (emphasis added).

## Military History

China has indeed been striving, especially since the George H.W. Bush Administration’s 1991 war against Iraq, to modernize its military capabilities. There is also, among certain younger-generation military circles, a fascination with “high-tech warfare,” and, indeed, the whole “high-tech economy.” This could lead to a tendency to overestimate China’s own military capabilities, just as their focus on the now-crashing, non-productive “new economy” is only hindering China’s real economic development.

But an assessment like the Pentagon’s ignores both the reality of China’s economic and military development, and its recent military history. China spent much of the 20th Century in conflict, including the gruesome 15-year war against the invasion by militarist Japan. Chinese losses in that war were some *30 million* people, amidst massive economic destruction. After five more years of civil war, the Korean War broke out. The Chinese saw the American forces’ approach to the Korean border in Autumn 1950 as a threat to their industrial Northeast, and entered that conflict, in which China lost another 450-500,000 veterans. In China’s 1962 conflict with India, over a disputed British-colonial border, it did not display expansionism: Chinese forces defeated the Indian



*The latest report out of Secretary Donald Rumsfeld's Pentagon is an incendiary attempt to define China as America's permanent, "inherent" enemy; it's signed by "permanent war" faction leader, Deputy Defense Secretary Paul Wolfowitz, and represents a serious strategic miscalculation for the United States.*

army in the Himalayas, but then unilaterally declared a ceasefire, and China withdrew behind its claimed border, ending hostilities.

Xie Feng, spokesman of the Chinese Embassy in Washington, noted at a news conference on July 22, that the map of China today is very similar to that during the Han dynasty, 2,000 years ago—not the sign of an expansionist culture. "China," Xie said, "has a history of peace-loving. If you have studied Chinese culture, you will find that the essence of Chinese philosophy lies in peace and harmony." The country's leaders repeat that it must have decades of peace, in order to achieve economic construction. Deng Xiaoping said in June 1990, that stability "is of overwhelming importance for China," and that the country's stability is vital for the whole world. If China is in chaos, "Who could stop it?" he asked.

Despite real economic progress since then, the global economic crisis is having serious repercussions on China's economy. The task of bringing 1.27 billion people, of whom 800 million still live in the countryside, into a developed, urban economy, is staggering—a crucial factor which the United States should consider in its strategic assessments.

The Pentagon's minutely detailed report of Chinese military acquisitions might be technically accurate, but the overall assessment of China's national strategy—full of "coulds" and

"apparently," is bent. The report's professed ideology is that China is the United States' potential rival, and every evaluation is twisted to that view.

The September 2001 Quadrennial Defense Review, reflecting the same Clash of Civilizations faction, baldly states that Pentagon policy is to assess who America's enemies are, simply on the *capability* of any nation to "attack" the United States (see box). Genuine national interests are of no import; any nation can be a potential enemy. In such a world view, a nation's assertion that "peace and development" are its national priorities, can be dismissed as "strategic denial and deception."

### **China's Economic Reality**

The real "strategic denial" is this powerful faction's misassessment of the financial and economic reality of the United States and the rest of the world. Therefore, it is also willfully blinded to the real development challenges China faces. The Pentagon assessment is based on the assumption that there are no obstacles to China's rapid militarization. Beijing, however, is not so blind to its own economic reality.

Defense analysts outside the United States emphasize that while China is acquiring new weapons, especially from Russia, the application is "very limited" to a few new systems in some areas. The challenges of education, training, and maintenance, in dealing with absolutely new weapons, is very great for China.

The Pentagon report is also unbalanced in its fixation on China's "threat" to Taiwan. This question is a key issue in domestic U.S. politics, as it has been from the era of the Truman-McCarthy lunacy. Washington's assumption is that China will focus all its new military capabilities on Taiwan, and it therefore greatly exaggerates the impact of the new systems. Neither Beijing nor Taipei has any interest in military conflict; their relations have been developing along economic lines, especially since the crash of the high-tech bubble has shrunk the U.S. market for Taiwan. The real damage to cross-strait relations, was done by the "two states" provocations of former Taiwan President Lee Teng-hui in 1999.

Prof. Ellis Joffe of Jerusalem's Hebrew University wrote in the *International Herald Tribune* on July 16, "There is no way the [Chinese People's Liberation] Army will soon be able to reach a level of war-fighting proficiency that will qualify China as a military superpower." For China's leaders, "it makes no sense, therefore, to accelerate large-scale military modernization for the sake of unattainable global ambitions at the expense of economic development and at the risk of social instability." China is well aware, that it cannot "dislodge America from the [Asia-Pacific] region, and there is no indication that military preparations are in any way directed toward that objective."

Meanwhile, it is the United States and its "anti-terror" coalition, that has expanded its military presence into Central Asia and Southeast Asia.

## Sour Grapes

The “U.S.-China Security Review Commission” was set up to look at the “national security implications of the economic relationship between the United States and China”—an anxiety growing daily as the dollar and stock markets spiral down, and the U.S. trade deficit soars to “new historic highs” every month.

The U.S. relationship with China “can cause significant economic and security problems for our country,” the commission complains. It has especially sour grapes about the ever-soaring U.S. trade deficit with China—which results directly from the addiction of the American “consumer economy” to low-cost imports of textiles, food, and electronic items for its very survival.

There are other gripes. Under the thinking prevailing during the “roaring 1990s,” U.S. promotion of a “free-market economy” was supposed to lead to more U.S. influence on China’s political policies, the report whines. Now, it is becoming clear even to this crew, that “the burgeoning trade deficit with China will worsen despite China’s entry into the World Trade Organization (WTO).” Now, “many leading experts” are calling the “policy of engagement . . . a mistake.” China has not been brought sufficiently to heel. The commissioners are incensed that Chinese leaders stress that they

“have no desire to repeat in China the political and economic collapse that took place in the former Soviet Union.”

This is most aggravating. The “mad eminence” of the Clash of Civilizations, former U.S. National Security Adviser Zbigniew Brzezinski, wrote in his 1999 book *The Grand Chessboard*: “The defeat and collapse of the Soviet Union was the final step in the rapid ascendance of a Western Hemispheric power, the United States, as the sole and, indeed, the first truly global power. . . . For America” after the Cold War, “the chief prize is Eurasia.” China is supposed to fall next.

But the crux of the matter is U.S. economic vulnerability. “We are China’s largest export market and a key investor in its economy. . . . The U.S. trade deficit with China has grown at a furious pace—from \$11.5 billion in 1990 to \$85 billion in 2000. The U.S. trade deficit with China is not only our largest deficit in absolute terms but also the most unbalanced trading relationship the U.S. maintains,” complains the Review Commission. As if to avenge this, the Commission demands—at a time when foreign capital is fleeing the shaky U.S. markets—that Washington “implement economic and other sanctions against offending countries, including quantitative and qualitative export and import restrictions, restricting access to U.S. capital markets.”

The commissioners would seem suicidal. On July 30,

## Review Reflects Brzezinski Lunacy

The foreword to the U.S. Defense Department “Quadrennial Defense Review Report” of Sept. 30, 2001, in which Defense Secretary Donald Rumsfeld declared the United States at war, expressed the impact of the attacks on Sept. 11. But the policies in the Review, formulated before Sept. 11, cohere with the post-Sept. 11 actions of the U.S. government.

Rumsfeld wrote before Sept. 11, “The senior leaders of the Defense Department set out to establish a new strategy for America’s defense . . . deploying forward”—a term that goes back to the old “forward school” of the British Empire. The Quadrennial Review states that U.S. strategy must be “peacetime forward deterrence in critical areas of the world” and “enhancing the future capability of forward deployed and stationed forces,” with “information assets.” The Defense Department’s “new planning construct” calls for maintaining regionally tailored forces forward stationed and deployed in Europe, Northeast Asia, the East Asian littoral, and the Middle East/Southwest Asia. These forces will be “tailored increasingly to main-

tain favorable regional balances in concert with U.S. allies and friends.” The Pentagon intends to “develop a basing system that provides greater flexibility for U.S. forces in critical areas of the world . . . beyond Western Europe and Northeast Asia.” This makes the bases in Central and South Asia, for example, established during the war on Afghanistan, look quite permanent.

The Review directly expressed Zbigniew Brzezinski’s “Arc of Crisis” lunacy, 25 years later: “Asia is gradually emerging as a region susceptible to large-scale military competition. Along a broad arc of instability that stretches from the Middle East to Northeast Asia, the region contains a volatile mix of rising and declining regional powers.” Coyly declining, then, to mention China, the Review’s authors still made clear who their target was: “Maintaining a stable balance in Asia will be a complex task. The possibility exists that a military competitor with a formidable resource base will emerge in the region.”

The United States was presented as a hyperpower, whose interests encompass securing not only the U.S. “homeland,” but also “precluding hostile domination of critical areas, particularly Europe, Northeast Asia, the Middle East, and the East Asian littoral” (the last modestly defined as “the region stretching from south of Japan through Australia and into the Bay of Bengal” i.e., China, all of Southeast Asia, Australia, and eastern South Asia).



China reported that it has now, after Japan, become the second-biggest holder of U.S. securities, at \$82 billion worth. Hong Kong and Taiwan also both have substantial amounts of U.S. securities.

As Reinsch wryly notes, the report's negative approach "adds to the level of paranoia about China in this country, and contains recommendations that could make that paranoia a self-fulfilling prophecy. . . . It is ironic that the report implicitly criticizes the Chinese for viewing the U.S. as a hegemon, at the same time it presents a view of U.S. interests in Asia that can only be described as hegemonic." The report, Reinsch writes, "ignor[es] the fact our manufacturing base has been eroding; the trade deficit has been growing; and the dollar has been too strong for a long time for reasons that have little to do with China. . . . [A]dded disclosure requirements will politicize and thereby destabilize the capital markets, and by extension, the dollar, and encourage capital flight at a particularly critical time for our economy."

### **Eurasian Bugaboos**

The Secretary of Defense's report is no better. It begins by cautioning "how little is known about the most significant aspects of Chinese military power." It recognizes that China wants to maintain national unity, stability, and sovereignty, and employs strategic and military thinking dating back millennia in its history. It is these very elements, however, which the Pentagon disparages as "deceptive."

However, there is much assertion from the Defense Department side, primarily on levels of Chinese defense spending. It expresses "concern" that in March 2002, China had increased its \$20 billion defense budget by 17.6%—a total of \$3 billion. Per capita, Chinese defense spending is among the lowest in the world. However, the Pentagon claimed "actual military spending . . . could total \$65 billion," and could increase three- to fourfold by 2020. All these "coulds," *could* then make China "the second-largest defense spender in the world after the United States and the largest defense spender in Asia."

By contrast, the Bush Administration in February demanded and got a 15%, or \$48 billion hike in defense spending—the biggest in 20 years—to a total of \$379 billion for fiscal 2003. In March, the White House demanded an additional \$14 billion "supplement" for 2002.

The Review also ignores Japan, which, despite its "self-defense" status and inclusion under the U.S. nuclear umbrella, spends over \$50 billion a year on defense. Japan maintains the largest surface Navy in the world, and has been under unrelenting pressure from the U.S. side to renounce its "peace" constitution and support U.S. military efforts throughout Asia.

Exercising "self-fulfilling paranoia" to the full, the Pentagon report then exclaims that "Beijing apparently believes that the United States poses a significant long-term challenge," seeking geostrategic dominance and wishing to con-

tain, divide, and Westernize China, and prevent a resurgence of Russian power. These would not be odd conclusions for any observer of the current Washington scene to reach.

### **China and Russia**

The primary bugaboo, however, is defense cooperation between China and Russia and other nations of the "former Soviet Union," especially in advanced technologies and space programs. Any consolidation of Eurasian defense cooperation, is to be prevented in any way possible.

The Pentagon Review warns that "China's force modernization program is heavily reliant upon assistance from Russia and other states of the former Soviet Union. . . . Russian arms sales and technical assistance to China accelerate Beijing's force modernization, and likely will have a significant impact on its ability to use military force." Despite admitting that "China will probably require many years of training and doctrinal development to reap the full benefit of the equipment purchased thus far," this "robust" defense and security relationship—which also supports Russian research and development—is highly objectionable to the hegemon of Washington.

This latest barrage of provocative reports is yet another strategic miscalculation in U.S.-Chinese, and U.S.-Eurasian relations.

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# Worst China-Bashers Are Universal Fascists

by Michael Billington

The two China-bashing reports released in July, by the Pentagon and the Congressionally appointed U.S.-China Security Review Commission, were not intended to be factual appraisals or serious strategic studies of U.S.-China military relations. Rather, the faction within the defense-security institutions which is promoting a “Clash of Civilizations,” a military showdown pitting the West against Islam and the Confucian world (see accompanying article), prepared the Pentagon report with the clear intention of reversing years of U.S. engagement with China.

This “utopian” faction is called the “Wolfowitz cabal,” after Deputy Secretary of Defense Paul Wolfowitz. It was Wolfowitz who signed the new Pentagon report, which portrays China as hell-bent for war over Taiwan.

The Congressional report accuses China of providing technology and components for weapons of mass destruction to terrorist nations across the globe—an open invitation to unilateral U.S. action against China, economic and military.

These dangerous views are fiercely opposed by most other nations, and they are not without opposition within leading circles in the United States. A brief review of the nest of would-be imperialists who prepared the Congressional report shows the reasons for that opposition.

## Fascists Speaking for the U.S. Congress

One of the two commissioners whose signatures are on the final Congressional report was the self-professed “universal fascist,” Michael A. Ledeen, now at the American Enterprise Institute (AEI). Ledeen, like the other utopians on the Commission, had already weighed in with his “objective view” regarding China in numerous earlier publications. On Feb. 22, Ledeen wrote an op-ed in the *Wall Street Journal*, “From Communism to Fascism,” which labeled China “a maturing fascist regime.” The so-called “evidence” he provides for this characterization: “China feels betrayed and humiliated, and seeks to avenge historic wounds. China even toys with some of the more bizarre notions of the earlier fascisms, like the program to make the country self-sufficient in wheat production—the same quest for ‘autarky’ that obsessed both Hitler and Mussolini”!

Ironically, “universal fascist” Ledeen—who believes that fascism can be a “stable, durable” form of state—used the label simply to back his claim that China is preparing for war: “Classical fascism was the product of war, and its leaders

praised military virtues and embarked upon military expansion. Chinese leaders often proclaim a peaceful intent, yet they are clearly preparing for war, and have been for many years.”

If this madness were not enough, Ledeen and his fellow commissioner Stephen Bryen, currently with the U.S.-Israel Business Council, co-authored a paper in 1997 which described China as the world’s greatest threat to peace. Again, their evidence is laughable, except that these men are taken seriously in some circles: “China has the world’s largest population, and can therefore put into the field the largest army”; and, secondly, it is “the last major Communist dictatorship.” Ledeen and Bryen called China the leading supplier of advanced weapons to “rogue nations,” and called for halting virtually all technology sales to China, naming computers and machine tools as examples of “dual-use technologies.”

Bryen, in a separate paper presented to the House International Relations Committee on July 11, 2001, declared that the primary policy issue facing the United States was “how to deal with an emerging superpower that, at least in its military doctrine, aims at driving the U.S. away from dominating the Pacific rimland.” The “rimland,” he added in a footnote, was a concept defined by Nicholas Spykman, a geopolitical follower of Adm. Alfred Mahan and Sir Halford Mackinder, which made the Eurasian “rimland” a kind of parallel to Mackinder’s Eurasian “heartland” thesis adopted by Adolf Hitler, and so admired by British imperialists. Spykman’s doctrine was a geopolitical sea-based version for Asia, of Mackinder’s land-based policy for Europe.

## A ‘Likud’ Package

Bryen was the subject of a Federal investigation into allegations that, while working for the Senate Foreign Relations Committee in 1978, he passed military secrets regarding military installations in Saudi Arabia to his friends in Israeli intelligence. A book by Machael Saba, *The Armageddon Network*, details that early episode in the now-infamous Israeli spy networks in the United States. In the 1980s, he worked with Richard Perle at the Pentagon, where they led a campaign to end technology transfers to Third World nations under the guise of “dual-use technology” concerns. Perle, now chairman of the Defense Policy Board, is the most rabid of the “Wolfowitz cabal,” demanding unilateral warfare against various supposed enemies in frequent press opportunities.

Another commissioner is Arthur Waldren, Director of Asian Studies at AEI, a center for radical free-enterprise fundamentalism. Echoing Ledeen and Bryen by describing China as an “outlaw” nation, and “almost by definition a potential threat to her neighbors and to the U.S.,” Waldren also promotes the line that China’s progress over the past decade is a “façade.” In a March 21 op-ed in the *Washington Post*, Waldron claimed that “Chinese officialdom has put one over on Western observerdom,” and that China’s economy has actually been in decline. Intoned Waldren, “The only way China

can possibly create enough jobs for its immense population is by adopting a free-market entrepreneurial economic system.” Like the bankrupt United States, or Argentina, perhaps?

Yet another ideological China-hater was added to this “Congressional review” of U.S.-China relations: Larry M. Wortzel, Director of Asian Studies at the Heritage Foundation—which, like AEI, promotes radical free-market fundamentalism. Wortzel’s most recent publication on China, an April 17, 2001 piece called “How To Respond to China’s Coercive Behavior,” calls for cutting off normal trade relations while building up Taiwan’s military capacities and expanding U.S. presence in the region.

### **One Commissioner Saw the Obvious**

Such a team was clearly not appointed to provide a truthful, or useful, appraisal. This was obvious to Commissioner William A. Reinsch, the sole dissenter. Reinsch, the former Clinton Administration Undersecretary of Commerce, wrote a dissenting opinion, saying that the report “fails to present a fair and objective analysis of the U.S.-China security relationship, . . . adds to the level of paranoia about China in this country, and contains recommendations that could make that paranoia a self-fulfilling prophecy.” He ridicules efforts to blame the decaying U.S. economy on China, and adds: “It is ironic that the Report implicitly criticizes the Chinese for viewing the U.S. as a hegemon, at the same time it presents a view of U.S. interests in Asia that can only be described as hegemonic.”

Reinsch alludes to opposition from others on the Commission to the extremist intent of the primary authors, such that “the final version of the Report is an improvement over earlier drafts.” Clearly, however, the rest of the Commission chose to “go along to get along,” resulting in the final abomination.

Such ravings must not be confused with “analysis.” Members of the Joint Chiefs of Staff, and other ranking military officers, have voiced their opposition to this faction’s war plans against Iraq, and sources close to the U.S. Pacific Command indicate that there is similar disagreement within the uniformed military on adopting a confrontational policy toward China. The Pentagon report was ready for release in June, but opposition from within the uniformed military resulted in a delay for several weeks, much to the disgust of the right-wing press, such as Gary Schmitt at *The Weekly Standard*, who complained that such opponents are afraid of “pushing our advantage” as the only superpower.

As an indication of the factional disputes within the administration, just days after the reports were released, the *Washington Post* reported that the administration was considering “expanded educational exchanges for military officers and resumption of a regular high-level dialogue with China begun in the 1990s.”

The President and Congress would be wise to relegate both reports to dusty back shelves, and return to engagement with China.

## **U.A.E. Meet Challenges The ‘Laws of Empire’**

by Hussein Askary

Under the patronage of Sheikh Sultan bin Zayed Al-Nahyan, Deputy Prime Minister of the United Arab Emirates and Chairman of the Zayed Centre for Coordination and Follow-Up, the International Conference on “Human Rights, War Victims and International Law” was convened in Abu Dhabi, capital city of the U.A.E., on July 15-16. Diplomats, academics, researchers, and human rights activists attended from around the world. The main theme permeating most of the speeches and discussions was defeating imperial politics’ “logic of power” through the “power of logic.” The Israeli army’s crimes in the Palestinian occupied territories were comprehensively covered; but it was emphasized that the way out of the current world crisis, was the way of dialogue, tolerance, and respect of human values. The significance of economic and social justice, usually neglected in such events on human rights, received an ample share of the discussions.

In a message to the conference, also published in Abu Dhabi’s *Al-Ittihad* daily on July 15, Sheikh Sultan emphasized that “moral and ethical responsibility of the international community should be the motivating force for the achievement of peace and de-escalation of tension so that people, regardless of their religions, ethnic origins, may live in peace, a human and civilizational value. . . . The U.A.E. has always called for fraternity, co-existence, and religious tolerance among nations in the world.”

Emphasizing economic and social justice to elevating human conditions, Sheikh Sultan expressed his hope that “the international community and those who worked in the field of Human Rights would cooperate with one another in order to achieve progress and prosperity of humankind through adopting comprehensive developmental policies that offer more opportunities for better education, and aim at reducing the information gap between the North and the South.”

Sheikh Sultan spoke of the war crimes committed by the Israeli Defense Forces against the Palestinians: “It is confirmed that Israel is following an ethnic-cleansing plot against the whole Palestinian nation. This obliges the international community to deal with these aggressive actions as crimes against humanity.” He also issued a strong warning that the ultimate plan of the Israeli government was the mass deportation of Palestinians, and appealed to the international community to intervene immediately to stop these plans of the Sharon government.

The conference’s final statement echoed this demand, and issued other recommendations to the Arab League and other nations. These included calling on those states which have promoted or ratified the new International Criminal Court, to go back and enforce the Geneva Conventions of 1949, and “present war criminals for justice” under those conventions. The final report also issued a “call upon Arabs to practice political, economic pressures upon those countries that resort to aggression and occupation, and their supporters, in accordance with Article VII of the Geneva Convention.”

### LaRouche Represented

The final session of the conference featured this author, as a representative of the publications associated with American Presidential pre-candidate Lyndon LaRouche, who himself was a keynote speaker at the Zayed Centre’s conference on “Oil and Gas in World Politics” in June (see *EIR*, June 14, 2002). The author presented a paper on the philosophical and moral standards of the two factions that have been at war since the dawn of humanity—the Humanist versus the Satanist powers—and showed in detail the direct connection between the 1943 Warsaw Ghetto war crimes of Nazi SS Gen. Jürgen Stroop, and current Israeli Defense Forces occupation tactics based in part on their acknowledged study of Stroop’s methods. This aspect of the report (see “Can Repeat of Warsaw 1943 Be Stopped in Palestine?” *EIR*, March 22, 2002) had a strong impact on the conference participants.

Inaugurating the conference, Mohammed Khalifa Al-Murrar, the Executive Director of the Centre, invoked “leaders who wished to deliver human beings from the miseries of wars by calling to work for the sake of peace,” and said that the U.A.E.’s President, Sheikh Zayed bin Sultan Al-Nahyan, “has emphasized the need to tread the path of peace that ensures prosperity and welfare of mankind.”

The Secretary General of the Arab League, Amr Mousa, was represented by Ambassador Adel Al-Khudari. He strongly criticized the double standards being used when dealing with Arab nations and with Israel. “Israel ignored with disdain the resolutions of international legitimacy. Unfortunately, the international community remained deaf and blind toward the Israeli obstinacy,” Al-Khudari said. “We are all committed to fighting terrorism. Yet, many violations



*The opening panel of the conference on “Human Rights War Victims and International Law,” at the Zayed Centre of the Arab League in Abu Dhabi. The Centre’s director Mohammed Khalifa Al-Murrar is at left, with Dr. Rony Brauman, founder of Médecins Sans Frontières; Prof. Hans Köchler of the International Progress Organization; and Arab League Ambassador Adel Al-Khudari.*

are being committed against human rights by countries that used to boast of being torch-bearers of freedom and democracy.” Mousa said, “The campaign against terrorism should be governed by laws.”

Two prominent speakers—Prof. Hans Köchler, president of the International Progress Organization, and Dr. Rony Brauman, founder of “Médecins Sans Frontières” (MSF, Doctors Without Borders)—keynoted the opening session. Professor Köchler, speaking on “Victims of War, and International Law,” explained why the UN ad hoc committee for the investigation of the Israeli war crimes in the Jenin refugee camp earlier this year never was launched. He lamented the UN’s total failure in undertaking an independent investigation of the grave violations of international law by the Israeli occupying forces in Palestine. He said the attitude of the Secretary General of UN was characterized by “defeatism,” when confronted with Israeli rejection of the fact-finding team’s visit. According to Professor Köchler, virtually all basic provisions of the Fourth Geneva Convention were breached by Israeli forces’ indiscriminate killing, burying people alive, executing prisoners, preventing medical aid to the sick, disrespect for and attacks on holy sites, deliberate destruction of property and infrastructure, etc. These violations have been documented in great detail in a comprehensive report by Human Rights Watch, entitled “Israel, the Occupied West Bank and Gaza Strip,” and also confirmed by B’Tselem, The Israeli Information Center for Human Rights in the Occupied Territories, and the Palestine Organi-

zation for Human Rights.

Professor Köchler emphasized that almost nothing could be done in this respect if the United States administration does not change its policies in the region, given its veto power in the UN Security Council. As for the establishment of International Criminal Court (ICC), he said, "Due to some legal constraints, it cannot be applied, as Israel has declined to ratify the Rome Statute." Besides, Palestine is not a full member of the UN as yet. He suggested, "The members of the Arab League may exercise the right of collective defense in order to protect the civilian population of Palestine from aggression. Such a collective action would be in conformity with the provisions of Chapter VIII of the UN Charter." And "if there exists a collective political will and coordination among the member states of the Arab League and the [Organization of the] Islamic Conference," an emergency session of the UN General Assembly could be called on the initiative of the Arab League or the OIC to deal with the deteriorating humanitarian and security situation in occupied Palestine.

### The 'Humanitarian' Disguise

In the discussion period, Professor Köchler emphasized that the best defense for the Palestinian people would be the establishment of a sovereign and independent Palestinian state, whose rights and needs for protection by the international community would be recognized.

Dr. Brauman, founder of MSF, read a working paper on

"Human Military Interventions," which included examples of how imperial powers have been using "humanitarian" slogans to push their own strategic and economic purposes. "The concept of intervention for the sake of humanitarian assistance, which is close to the modern concept of military humanitarian intervention, was formulated by France and Great Britain. Napoleon III sent French forces to Lebanon to stop the killings of Maronite Christians at the hands of the Druze, because France considered itself the protector of Christians in the East and the Druze threatened their authority," Brauman said. "Britain used to sink boats carrying slaves. They used to drown slaves with the aim of delivering them from slavery. These humanitarian principles were nothing but expressions of power used for achieving imperialistic designs." Dr. Brauman narrated the earliest modern-day military humanitarian operations, beginning with the operation in Congo in the 1960s. He mentioned French involvement in Nigeria's Biafra civil war in 1968-69. Both operations used the humanitarian aspect as a cover for other political and economic considerations, and failed miserably.

He described thoroughly, from personal experience and with examples from Africa and Afghanistan, that whenever humanitarian work went against military-strategic plans of the major powers, the humanitarian work was set aside. "Under these circumstances, it is evident, offering assistance to the needy is not for its own sake but to ensure support to military. That's why our organization termed

## 'Voice of the Arab World'

So called by Malaysia's Bernama press agency, the Abu Dhabi-based Zayed Centre was established in 1999, following a symposium on "Future of the Arab Nations and the Role of the League of Arab States" held in Abu Dhabi in November 1997. Initiated by the U.A.E.'s President, Sheikh Zayed bin Sultan Al-Nahyan, the ZCCF has rapidly expanded its influence into a working regional mechanism that seeks to highlight the concept of Arab solidarity in the political, economic, cultural and social spheres and inter-Arab relations.

The Arab League approved its establishment, as an independent political entity, in its session in Cairo in

1999. The ZCCF has played a significant role in highlighting the Arab point of view on various political social, religious, ethnic, cultural, and economic issues by holding symposiums, lectures, and talks and publishing 147 books, dossiers, and studies.

The publications reflect the high quality of research and in-depth analysis undertaken by the ZCCF in producing studies that come in handy as reference to scholars and academicians. It has produced short biographical notes on international figures including French President Jacques Chirac, former United States Presidents Jimmy Carter and Bill Clinton, and German Chancellor Helmut Kohl; and has also

published books on Egyptian President Hosni Mubarak, Houari Boumedienne of Algeria, Anwar Sadat, Gamal Abdel Nasser, King Hussein of Jordan, Sheikh Isa bin Sulman Al Khalifa, King Hassan II of Morocco, Hafez Al Assad, and Habib Bourguiba.



the use of the word ‘humanitarian’ as propaganda by the Americans.”

### Islam and Christianity: Peace and Love

In an eloquent and beautiful manner, Prof. Mahmoud Mohammed Emara, member of the Islamic Research Compound of Al-Azhar University in Cairo, spoke on “The Unity of Religion in Its Humanitarian Aspect.” He opened his speech commenting on the subject of the ecumenical principles in Christianity and Islam. “Even though religions vary in their legislation and customs, the moral code from which they emerge is one. This code necessitates that followers of the different religions should unite around these codes, such as truthfulness, fidelity, love, and tolerance,” Emara said. “Therefore, the enemy of all religions is one . . . the space of co-existence among all religions is wide and open.”

To Professor Emara, “Christianity is the religion of love. He, who does not love people, does not recognize God, because God is love, and love is the foundation of religions.” A product of this love, Emara added, is peace. And, peace is foundation of Islam. He emphasized, however, that peace is not simply a state of no war. It is a state of constant perfecting and civilizing the moral standards of a society. Emara also drew lessons from the unique customs and morals in times of war established by Islam’s Prophet Mohammed.

Many other speakers presented papers on the impact of war on human society. They included Dr. Michael Meyer, regional Commissioner of the International Red Cross Committee in the Arab Peninsula; Dr. Rudolph Al-Qarih, an expert on the Middle East; Dr. Amin Makki Madani, a Sudanese expert on international law and regional representative of the United Nations High Commission for Refugees in the Arab World. In the second working session of the conference, Ambassador Fahmi Fouad Al-Qaisi, Director of the Legal Department of the Iraqi Foreign Ministry, presented a working paper on the impact of war on social, economic, and health conditions, with a special emphasis on the situation in Iraq in the aftermath of the Gulf War, and the use by the Western alliance of depleted uranium in ammunitions.

In the third session, Dr. Sa’adiya Bahader, former dean of the Post-Graduate Studies Institute for Childhood at Bin Ain Shams University in Egypt, presented a touching and scientific review of the “impact of war on mental health of children,” taking examples from her field research on Palestinian children the Gaza Strip. A prominent speaker, Ayad Al-Sarraj, who is the director of mental health in the Gaza Strip, was not allowed by the Israel Defense Forces to attend the conference.

Among other speakers in the final session, a final presentation was made by Dr. Mohammed Abdul-Dhaher, a strategic military expert from Egypt, on the rights of prisoners of war, and the violations committed by Israel and the United States in this respect.

## The Moral Imperative To Make Peace Today

*These are excerpts of the presentation to the Zayed Centre conference on “Human Rights, War Victims, and International Law” on July 16, by Hussein Askary, representing Lynndon LaRouche and EIR.*

The Muslim philosopher and thinker, Abu Nasr Al-Farabi, states in his “Commentary on Plato’s Laws,” that Plato “had explained people’s desire to avoid wars among them, and their strong longing to that end, due to the great good contained in avoiding war. This is only possible through the implementation of the law, and that whenever the laws oblige the people to go to war, then, that is done in the pursuit of peace, not for love of war.”

In the humanist Christian tradition, there are abundant examples of this fundamental principle. St. Augustine of Hippo (354-430 AD) writes in his book *The City of God* (Book 19, Chapter 12) the following: “Whoever gives even moderate attention to human affairs and to our common nature, will recognize that, if there is no man who does not wish to be joyful, neither is there any one who does not wish to have peace. For even they who make war desire nothing but victory—desire, that is to say, to attain to peace with glory. For what else is victory than the conquest of those who resist us? And when this is done there is peace. It is therefore with the desire for peace that wars are waged, even by those who take pleasure in exercising their warlike nature in command and battle. And hence it is obvious that peace is the end sought for by war. For every man seeks peace by waging war, but no man seeks war by making peace.”

In our Islamic tradition, we find various lessons for mankind through the morals of the great Prophet Mohammed (may Allah’s blessings be upon him) in times of peace and war. He always urged for peace and raised the Jihad of the soul (strife to moderate and perfect the soul) and raised it above the Jihad with the sword. We remember him offering the prisoners in the Battle of Badr to buy their freedom through teaching Muslim children how to read and write. The successors of Prophet Mohammed also left us many lessons in the treatment of prisoners and inhabitants of conquered cities. While bidding farewell to the Muslim army which was heading for the first time to fight the Romans, Khalifat Abu Bakr told the army chiefs: “Do not betray. Do not act perfidiously. Do not mutilate [the dead]. Don’t kill a young child, an old man, or a woman. Do not cut palm

trees or fruit-bearing trees. Don't slaughter a lamb, a cow or a camel unless needed for food. You'll pass by people who have dedicated themselves to living in monasteries. Leave them, and let them continue the affairs they have dedicated their lives for."

In modern European history, there is one very important precedent on the issue of war and peace among nations, and what should be the principles for uplifting the victims of the war from the suffering and misery inflicted upon them in the conflict. That is the Peace of Westphalia treaty of 1648, which ended the Thirty Years War and almost a hundred years of brutal and bloody religious conflicts among Christians all over Europe.

The treaty signed in Oct. 24, 1648 states: "That there shall be a Christian and Universal peace, and a perpetual, true, and sincere amity . . . and that each party shall endeavor to procure the Benefit, Honor and Advantage of the other." The concept of the perfect sovereignty of the nation-state and the equality among all nations was recognized for the first time as a principle governing international law; that the smallest nation is as equal as the greatest one in the eyes of the community of nations. Furthermore, in order to establish this system of "amity" where each nation works for the benefit of all, it was necessary that the signatories of the treaty pledged not to seek revenge, retributions and reparations when peace was established.

### LaRouche's Oasis Plan

What can you offer the victims of such a bloody war? You give them back their dignity and their confidence that humanity shall overcome barbarism. You give their children a future of well-being and prosperity; a chance to develop their creative potentials so that they become scientists, poets, musicians and nation-builders within an environment of economic development and social justice. You give the fathers and mothers of those who have perished in the conflict a life of dignity, freedom and welfare, so they see that the sacrifices made by their beloved ones were not in vain.

This requires a just economic and financial order based on the principle of the general welfare of all nations. There should be an emphasis on real economic agro-industrial development and growth. In the Middle East in general and Palestine in particular—a sovereign nation state of Pales-



EIR representative Hussein Askary told the Abu Dhabi Human Rights conference in detail, how the methods of Nazi SS Gen. Jürgen Stroop's against the Jewish resistance in the Warsaw Ghetto in 1943, had been studied within the Israeli military to apply against Palestinians today, and that that study had been justified by Sharon spokesman Ra'anan Gissen.

tine—the priority is to finance massive transport, water and energy infrastructure works. Water is the main source of conflict and will remain so. American economist LaRouche, who had indicated this point in his recent speech here in the Zayed Centre, has over the decades outlined an elaborate plan for "peace through development" in the Middle East. It is called the Oasis Plan.

Without this sort of economic development and cooperation, there will be little chance for peace, even if good intentions existed. However, good ideas and intentions are not enough in the current circumstances. After a river of blood had flowed in Palestine, and even inside Israel itself, a deeper reflection is needed. It is the moral responsibility of the international community in general, and the United States in particular, to provide protection to the Palestinian people, and allow them to enjoy their legitimate right to build an independent and sovereign state.

There is one single chance to achieve a true humanist and ecumenical dialogue, which can lift people, all people to the sublime status which their Creator has given them all. In all religions there is a noble view of human beings and of relations among nations. As for the Palestinians and Arabs, in general, they should be aware of the trap of being tempted to deny others their human character, even if those others happen to be their rivals. As the great religions and humanist philosophies preach, we should always remember that the purpose of just war is to achieve peace and justice, and not revenge. If peace were to come without fighting, the better.

## Senate Probe Discovers How Banks Created ‘Enronomics’

by Marcia Merry Baker

Newly released Senate Permanent Investigations Subcommittee (SPIS) evidence proves how major U.S., London, Canadian, and other banks, including J.P. Morgan Chase, Citigroup, Barclays, Crédit Suisse, Toronto Dominion, secreted billions of dollars in the energy-trade bubble run by Enron, Dynegy, Mirant, Williams, and many other big energy pirate companies, now bankrupt or nearly so. What *EIR*'s economic analyst John Hoefle wrote in 2001, in both Congressional testimony and articles on Enron's failure, is now being "discovered" on the Hill: The big banks were the sponsors, and even the creators, of Enron's and the others' off-balance-sheet looting schemes. Now, rumors are flying of a derivatives crisis hitting J.P. Morgan Chase and Citicorp, the top players in the "Enronomics" scandal.

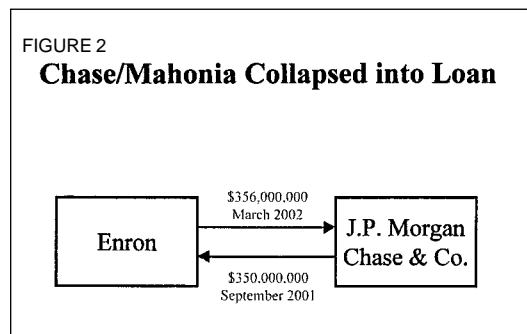
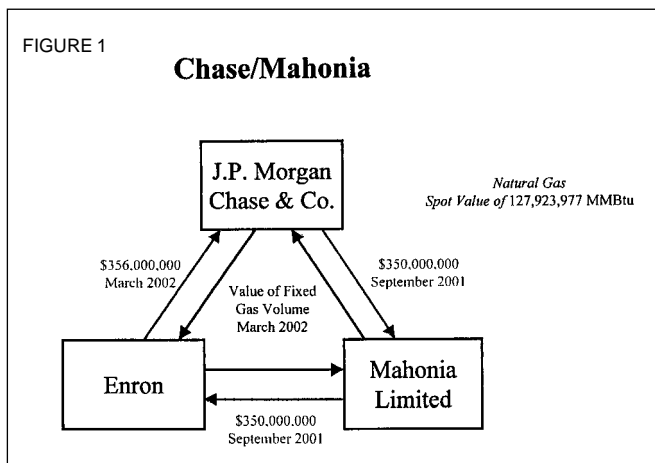
Steps to save the real economy from the continuing explosion of this Wall Street debt bubble, was the focus of *EIR*'s testimony for hearings on "The Financial Institutions and En-

ron's Collapse," held July 23 and 30 by the SPIS of the Senate Government Affairs Committee and chaired by Carl Levin (D-Mich.). The testimony also supplied Congress with the Lyndon LaRouche's evaluation: "What we are facing today is the collapse of the financial system itself, not merely discrete sectors or the harm from isolated perpetrators of crimes."

### 'Pre-Pays' and Other Scams

July 23, Robert Roach, Counsel and Chief Investigator of the SPIS, released a bipartisan report on the role of the banks in the Enron collapse, with over 170 exhibits.

Roach said that not only did the banks know that Enron was cooking its books, but "some financial institutions . . . actively aided Enron in return for fees and favorable considerations in other business dealings. . . . The evidence indicates that Enron would not have been able to engage in the extent of the deceptions it did . . . were it not for the active participa-



These two figures (Exhibits 105 and 106) were prepared by SPIS for the hearings. The figures show how a debt magically becomes an asset with "creative bookkeeping."



tion of major financial institutions willing to go along with and even expand upon Enron's activities. The evidence also indicates that some of these financial institutions knowingly allowed investors to rely on Enron financial statements that they knew, or should have been known, were misleading."

Roach detailed Enron's use of "pre-pay" transactions with banks, wherein loans were disguised as paid-in-advance energy trades (bringing into Enron some \$8 billion in pre-pays from banks over six years). This allowed Enron to understate its debt by 40% and overstate its funds flow from operations by 50%.

Morgan Chase and Citigroup pitched the pre-pay strategy. **Figure 1** was prepared by SPIS staff to show how a "special purpose vehicle" (an SPV; in this case, Mahonia) functioned as a deception mechanism for Morgan Chase to shunt money to Enron. In fact, the advance was a debt, as **Figure 2** shows.

Roach's exhibits included quotes from internal communications of the principals in the scams. Some examples:

- From a Morgan Chase internal e-mail: "Enron loves these deals, as they are able to hide funded debt from their equity analysts because they (at the very least) book it as deferred rev[enue] or (better yet) bury it in their trading liabilities."
- From a Citigroup internal e-mail: "[Enron] gets money that gives them cash flow but does not show up on books as big D Debt."
- From an internal e-mail, by Arthur Andersen employee auditing Enron: "Enron is continuing to pursue its various structures to get cash in the door without accounting for it as debt."

The July 30 hearings examined the relationship of investment bank Merrill Lynch to Enron. Two Merrill Lynch officers invoked the Fifth Amendment. A third explained why his company did business with Enron: "It was ranked as the most innovative company in the country for five straight years by the Fortune 500 company CEOs, board members, and senior management. It was ranked the top company for 'Quality of Management'" In one exhibit, the committee showed a videotape of Enron CFO Andy Fastow giving a presentation, and saying, "We've got to get the pension money coming in here," i.e., attract investments from pension funds.

## EIR to Congress

John Hoefle introduced the *EIR* testimony, saying: "Our concern in providing this testimony, is to focus attention on the broad, urgent implications of the charge:

"1) We are right now at the end of a 30-year era characterized all along by policies tolerating or abetting such 'bubble-building' wrongful financial practices;

"2) We are in a process of economic breakdown;

"3) There must be measures on the scale of the 1930s 'FDR-period' policy responses, to replace the destructive policies of the past decades, with economy-building programs. Without that, no reforms, no tinkering, no indictments will do what's required."

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## Documentation

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# Enron Was How the U.S. Banking System Operates

*This is part of the testimony submitted by EIR to the July 30, 2002 Senate hearing on "The Role of the Financial Institutions in Enron's Collapse," held by the Committee on Governmental Affairs' Permanent Subcommittee on Investigations (SPIS).*

The committee's work opens the way for yet another layer to be peeled back from this rotten onion. We do not believe for a moment that Enron corrupted the financial institutions, but rather believe that Enron was the tool of certain financial interests and institutions who used the company as a battering ram for electricity deregulation and a vehicle for pumping up an energy-trading bubble. That energy bubble, along with the associated dot.com and telecom bubbles, were creatures of the "Wall of Money" used to jump-start the global financial system after its near-meltdown in 1998. Enron was an effect, not the cause, of a much larger financial scam. . . .

## U.S. Debt Is Unpayable

One simple way to sum up the systemic financial crisis, is to look at the reality that the U.S. debt pyramid, built up over years of "Enronomics" of all kinds, *is unpayable*. Japan is in that state; other nations, such as Argentina are in chaos. But focus on the United States itself. In our issue of *EIR* for July 5, 2002, we published detailed graphs and statistics ("Rollover of U.S. Debt Will Yield Weimar Hyperinflation," by Richard Freeman and John Hoefle), from which we provide three summary graphs at the end of this testimony.

In short: By the end of 2001, total U.S. debt had reached \$31.1 trillion. On average, over the last four years, U.S. debt has surged at the rate of \$2.2 trillion per year, or almost \$200 billion per month. The \$31.1 trillion figure is composed of the basic categories of debt statistics kept by the Federal Reserve "Flow of Funds" reports for government debt (state and Federal), household debt, and corporate debt.

The U.S. debt pyramid has grown so large, that it is unsustainable, and all attempts to service it will not work. Moreover, every such attempt further destroys both the underlying U.S. physical economy, and its bankrupt financial system.

*EIR's* economics staff has determined, preliminarily, that by the end of 2001, on this outstanding debt, America's annual debt service bill—the interest payment, plus re-payment of a portion of the principal—had reached an unprecedented \$7.4 trillion. This is equivalent to a staggering 72% of Gross Domestic Product.

It was as part of this rising debt balloon, that all kinds of "specialty bubbles" arose, including:

- \$8 billion in financing advanced to Enron, from Chase and Citigroup, over the six-year period, 1995-2001.
- \$1.1 trillions to the telecom sector was advanced between Jan. 1, 1996 until the end of the first quarter this year, by Wall Street and the City of London—nearly \$200 billion annually—to build its speculative growth. Then, in recent months, came the spectacular bankruptcies—from Global Crossing, to WorldCom.
- \$2.3 trillions from financial institutions were lent in new housing loans over the six-year period 1995-2001. Over three-quarters of these bank mortgages were acquired by Fannie Mae and Freddie Mac, and a few other agencies, now ticking timebombs. . . .

## The Banking Sector Is Bankrupt

In contrast to these soaring financial obligations and debts, funding for actual capitalization of infrastructure, industry and agriculture has been at a next-to-nothing level in recent years. Now we're well into the collapse process because of this discrepancy.

The U.S. banking sector itself is bankrupt, not just those sectors in the headlines, such as steel, airlines, passenger rail, telecommunications, etc. Look at the two names cropping up with regularity: J.P. Morgan Chase & Co. and Citigroup. Both lent heavily to the energy-pirate and telecom sectors, and are undoubtedly facing losses in the billions of dollars as those sectors vaporize. But the most explosive banking liability of all is *derivatives*.

J.P. Morgan Chase is the result of the acquisition of J.P. Morgan & Co. by the bigger Chase Manhattan, a deal which has been an absolute disaster as measured in ordinary—and therefore misleading—market terms. The market capitalization of the combined Morgan Chase is now less than that of Chase alone on the day before the merger, with Morgan (or at least its equivalent value) having simply vaporized. This is not surprising, as it was likely a bankruptcy at Morgan, and perhaps Chase as well, which led to the takeover of the aristocratic Morgan by the commoners at Chase.

The merger only bought a few months. Indications are that Morgan Chase blew up in mid-2001 and was secretly taken over by the Fed, as Citigroup's predecessor, Citicorp, was taken over during 1989. During the fourth quarter of 2001, Morgan Chase combined its two lead banks, Chase Manhattan Bank and Morgan Guaranty Trust. As part of that process, \$125 billion in assets and \$7 trillion in derivatives simply disappeared from the combined banks' books, suggesting major financial problems. Still, with \$24 trillion, Morgan Chase has more derivatives than any other bank in the world, and more than enough to make a spectacular explosion.

Citigroup may be under Fed control as well, as rumors of major derivatives losses circulate. Citigroup is the result of the 1998 takeover of Citicorp by Travelers Insurance, creating what is now the largest bank in the United States, with just over \$1 trillion in assets and \$9 trillion in derivatives. On

July 18, Saudi Prince Alwaleed bin Talal, Citigroup's largest individual shareholder, said that he had invested another \$500 million in the bank, raising his holding to \$10 billion. Alwaleed, a nephew of Saudi King Fahd, obtained his initial stake in the bank shortly after the Fed took it over in 1989 and began arranging a bailout. The latest cash infusion raises suspicion that Alwaleed is performing a similar service for Citigroup.

Not to be left out is Bank of America, whose \$620 billion in assets puts it third behind Citigroup's \$1 trillion and Morgan Chase's \$713 billion. Bank of America's \$10 trillion in derivatives puts it solidly on the hot seat in any financial crisis, and it has also loaned heavily to bankrupt companies. Rumors are flying that Bank of America has applied to the Fed for a secret bailout.

If the Fed winds up running the three biggest banks in the country, who's going to bail out the Fed?

## What Is Required—Policies and Principles

The kinds of emergency intervention policies now required, in the spirit of those in the 1930s, are summarized in a special report issued March this year, by the LaRouche-in-2004 Presidential campaign committee, titled, *Economics: At the End of a Delusion*. LaRouche lists a number of typical actions to be taken to halt the depression and launch a self-sustaining recovery:

"1. We must a.) put the international monetary-financial system into immediate, governments-dictated reorganization; b.) restore a fixed-exchange-rate system; c.) establish exchange, capital, financial controls, trade controls, and fair-trade forms of protectionist measures internally and externally; d.) increase drastically rates of taxation on financial capital gains, and substitute production- and technology-oriented medium- to long-term investment tax credits to entrepreneurs; e.) generate large masses of government-created credit at rates between 1-2% for, chiefly, a combination of entrepreneurial investment production and infrastructure investment; and f.) implement a general bank-reorganization program, which keeps needed banks performing essential functions for the community while under even drastic financial reorganization.

"2. We replace 'free trade' with the promotion of protected hard-commodity international trade, as part of the promotion of a global, long-term economic-recovery effort.

"3. We must introduce the economic equivalent of a high-technology-oriented 'arsenal of democracy' recovery program, both in the domestic economy and in world trade, to provide the qualitative dimension needed to reverse the monstrous loss of technologically progressive, physical-productive capacity and potential—a loss which has accumulated in the world as a whole during the recent thirty years, especially the recent quarter-century.

"We had better take such measures, to stop that process of collapse before it hits with irresistible, crushing force."

# Virginia Budget Blows, As Dot-Com Bubble Pops

by Mary Jane Freeman

A mere three weeks into the new fiscal year, which began on July 1, Virginia Gov. Mark Warner announced that the state had a \$237 million deficit, and that it would get bigger. Warner dropped this bombshell at an impromptu press conference on July 23, convened as he met with Virginia's legislative leadership. Asked if he expects the shortfall to grow to \$400-500 million, he replied, "Think larger."

Indeed, especially since the Northern Virginia economy, based on the once high-flying dot-com "New Economy"—with WorldCom and AOL, among others, being big players in the state—has now crashed. Their demise and its ripple effects will mean huge revenue losses to the state. Not to mention, that Virginia's fiscal year 2002 deficit had been nearly \$4 billion, and it was rectified only by various fund transfers, tapping "rainy day" funds, and budget cuts. Despite these realities, and while stating that this was the worst revenue decline in 40 years, the Herbert Hoover-like Warner protested that the economic fundamentals are sound.

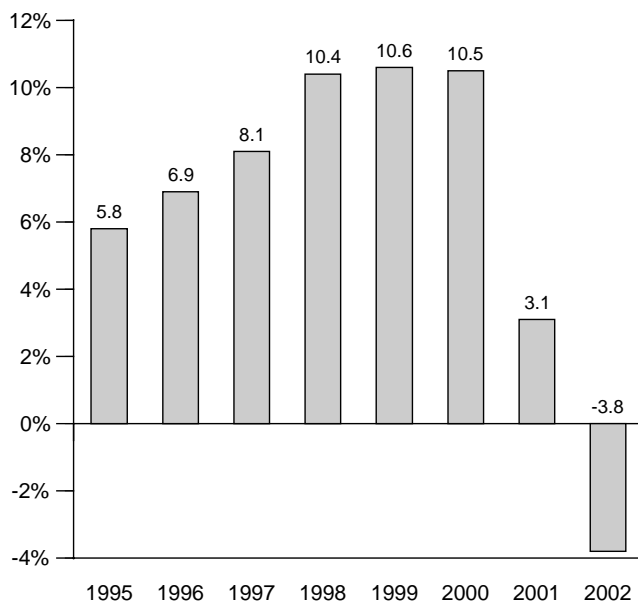
On the same day, the National Conference of State Legislatures (NCSL), meeting in Denver, Colorado, released its latest survey of states' fiscal condition, which concluded that "conditions continue to deteriorate dramatically." The aggregate budget deficit for FY 2003 (July 1, 2002 to June 30, 2003), for the moment, is estimated will grow to \$57.9 billion, based on data from 42 states and tax data from 47. "FY 2002 was tumultuous in nearly every state," the NCSL said. "The fiscal boom of the late 1990s that [began] to sputter in early 2001 came to a screeching halt" by fiscal year's end. Other highlights from the report include: 13 states report budget gaps going into this fiscal year in excess of 10%; 26 states collected less revenue in FY 2002 than the prior year; and 37 states' year-end balances declined from FY 2001 to 2002, with balances as a percent of spending having the biggest percentage drop since FY 1980: The ratio was 8.8% in FY 2001 and fell to 5% in FY 2002. This latter statistic reflects the fact that every spare dime was marshalled to plug the holes and "balance" the budgets. Hoping for an eventual recovery, it assumes revenues will grow 3.7% above FY 2002 levels, which growth is to be fuelled by "sizeable tax and fee increases."

## 'Silicon East'

Without growth in the real economy, however, this is pie in the sky. Warner, the freshman governor who made his

FIGURE 1  
Virginia Revenue Growth and Decline,  
Fiscal Years 1995-2002

(Percent Change)



Source: Virginia Secretary of Finance May 2002 report, "Issues Affecting Virginia's Financial Position."

fortune in the cellular phone industry and venture capital investments, insists the problem is not corporate accounting scandals in the "New Economy" companies, but rather is a "stalled economic recovery." Even as he admitted that individual income growth was the worst in 30 years, Warner did not face the underlying cause of the state's budget woes: the shift from a producer to a consumer society. Virginia exacerbated the problem by putting many of its eggs in the "New Economy" and stock market baskets.

In May, Warner's Secretary of Finance John M. Bennett issued a report, and put it this way: "From FY 1995 to FY 2000, Virginia experienced extraordinary revenue growth, fuelled largely by a once-in-a-generation boom in the technology and the stock market." Bennett remarked that the previous administration under James Gilmore could only afford expanded "spending commitments and tax preferences . . . in the context of extraordinary revenue growth." Thus, he surmised that "Virginia was . . . destined for a significant budget problem as soon as [that] growth subsided—even without a recession." The footprints of this "destiny" are seen in **Figure 1**, which shows a near doubling of Virginia revenues from 1995 to 2000, and their subsequent crash in 2001 and 2002.

This trajectory hit Warner as he took office in January, when the deficit was \$3.2 billion, and then grew to \$3.8 billion

within a month. Outgoing Governor Gilmore's proposed budget addressed the \$3.2 billion deficit by calling for many one-time revenue and saving measures amounting to almost \$2 billion. For example, \$467 million was taken from the state's rainy day fund, \$259 million was from the Medicaid Intergovernmental Transfer fund, and \$223 million was from the Literary Fund to pay part of the cost of teacher retirement and Social Security. As the Bennett report commented, "One-time actions use up future budget flexibility, because future revenue growth is essentially tapped in advance." But Warner adopted these measures, and must do more, as the deficit grew after his inauguration—unless he looks to a solution beyond the borders of his state, as Presidential pre-candidate Lyndon LaRouche has proposed.

To balance the FY 2002 budget, cuts totalling nearly \$545 million were made, including: \$118.4 million by recalculating (lowering) Virginia's payment into the Virginia Retirement System (VRS); \$50 million from unclaimed VRS accounts; \$91.7 million from a 3% across-the-board cut to agencies' budgets; \$46 million by holding back 70% of a car tax credit; and \$12.4 million by reducing the number of families deemed eligible for aid under the Family Access to Medical Insurance program.

Warner's July 23 news of greater-than-projected revenue decline also prompted him to initiate a "reforecasting" of the biennium 2002-04 budget, and to notify all state agencies to halt unnecessary expenditures. Even before this news, Warner had proposed hefty spending reductions for the next two biennium budget years. His plan called for \$798 million in budget cuts in FY 2003 and \$765 million in FY 2004. As of May, the cuts were to include: \$294 million in across-the-board agency spending; \$291 million less to colleges and universities; \$97 million saved by lowering the state's payment into the VRS; \$77 million by reducing the state's payment toward VRS "fringe benefits" such as retiree health care, group life insurance, and sickness and disability payments; and \$55 million from local school construction. Reality will dictate that these cuts will have to be deeper.

But Warner and legislators cling to self-deluded hopes of a recovery even as they acknowledge, "This is a far worse predicament than we were in ten years ago," as Vincent F. Callahan, Jr. (R-Fairfax), chair of the House Appropriations Committee, quipped as he left the meeting with Warner. Rather than admit that the dot-com, stock market, and housing bubbles upon which they have come to rely for revenues into the General Fund, have burst, Virginia's politicians prefer to squeeze blood out of a stone, arguing that Warner should exhaust his Executive powers to unilaterally cut spending before they consider any other options.

### **Telecom Corridor on the Skids**

Reality is, however, pricking their delusional plans. On July 21, WorldCom, the nation's second-largest long-distance telephone and data services company, filed the largest-

ever bankruptcy petition in U.S. history. The telecom giant is headquartered in Loudoun County, Virginia—nicknamed "Silicom-East" by Lyndon LaRouche, who had accurately forecast the doom of the phony Internet "New Economy." WorldCom became Loudoun County's second-largest employer.

Loudoun County had great plans as it wooed WorldCom to come and set up shop. One deal offered by the county to WorldCom was \$4 million in public funds if it would locate in this "major crossroads of the new economy," as the *Washington Post* dubbed it. The WorldCom campus was expected to bring in related businesses, build new office space, and employ nearly 20,000 new workers. The county government approved 7.4 million square feet of construction on the 534-acre campus, but as of July 2002 only 2 million square feet, less than one-third, had been built, and only 5,000 of the promised 20,000 jobs had materialized. Nearly 2,000 of those 5,000 were laid off prior to WorldCom's bankruptcy filing. The deluded Pollyannas now argue that, despite WorldCom's demise, the county has "plenty of educated workers," so it won't be so bad. The less deluded are starting to admit that the telecom debacle has led commercial vacancy rates to more than double and new business construction to drop off sharply. They expect that WorldCom's bankruptcy restructuring will lead to substantial new layoffs as well as a slow-down in related businesses.

Built on the "New Economy"/stock market bubbles, Northern Virginia, and Loudoun County in particular, experienced explosive growth from 1991 to 2001. Northern Virginia, comprised of 17 counties and/or incorporated cities, had a 25% increase in population, while Loudoun County's rate was 97%. The economic base of this growth, however, as of 2001, was 70% concentrated in the services, high-tech, and "white collar" managerial sectors, while agriculture, mining, construction, and manufacturing comprised 11.3% of the economic activity. Residential housing construction, to accommodate this influx, mushroomed. As of 2001, sixty-four percent of the new units were built in three areas: Fairfax, Loudoun, and Prince William counties. Commercial and industrial units sprouted-up like weeds, creating a glut of vacant real estate as the bubbles began to deflate. The official commercial building vacancy rate for Northern Virginia is 15%, and in actuality, much higher. Prior to the WorldCom bankruptcy, Loudoun County's official commercial vacancy rate stood at 17%. It is now expected to double to 33%. By way of comparison, the office vacancy rate in Silicon Valley has risen from 3.5% in the late 1990s to 32% today.

### **Loudoun County's Dot-Bomb Fiasco**

A look at the labor force composition of Loudoun County during 1991 to 2001 provides a snapshot of the pervasiveness of the bubble economy. As the county's "2001 Annual Growth Summary" reported, "Employment . . . increased by 143.8% . . . between 1991 and 2001"; it bragged that "much of

TABLE 1

**Loudoun County, Virginia: Selected Industries Employment Growth, 1991-2001**

Industry Year	Number of Employees											Percent of Total Employment, 2001	Percent Change, 1991-2001
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001		
TCPU*	6,382	6,550	6,625	7,011	8,162	8,669	9,426	10,773	12,225	13,643	14,711	15.1	130.5
Retail Trade	6,209	6,272	6,724	7,283	8,019	8,514	9,827	10,311	12,569	14,721	16,158	16.6	156.9
Services	8,823	8,940	10,207	11,659	12,237	13,609	15,178	16,436	21,651	24,465	29,983	30.8	239.8

Source: Loudoun County, Virginia, "2001 Annual Growth Summary," May 2002.

\* Transportation, Communications, Public Utilities

that growth occurred in the Service and Retail Trade sectors." Indeed, the area is speckled with shopping malls and commercial industrial parks. Of the top five employers in 2001, two were telecoms (WorldCom/UUNet and AOL), two were airlines (United Air Lines and Atlantic Coast/United Express), and the fifth was the county public hospital.

**Table 1**, extracted from the county's report, shows that 62.5% of jobs in the county are in the consumer, rather than producer category of employment. From 1991 to 2001, the Transportation, Communications, and Public Utilities (TCPU) sector added 5,285 jobs, growing by 130.5%; as of 2001, it represented 15% of the job market in the county. The Service sector added 21,000 jobs, growing by 239.8%, and represented 30.8% of the job market in 2001. The TCPU and the Service sectors are the two categories accounting for most Internet, high-tech computer-related jobs. This consumer-society-driven economy necessarily nurtured the retail business, which grew by 156.9%, representing 16.6% of the job market in 2001. Another category which grew at a comparable rate was the construction sector (137.5%), adding 5,780 jobs over the ten years, of which 4,312 were added from 1997 to 2001, the height of the housing bubble boom. Agricultural jobs grew by 193%, but with an absolute increase of 1,593 jobs over ten years; manufacturing grew by only 59.7%.

The next shoe to drop is the housing market. In "Danger! U.S. Housing Bubble May Blow Up the Markets" (*EIR*, June 21, 2002), we showed the size and vulnerability of Federal Reserve Chairman Alan Greenspan's Fannie Mae/Freddie Mac housing bubble, and the spectacular price inflation of homes in the Northern Virginia area. Loudoun County's housing bubble has followed trend. **Table 2** shows the housing price inflation from 1991 to 2001 in the county. The average sales price of single-family detached homes increased 89% in that period, while single-family attached home prices rose 56%, and condominium prices went through the stratosphere, at 153%.

The WorldCom and AOL implosions, accompanied by their hundreds of layoffs, and compounded by United Airlines' precarious financial existence, will accelerate the bursting of Loudoun County's housing bubble. Hundreds of jobs

TABLE 2

**Loudoun County, Virginia: Housing Price Inflation, 1991-2001**

(Average Sale Price of Units Sold)

	Single Family Detached	Single Family Attached	Condominium
1991	210,048	146,303	95,848
1992	208,928	143,131	94,051
1993	215,460	145,958	93,364
1994	222,003	145,957	103,458
1995	229,515	155,007	99,474
1996	239,569	150,687	101,319
1997	246,772	154,032	100,629
1998	264,715	156,092	133,572
1999	290,851	165,590	117,686
2000	346,205	188,679	134,958
2001	396,016	228,150	243,159

Source: Loudoun County, Virginia, "2001 Annual Growth Summary," May 2002.

have been lost in just the first six months of this year. Rev. Ralph Weichman of Our Savior's Way Lutheran Church in Ashburn, Virginia, where WorldCom's campus is located, reported to the *Washington Post*, "Husbands and wives are asking themselves what their future is here. Managers talk about how difficult it is to fire people on a regular basis. One man had to fire people in four separate phases and said he couldn't take it any more. A number had signed on to big jobs with stock options that have become worthless." Another Loudoun man told the *Post*, "We're coming back to reality. The tech companies were all puffed up, thinking they were Arnold Schwarzenegger, when they were really skinny kids on the beach. All tech is off steroids."

There are no local solutions to any of these dire economic conditions. The best hope is that the reality check hitting Virginia's governor, legislators, and citizens will cause them to now admit that Lyndon LaRouche was right, and that it is time for his New Bretton Woods reorganization of the world economy.

# 'Cranes of LaRouche' And D.C. Mayor Williams

by Lynne Speed and Carl Osgood

In Friedrich Schiller's famous ballad, "The Cranes of Ibykus," an honored national poet is brutally murdered, the terrible deed witnessed only by a flock of cranes—who later that day, at a great poetry festival, so haunt the murderers' tortured conscience, that the criminals give themselves away. So today, the mayor of Washington, D.C., Anthony Williams, is being tormented by his past misdeeds. The mayor took the lead in murdering the city's venerable and highly valued public hospital in 2001. It was an act which has cost scores of residents their lives; it was fiercely fought against by forces rallied by Presidential pre-candidate Lyndon LaRouche's movement, in the Coalition to Save D.C. General Hospital.

The events leading up to the stunning July 26 decision by the Washington Board of Elections to throw Mayor Williams off the ballot for the September Democratic primary—totally unexpected by his re-election campaign—reflect the ongoing willful disregard for the law and the welfare of the residents of the District, on the part of Williams and his backers both inside and outside the national capital. Williams was verbally indicted for his disregard in mass meetings and Congressional briefings in the Spring of 2001, by LaRouche and by Coalition leaders Lynne Speed, Dr. Abdul Alim Muhammad, and D.C. General medical personnel, among others.

Despite the wishes of Williams' backers—such as the Federal City Council, the Democratic Leadership Council, and the late "KKK-Katie" Katharine Graham's *Washington Post*—the "Ibykus principle" is lawfully asserting itself with Tony Williams, all the while that LaRouche's forecast of financial disintegration proves itself to be true.

## 'A True New Democratic Plan'

Williams is a creature of the Democratic Leadership Council (DLC), spawned by organized-crime-linked figure Michael Steinhardt, with Sen. Joe Lieberman (D-Conn.), Al From, and other Wall Street toadies, to drive out of the Democratic Party any vestiges of the Franklin Roosevelt tradition of promoting the general welfare. Williams' policies of "Negro Removal" from prime urban real estate, fit in perfectly with the FDR-hating DLC president Al From, who has recently been in the news defending Wall Street from the anger of the Democratic rank-and-file.

On April 23, 2001, Williams promoted his plan to shut down D.C. General Hospital as being a "true New Democratic plan," to a meeting of the DLC, "The New Economy in the



*Washington's Mayor Tony Williams back in February 2001, facing one of the mass meetings called to stop him and the Financial Control Board from shutting down the city's only public hospital. Williams killed the hospital that May; now a nemesis seems to be pursuing him.*

Maryland-D.C.-Virginia Region." Appropriately enough, the motto of the conference was a quote from the British Empire's Charles Darwin, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." At the meeting, Williams claimed that shutting down D.C. General would *end* racial discrimination against poor people by allowing them to "go anywhere" in the District for health care—rather than going to their highly rated and internationally reputed public hospital! Williams also teamed there with Baltimore Mayor Martin O'Malley to trumpet their scheme to bring the 2012 Olympics to the Washington-Baltimore region. Though he lied at the time, Williams and the city have since acknowledged that D.C. General's site was wanted for the Olympics plan and related real-estate speculation.

Fifteen months after Williams succeeded in shutting down D.C. General, the District's health-care system is in far worse crisis, because emergency room capacity, including Level 1 trauma care, has been slashed by the shutdown.

Williams has run his re-election campaign in much the same way he has run roughshod over the welfare of the residents of the District. Voter disgust with Williams was so widespread, that he could not find enough volunteers to collect the required 2,000 signatures on his nominating petitions; his campaign, instead, paid people to gather signatures. The utter lack of integrity and fraud of his campaign workers, in their petition gathering, parallel his government's fraudulent statistics concerning the deaths and health catastrophe, following the closing of D.C. General. Williams submitted petitions that were riddled with fraud and forgeries, involving nearly 8,000 of the 10,000 "signatures."

The successful challenge to the mayor's petitions was

brought by Dorothy Brizill, of D.C. Watch and a vocal supporter of the Coalition to Save D.C. General Hospital, who regularly featured Coalition press releases on her website.

### Seeks a Court To Save Him

The challengers' complaints cited "systematic and flagrant abuse of the District of Columbia election law, which casts substantial doubt over the entire signature-gathering process." Signatures of obvious non-residents and/or voters not registered in D.C. included Secretary of Defense Donald Rumsfeld, former Republican Vice Presidential candidate Jack Kemp, British Prime Minister Tony Blair, UN Secretary General Kofi Annan, and fashion trend-setter Martha Stewart.

However the three-person Election Board was ultimately persuaded to its unanimous decision to kick Williams off the Democratic ballot, when Williams' petitioning chief Scott Bishop, Sr., and his son Scott Bishop, Jr., who were subpoenaed by the board, invoked the Fifth Amendment during the proceedings. Williams and his campaign staff could also face possible Federal criminal charges for election fraud.

On July 31, Williams, against the advice of his own remaining supporters, decided to fight the Election Board and election laws he signed himself, by challenging the decision at the District of Columbia Court of Appeals. His filing called the board's ruling "capricious and lawless," and asked for an expedited ruling from the court.

Perhaps Williams thinks he knows a judge who will overturn the board. If so, this will give him more trouble—making

it clear that he was "appointed to the ballot," as George W. Bush was appointed to the Presidency by the Supreme Court. At the same time, Williams announced that he would remain a Democrat and run a write-in campaign in the primary. This also went against advisers, who argued that if he runs as an independent, he has a better chance in November's election. The major factor in that decision was probably the ruling by D.C. Office of Campaign Finance, a week before the Board of Elections' decision, that should Williams run as an independent, he would have to return \$1.3 million in campaign funds he raised as a Democrat to his contributors. This includes many thousands from executives and employees of Doctors Community Healthcare Corp., the "hospital privatization" firm to which Williams mortgaged the lives of D.C. General Hospital patients. DCHC is based in Sen. John McCain's Arizona.

Democratic Presidential pre-candidate LaRouche not only led the fight, internationally, to save D.C. General Hospital, in defense of the general welfare, but his campaigns have, more than once, successfully petitioned to put him on the Washington, D.C. ballot as a Presidential candidate, proving that the requirements of D.C. election law can easily be met by a campaign organization that respects the law, and the voters. In support of the challenge to Williams' petitions, representatives of previous LaRouche campaigns sent a letter to the Board of Elections and Ethics (see box).

The message is as forceful for the rest of the DLC, and Senators Joe Lieberman and John McCain.

## LaRouche Representative Intervenes with Board

*LaRouche activist Diane Sare wrote the following letter to Benjamin F. Wilson, Chairman of D.C. Board of Elections and Ethics, before it made the decision on July 26, to deny ballot status to Mayor Anthony Williams.*

Dear Chairman Wilson:

I have served as the District of Columbia coordinator for the recent election campaigns of Lyndon H. LaRouche, Jr. for the Democratic nomination, particularly those in 1996 and 2000, in which supporters of Mr. LaRouche successfully submitted nominating petitions to place his name on the Democratic Party ballot.

Having been through the petitioning process a number of times, in which we scrupulously complied with the statutory requirements for submitting nominating petitions, I and my colleagues are appalled that Mayor Anthony Williams appears to be asking the Board to extend some sort

of preferential treatment to his campaign.

The fact that Mr. Williams is the Mayor, if anything, should mean that he has an extra degree of responsibility for complying with the law, not that he should be excused, or held to a lesser standard than that to which other candidates have been held in the past.

Having been through this process, I and my colleagues do not regard the D.C. requirements as particularly onerous—particularly in comparison with some other jurisdictions. It is a heavy challenge, but with hard work and diligence—and a degree of popular support—we always were able to comply fully with the legal requirements. And we did not have the powers of the Mayor, or the command of the political machine that the Mayor has. . . .

We are well aware that Mr. Williams has a problem, in that many voters in the District do not wish to sign for him, because of his callous attitude toward the poorer sections of the population—as manifested most notably in his role in the closing of D.C. General Hospital—but such a lack of popular support is precisely the type of situation to which the petitioning requirement is addressed.

I hope this is relevant and useful to your deliberations.

## Another Budget Train Wreck May Be Looming

The feud between Congress and the White House over spending limits is likely to result in a budget battle that may last until the November elections. While Congress finally finished work on the fiscal 2002 supplemental appropriations bill on July 24, work on the fiscal 2003 spending bills has barely begun, and already there are a number of issues drawing veto threats from President George Bush. In addition to particular issues, overall spending levels also are a bone of contention. The Senate is going for a total discretionary spending level of \$770 billion, while the White House is insisting that the 13 regular spending bills be held to \$759 billion. While the amount at issue is relatively small, the protracted four-month battle over the supplemental suggests that a long Summer and Fall lie ahead.

One particular issue causing heartburn is the provisions related to Cuba, in the Treasury and Postal Service Appropriations bill passed by the House on July 24. An amendment sponsored by Jeff Flake (R-Ariz.), to prevent enforcement of restrictions on remittances by individuals in the United States to families in Cuba, passed by a vote of 251 to 177. Flake condemned Bush's intent to enforce the restrictions when they have not been enforced previously, and called it "the cruelest aspect of our policy towards Havana." The bill passed the following day by a vote of 308 to 121.

Other bills expected to be contentious include the Transportation, Energy and Water Development, and the Interior Department bills. The \$64.7 billion Transportation bill passed by the Senate Appropriations Committee on July 24 includes \$1.2 billion for Amtrak. The Bush Administration asked for \$521 million. The Energy

and Water bill includes \$475 million on top of the \$4.2 billion request for water projects. The Interior bill includes hundreds of millions more for fighting forest fires than the administration asked for. Battles are also expected over the Foreign Aid and Agriculture bills.

## Democrats Blast Trade Bill, Cite Job Loss

A last-minute compromise and the rush that comes with trying to finish business before recess led the House to take up the conference report on the trade bill at about 1 a.m. on July 27. The bill rolls up into one package trade promotion authority, trade adjustment assistance, and the Andean Trade Preferences Act (TPA). The Bush Administration and Congressional Republicans say that the President needs TPA in order to negotiate free trade agreements that benefit the U.S. economy. Most Democrats did not oppose free trade, demanding only that it be "fair trade."

Some Democrats, however, pointed to economic reality. Rep. Alcee Hastings (D-Fla.) said, "TPA ought to stand for Thoughtless Political Action." He called the conference report "another perfect example of backroom deals gone bad in the dead of night." He added that since the Bush Administration took office, "157,000 Americans are losing their jobs every month," and the trade bill "will eliminate tens of thousands of more jobs under the pretense of United States trade promotion."

Rep. Bernie Sanders (I-Vt.) complained that the bill continues current trade policies. "Why in God's name would we want to do that," he asked, "when our current trade policy is an absolute disaster that has cost this

country millions of decent paying jobs and has resulted in the pushing down of wages from one end of America to the other?" He said that the annual U.S. trade deficit is hitting record levels, and that 3 million manufacturing jobs were lost between 1994 and 2000 and 1.3 million more in 2001. Republicans offered rhetoric about how free trade allegedly creates jobs; they narrowly prevailed, by a vote of 215 to 212.

## Senate Panel Debates Aviation Security

The problems of the Transportation Security Administration (TSA), created by act of Congress in November 2001, were the focus of the Senate Commerce, Science, and Transportation Committee, in a July 25 hearing. A related topic was whether to allow airline pilots to carry guns in the cockpit. Committee Chairman Ernest F. Hollings (D-S.C.), who opposes arming pilots, argued that putting guns on airliners will "arm the terrorists," and that making cockpit doors impenetrable is the best solution. Hollings expressed dismay that Transportation Secretary Norman Mineta, only a few days before, had complained about a lack of funding for the TSA. "We hadn't heard at this committee level of any lack of money," he said.

Mineta was hit by a barrage of criticism for the difficulties in setting up the TSA and getting passenger screeners into the nation's 429 commercial airports. Ron Wyden (D-Ore.) said, "There is an indication that this issue is sliding back into the same pattern of the last 15 years," where new initiatives are not carried through. Barbara Boxer (D-Calif.) said, "I have strong doubts that the air marshal program is as robust as it should be."



Mineta said that the cut of some \$1 billion in TSA funding in the supplemental appropriations bill and the restriction on hiring “have dramatically undermined our ability” to meet the goal of Federalizing airport security by Dec. 31, 2002. While Mineta blamed Congress, Hollings blamed Office of Management and Budget Director Mitch Daniels. Daniels is the one who communicated the President’s threat to veto the bill if it went over the request, Hollings said. “He’s got the best vote at the table [with negotiators]. He’s got the President’s vote.”

## Israel’s Use of F-16s May Violate U.S. Law

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

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

fication for killing innocent civilians.”

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

## Homeland Security Bill Clears House

House Majority Leader Dick Arney (R-Tex.) kept to his schedule on the Department of Homeland Security bill, successfully steering the bill to create the department, to final passage on July 26 by a vote of 295 to 132. Before the bill went to the floor, the GOP and Democratic leadership came to an agreement on which of the almost 100 proposed amendments would be considered. After about two days of negotiations, the two sides agreed on 27 amendments, which agreement was certified by the full House on July 25 when the rule for debate was adopted by voice vote.

While the process for bringing the bill to the floor was unusually free of controversy, there was unhappiness with the bill itself. Democrats called the new department just another bloated bureaucracy. Martin Frost (D-Tex.), a member of the select committee, said that the Government Accounting Office has reported that it will take 5 to 10 years to create the new department, and the Congressional Budget Office estimates that the cost of the reorganization will be \$4.5 billion over and above the operating budgets of the agencies involved. Frost called it “a 1950s version of the bu-

reaucracy.” Henry Waxman (D-Calif.) said that if that \$4.5 billion “were used at the front lines of fighting terrorism instead of paying for a new bureaucracy, think how much better off we might be.”

The most contentious issue, however, was that of civil service protections. The bill came out of committee with some protections intact, including the right to collective bargaining, but that was weakened on the floor when the House voted, 229 to 201, for an amendment, sponsored by Chris Shays (R-Conn.), that gives the President the right to waive Federal labor law when he determines that it would have “substantial adverse impact” on homeland security. Shays said that his approach “represents a sensible and workable compromise between permanently diminishing the President’s national security authority”—as he claimed an alternative amendment by Connie Morella (R-Md.) would have done—“and providing no new standards for exercise of that authority.” Steny Hoyer (D-Md.) said that the Shays amendment “provides the President with a trap door to deny union representation to anyone in this department.”

The Senate bill was reported out of the Governmental Affairs Committee on July 25 by a 12 to 5 vote. That version retains full civil service protections for employees of the new department. President George Bush is threatening a veto if the bill comes to his desk with the Senate provision in it. Committee Chairman Joe Lieberman (D-Conn.) brushed off Bush’s objections, but the bill must get past the opposition of Senate Appropriations Committee Chairman Robert E. Byrd (D-W.V.). A Byrd spokesman told the July 26 *Washington Post* that lawmakers are “going too fast” and “racing to meet artificial deadlines.”

# *Wreck What's Wrecking the Parties*

The National Conference of State Legislatures (NCSL) meeting in Denver, Colorado on July 23-26, offered a microcosm of the political problem of America in economic collapse. To legislators desperate over the rapidly plunging revenues of their state governments, organizers with Lyndon LaRouche's Presidential campaign brought an urgent message, in leaflets and printed reports: Help LaRouche knock the Lieberman-McCain "war and Wall Street lobby" out of control of the political parties; then a real political opposition can form around LaRouche to get President Bush to take serious measures of recovery from the economic blowout.

The collapse under way is not denied among these circles. State after state is in, or is going into, emergency session to deal with budget collapses; so much so, that the legislators' attendance at this year's NCSL sessions was reduced because many were home tearing their fiscal hair out. Virtually every representative there had such a story to tell: Kentucky's governor is running the state by fiat because it could not pass a budget; Texas is looking at a \$5-7 billion hole; California's may be four times that; New York just cut \$5 billion spending in fiscal 2002 and already is missing \$1 billion in the first month of fiscal 2003; Virginia is short \$250 million in its first fiscal month; Mississippi, Nebraska, and Tennessee are in special sessions searching for new and larger cuts; Michigan just sliced \$860 million from its municipalities, causing havoc throughout the state. The states revenues fell \$50 billion short in the last fiscal year; the new fiscal year, clearly, will be much worse than that. Such budget conditions have not been seen in many of these states since the 1930s.

And elected representatives of both Democratic and Republican parties can see that the wrecking operation epitomized by Lieberman's Democratic Leadership Council (DLC) and McCain's "Bull Moose" operation, has been making it impossible for the Presidency to be made the instrument of economic recovery. Republicans at Denver were eager to read the *EIR* report on "The Real Scandal: Lieberman and McCain," intrigued

that LaRouche was moving to defend the Presidency and open up an "FDR alternative" for President Bush. They know the U.S. economy isn't functioning, and they can see that the President is being stampeded toward war and more war, as a result. And many Democrats know that LaRouche is right that the DLC has wrecked the Democratic Party as a representative of its core constituencies.

But the most frequently encountered response from the legislators was the most foolish, even politically suicidal: "Yes, LaRouche may be right about the economy, but LaRouche is unelectable" to the Presidency. If he were unelectable in this national crisis, why has the financial establishment and governments spent so much time and money to stop him from winning office, over decades?—the knee-jerk reaction from these officials just reflects the fear of those decades of slanders and armtwisting operations.

The elected officials or labor leaders who say that, are those who most fervently wish to be lied to—and to believe it—that "the economy's got to recover" again on its own. At Denver they heard "expert" nonsense presentations forecasting 3-5% growth for the U.S. economy next year. They knew from painful experience that these "experts" were consistently wrong, and would be wrong again; and that LaRouche's forecasts have been consistently, undeniably right over the long term. Stop denying the fearful reality, admit that the economy is bankrupt—not just in South America, but particularly in the United States—and LaRouche becomes *the most electable candidate* for the Presidency.

But the critical job is to make LaRouche the most electable 2004 Presidential candidate—now, in 2002. That's the only way the Presidency can be saved from plunging into "perpetual war," and directed toward the economic crash. And that requires hitting and defeating the critical "flank," the Lieberman-McCain party of war and organized crime. Those who know how this faction has wrecked the political parties, have a job to do now, with the very electable Lyndon LaRouche.

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Adelphia Ch. 55  
Tuesdays—6:30 pm
- CLAYTON/CONCORD  
AT&T-Comcast Ch.25  
2nd Fri.—9 pm
- CONTRA COSTA  
AT&T Ch. 26  
2nd Fri.—9 pm
- COSTA MESA Ch.61  
Wednesdays—10 pm
- CULVER CITY  
MediaOne Ch. 43  
Wednesdays—7 pm
- E. LOS ANGELES  
Adelphia Ch. 6  
Mondays—2:30 pm
- FULLERTON  
Adelphia Ch. 65  
Tuesdays—6:30 pm
- HOLLYWOOD  
AT&T—Ch.3  
Wednesdays—6:30 pm
- LANCASTER/PALM.  
Adelphia Ch. 16  
Sundays—9 pm
- LAVERNE—Ch. 3  
2nd Mondays—8 pm
- LONG BEACH  
Charter Ch. 65  
Thursdays—1:30 pm
- MARINA DEL REY  
Adelphia Ch. 3  
Thursdays—4:30 pm
- MediaOne Ch. 43  
Wednesdays—7 pm
- MID-WILSHIRE  
MediaOne Ch. 43  
Wednesdays—7 pm
- MODESTO—Ch.8  
Mon & Thu—2:30 pm
- OXNARD  
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Americast Ch.8  
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- PALOS VERDES  
Cox Ch. 33  
Saturdays—3 pm
- PLACENTIA  
Adelphia Ch. 65  
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- SAN PEDRO  
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Thursdays—5 pm
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Thursdays—11:30 am
- FLORIDA  
• ESCAMBA COUNTY  
Cox Ch. 4  
2nd Tue, 6:30 pm
- IDAHO  
• MOSCOW—Ch. 11  
Mondays—7 pm
- ILLINOIS  
• CHICAGO  
AT&T/RCN  
8/9: 10 pm (Ch.21)  
8/26: 8 pm (Ch.21)  
8/26: 12:30 am (Ch.19)  
8/30: 12:30 am (Ch.19)  
(no shows Sep,Oct,Nov)
- QUAD CITIES  
Mediacom Ch. 19  
Thursdays—11 pm
- PEORIA COUNTY  
Insight Ch. 22  
Sundays—7:30 pm
- SPRINGFIELD Ch.4  
Mon-Fri: 5-9 pm  
Sat-Sun: 1-5 pm

- INDIANA  
• BLOOMINGTON  
Insight Ch.3  
Tuesdays—8 pm
- DELAWARE COUNTY  
Comcast Ch. 42  
Mondays—11 pm
- GARY  
AT&T Ch. 21  
Monday - Thursday  
8 am - 12 Noon
- IOWA  
• QUAD CITIES  
Mediacom Ch. 19  
Thursdays—11 pm
- KENTUCKY  
• BOONE/KENTON  
Insight Ch. 21  
Mon: 4 pm; Sat: 5 pm
- JEFFERSON Ch.98  
Fridays—2 pm
- LOUISIANA  
• ORLEANS PARISH  
Cox Ch. 78  
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4 am & 4 pm
- MARYLAND  
• ANNE ARUNDEL  
Annapolis Ch.20  
Milleneum Ch.99  
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• ATT Ch. 11  
Mondays—4 pm
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Comcast Ch. 18  
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Mondays: 6-8 pm
- DEARBORN  
Comcast Ch. 16  
*Zajak Presents*  
Mondays: 6-8 pm
- DEARBORN HTS.  
Comcast Ch. 18  
*Zajak Presents*  
Mondays: 6-8 pm
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Sat-10 pm (Ch.22)
- LAKE ORION  
Comcast Ch.65  
Mondays & Tuesdays  
2 pm & 9 pm
- KENT COUNTY  
AT&T Ch. 25  
Fridays—1:30 pm
- LIVONIA  
T/W Ch.12  
Thursdays—5 pm  
(Occ. 4:30 pm)
- MT.PLEASANT  
Charter Ch. 3  
Tuesdays—5:30 pm  
Wednesdays—7 am

- PLYMOUTH  
Comcast Ch.18  
*Zajak Presents*  
Mondays: 6-8 pm
- WYOMING  
AT&T Ch. 25  
Wednesdays—10 am
- MINNESOTA  
• ANOKA  
AT&T Ch. 15  
Mon—4 pm & 11 pm
- BURNSVILLE/EGAN  
ATT Ch.14,57,96  
Tuesdays—5:30 pm  
Saturdays—10 pm
- CAMBRIDGE  
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Wednesdays—2 pm
- COLD SPRING  
U.S. Cable Ch. 3  
Nightly after PSAs
- COLUMBIA HTS.  
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- DULUTH  
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SPN Ch. 15  
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AT&T Ch. 14  
Thu—6 pm & Midnite  
Fri—6 am & Noon
- ST.PAUL (NE burbs)\*  
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- ST.PAUL (S&W burbs)  
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Mon, Tue, Wed, Thu
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• MARSHALL COUNTY  
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Mondays—7 pm
- MISSOURI  
• ST.LOUIS  
AT&T Ch.22  
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Thursdays—12 Noon
- NEBRASKA  
• LINCOLN  
T/W Ch. 80  
*Citizen Watchdog*  
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Wednesdays—10 pm

- NEVADA  
• CARSON—Ch.10  
Wednesdays—7 pm  
Saturdays—3 pm
- NEW JERSEY  
• HADDON TOWNSHIP  
Comcast Ch. 19  
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Comcast\*  
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WINDSORS Ch. 27
- MONTVALE/MAHWAH  
Time Warner Ch. 27  
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- NORTHERN NJ  
Comcast Comm. Access  
Channel 57\*  
PISCATAWAY  
Cablevision Ch.71  
Wed—11:30 pm
- PLAINSBORO  
Comcast Ch. 3\*
- NEW MEXICO  
• ALBUQUERQUE  
Comcast Ch. 27  
Mondays—3 pm
- ANTHONY/SUNLAND  
T/W Ch. 15  
Wednesdays 5:05 pm
- COMCAST Ch. 17  
Fri. & Sat.  
7 pm or 8 pm
- LOS ALAMOS  
Comcast Ch. 8  
Mondays—10 pm
- SANTA FE  
Comcast—Ch.6  
Saturdays—6:30 pm
- TUCSON—Ch.2  
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Time Warner  
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Thursdays—8:30 pm
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